EDITORIAL

As We See It

Once again Congress and the country are about to be plunged into a typical tariff controversy with the usual differences of opinion and often bitterness. The Trade Agreements Act of 1934, as often amended, expires next June, and it is the desire of the Administration, and of course, of others interested in freer international trade that something be done to prevent a return to the schedules of the 1930 Act, ameliorated only by such negotiated alterations as are now in effect and would survive a failure of any continuation of the present law authorizing administrative changes in the statutory rates. In several respects, however, the protectionists have grown progressively dissatisfied with tariff schedules negotiated under the Act of 1934, and are said to be prepared to put up the fight of their lives to prevent the Administration having its way with a proposed new law which in broad effect would continue present arrangements for a number of years.

Of New Deal Origin

The Trade Agreements Act is of New Deal origin. It was the wily Franklin Roosevelt who came forward early in his first administration with the idea that Congress might and ought to be persuaded to “pass the buck” to the Administration in this matter of reducing tariff rates, and that in this way it might be possible to get a better working arrangement than could be hoped for if each and every rate in a complicated tariff schedule had to be debated and finally adopted by a Congress divided, as Congresses always are, on the subject of protectionism and

Continued on page 96

U. S. Economic Stability Key to Free World Security

By HONORABLE HARRY F. BYRD*

U. S. Senator From Virginia

Senator Byrd denies he would “sacrifice security” for “an inflated budget” in “preaching” we should first cut non-essential federal spending to permit necessary military effort prior to contemplating deficit financing and increased taxes — short of war — with its concomitant threat to our fiscal and economic strength. Advocates Congress write a limitation on expenditures, reduce foreign economic aid and emphasize more military assistance, and revamp defense outlays. Warns we cannot play the Communist game of destroying ourselves by “our own extravagances.”

We are in a situation of vital concern to everyone in this nation. All of us know the tremendous events which have occurred, one after the other, in the past three months, since Congress adjourned. Within a week I have conferred with the Secretary of Treasury on the fiscal situation, attended a 3-day session of Senate Armed Services Subcommittee on the situation, and participated in a 3-hour White House Conference with President Eisenhower on the legislative situation.

These meetings were all enlightened and every condition was explained with utmost frankness. Much of what we were told was classified, but I can say that never in my long experience as a United States Senator have I received so much disappointing information in such a short time. From all of the bad news there is one encouraging fact. Spunik has shaken us out of our complacency. Our great country will now move forward, I believe, as rapidly as possible to regain the ground we have lost. It is not my purpose

Continued on page 98

*An address by Senator Byrd before the National Association of Manufacturers, New York City, Dec. 6, 1957.

The Investment Bankers Association of America Holds 46th Annual Convention

Meeting at Hollywood, Fla., Dec. 1-6, amidst charging business and national defense spending, heard addresses by incoming President William C. Jackson, Jr.; outgoing President Robert H. Crafts; Canadian Finance Minister Donald M. Fleming; Richard S. Reynolds; Edward N. Godby; John H. Stambaugh, and George S. Trimble, Jr. Test of these addresses, also Committee Reports and other Convention developments are presented in this issue.


THE NEW PRESIDENT

Except for three and one-half years with the U. S. Navy during World War II, Mr. Jackson has Continued on page 86

THE COMMERCIAL and FINANCIAL CHRONICLE

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New York, N. Y., Thursday, December 19, 1957
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**The Security I Like Best**
A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate, have their reasons for favoring a particular security.

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

**WARREN E. BUFFETT**
Manager—Private Investment
Office—Omaha, Neb.

**HOMESTOCK PROTECTIVE Co.**
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vestor awareness is a serious threat to the security that it is

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tive's premiums. Home Protective, with a current earnings ratio

at less than that, should be a favorite of the investors.

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leans, La.

Southdown Sugars, Inc.

The security I like best offers stability, high intrinsic value and

build-in growth of income which should continue during this
time of unsettled market conditions, generally.

Southdown Sugars, Inc., owned by a 6,000 acres of land in the
most attractive sugar-producing area of the United States — south
Louisiana. Although operating a stable and profitable cane sugar business, the company has been able to increase its earnings, organic and outside income, after taxes, from sugar leased to major oil
companies last year exceeded net in-

come from sugar operations, and will increase materially over the coming years. Southdown Sugars enjoys the advantages of partici-
inating in the sugar industry, which has shown all the characteristics of a boom industry.

G. Shley Friedrictys

Southdown Sugars, Inc.

The company is basically a com-

bination of cane sugar operations, operating three raw sugar factories and one

refinery. Southdown has approxi-
mately 18,000 acres of cultivated land and purchases cane from other growers to supply the
capacity requirements of its sugar

facilities.

The company also im-

ports Cuban raw sugar to fill re-

finery requirements. Income from


This operation has been earning in the neighborhood of $25,000 per

annum, before taxes.

The exploration for oil and gas in south Louisiana has been under

large-scale operations in the early 1930's, has had a marked effect on the company. Nearly all of the 46,000 acres of land

have been under lease to major oil

companies in recent years, and Southdown has been receiving recent income since the discovery of the Gibson Field in Terrebonne Parish in 1937. Leases and royalty income has increased from $830,000 to $1,275,000 and is expected to increase in the

last five years (average 26% per

annum) and give every indication of continuing to increase at approximately this rate.

The development of the oil and gas industry, combined with the discovery of substantial oil and gas deposits, plus large reserves of salt and an ample supply of fresh

water, have combined to make south Louisiana a center for the petro-chemical industry. Plans have been announced by the company to develop its present assets, particularly its sugar

lands. The company has acquired

Southdown's land is located on the Mississippi River and all of the remaining acreage would be available on either main highways or other

waterways, or both.

In an attempt to measure the intrinsic values that have thus been created, my firm (after con-

sultation with oil geologists and land men and real estate experts) has made and examined the prai-

shal of Southdown's properties.

The values attributed are of the "horse-back variety and take into

consideration mineral values as well as surface values. In my

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The Outlook for the 1958 Market

By SHELBY CULLUM DAVIS
Managing Partner, Shelby Cullum Davis & Co., Members New York Stock Exchange

Mr. Davis maintains two basic bullish factors are the market's healthier atmosphere with improved technical position; and prospective high economic activity stemming from current threats to nation's defense and scientific status. Holds present unemployment conditions have been largely discounted by market's 100-point drop; and coming industrial revival will similarly be anticipated marketwise. Favors chemical, oil, motor, and life and casualty insurance groups for 1958; with general market laying the foundation for resumption of bull market's advance to new highs by 1959.

I approach this subject with proper humility. It is obvious that I am neither a son of a prophet, nor an expert in the mechanics of the stock market. The business cycle, the stock market, the automobile industry and all the attendant sign affairs, domestic politics—are all subjects above my head. There might seem to be no one to talk about the stock market.

There is only one conclusion. I know of no one who is an expert in all of these fields, and it is impossible in today's changing world to know everything about anything. Was it not Dr. Faust in Goethe's drams who incurred the wrath of his God by his attempt at macroeconomic universal knowledge—by his having himself with microcosm (the world of the minute)? Instead of a world of experts, he had to take a worm's eye view.

So must I, I have made whatever reputation I may have as an expert in the field of insurance stocks, as well as in the stock market. In 1938 as a boy you would have brought to the brink of the aztec race which may well turn into a Yugoslav survival. At least it is difficult to read the statements of eminent scientists such as Dr. Edward Teller and believe otherwise. If the sciences are in mortal peril, and in 1942, is it reasonable to expect that 170 million Americans will allow the country to drift deeply into the new depression in business and prospects for economic activity? Is it reasonable to suppose that we shall willingly allow our decreased economic activity and consequently heavier incomes to draw our friends in the world into a depression of magnitude? If we are a world's depression, will we allow a man-made depression to cost us our opportunity to maintain friendly and close relations with important members of the Middle East and African regions? Will we allow Soviet Russia to move into a vacuum created by our own economic ineptitude?

Given the present world situation, which is echoed in bold relief so that he who reads may read, I do not believe that these things will happen. Some months ago the talk was of disintegration and the possibility of a protracted war with Soviet Russia. Several times the market has had a chance to escape from robbery but there are few today who will

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In Attendance at the Convention

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Other Publications

Bank and Securities Reports—Monthly

Economic News (March 30, 1957)

Note: On account of the fluctuations in the rates of exchange, remittances for foreign subscriptions and remittances must be made in New York funds.
The A Time for Vision

By CLIFFORD F. HOOD* President, United States Steel Corporation

Leveling-off periods are nothing to be unduly alarmed about, U. S. Steel head declares in affirming principal aim of business to cause the nation’s economic resources to maintain their upward climb. Though confident the years to come will consolidate one of the most remarkable and promising decades of economic and "keep our feet on the ground if we are to assume "gigantic tasks and responsibilities" that is being asked of industry.

The eyes of the world, of course, are focused daily on the steel industry, wondering about our plans for the immediate and long-range future. It is too early to discern what the future will bring, yet there are a few sharp signals which are sure to be occurring in the near future. The nation’s economic situation, at least, this lack of statistical guidance is somewhat of a handicap in as much as it forces us to judge the future by the immediate past.

I am reminded, however, that the principal stumbling block for many who have sought to use economic history as a means of predicting the future of our economy has been their failure to understand one cardinal fact. One of the significant factors in the American economy is its impatience with yesterday’s results. Charles Steinmetz referred to this quality as "Divine Discord," and I agree with him that it is this characteristic of never being satisfied with the achievements of the past, which motivates us to go forward.

With this in mind, we shall not rely so much on statistics in analyzing the economic climate of to-day, but rather on the conditions which exist in gross production and which mark the condition of the economy that we shall not overlook a few scattered economic showers as the evidence of a more general trend. Perhaps we should remind ourselves of a few of these numerous symptoms of business advancement.

**Symptoms of Advancement**

For example, there is industrial research that fertile area where new products are created and where new industrial processes are developed to keep our economy on the move. The results of this research are evident in the fact that new products are not being made. Another factor is the fact that we should not overlook the number of other factors. There are the individual plans being expressed in the old industries. Steel in its own industry, in the automobile and allied industries, in the petroleum and chemical industries to mention only a few. In U. S. Steel, we have been expressing our faith in a number of ways, ways that are hard to keep up. This is indicative, I might add, that we believe not only in the future in the continuance of Indiana as the greatest steel district in the world. It is our unshakable belief that the years to come will constitute one of the most remarkable and promising decades of this nation’s economic history. We are aware that this task of guiding the American economy to its protecting achievement is not as simple as it once was. Not too many years ago it was possible to get away with believing in and practicing a few restrictions here and there for the sake of the matter of raining costs versus diminishing profits.

The current employment situation shows that the number of newly laid-off workers who do not claim work claims rose by $6,600, to 320,000 from the December, according to the Bureau of Employment Security. The agency noted that 44 states reported larger volumes of unemployment than in November and a new high level of claims for November as activity in textile, apparel and petroleum refining industries fell off. Production of hitherto unused oil was cut.
Observations...  

By A. Wilfred May

YOU—AND YOUR COMPANY*

The first precept that I want to give you is both extremely impor-
tant in scrutinizing the final condi-
tion and operating results of your com-
pany and also as the key to your stra-
tegy, is to keep your conduct and your 
holder. No matter how small a holder you 
are, you are always con-
sidered as if a part of a pri-

catalysts, or to over-
glamorize. Don't get too far away 
from the marketing facts and sta-
tistics. In this connection be partic-
larly critical. The key annual 
report should be carefully read 
into, and the numbers need to 
changes indicating progress and 
growth over a goodly intervening 
period, say 10 years. Some com-
panies go much farther back; 
but that is a matter of degree. 
Look at the dollar sales volume, 
comparing the absolute current figure with a peak figure and 
watching out for increases that 
may not be readily found. In this 
area of sales trend particularly, 
other costs and other factors 
should be considered. With 
companies making a variety of 
different products, furnishing a 
breakdown of these results of 
these products should be supplied 
and studied. Jointly with the 
sales figure, there may be 
actual depreciation in the 
product type of illustration, the 
average dollar of income allotted 
to salaries, wages, and other 
employee benefits, to materials and 
services. There are disadvantages, 
and finally to the net income 
budgeted between each dividends 
and undistributed portion retained 
in the business.

Dividend Aspects

Regarding the dividend, you should 
understand that there are limi-
ted number of undistributed, as an indicator 
of the succeeding year's volume of 
unrealized income, you are then 
given a fair return on your 
capital. Earnings are used in 
many of the smaller companies 
where dividend payments are 
sent out to over 100,000 
concerns which report each 
of 10 pertinent categories, 
including research development, 
health of earnings, etc., etc.

You can also get expressions of 
interest in the company's 
Fortune Magazine profile of type 
with-<. Also available are group 
ratings, the Riss 

The primary source of specific 
information about operations per-
duced companies is the annual 
report. Cognizance of your com-
pany's minute financial per-

tances are important and 
informally and irregularly, indi-

test—? This, of course, is an indica-

tersions. The following 

The Working Capital

The working capital indicating 
the company's liquidity, is 
considered must be linked to 
earning power, particularly if 

tones.

The Company Report

The company report is 
the annual report. Cognizance of your com-
pany's fundamental financial per-

tances are important and 
informally and irregularly, indi-

té as a continuation of the 

Depreciation Impact

A very important aspect here about 
the important item of depreciation. Although it is impossible to mea-
ure the outcome of a plant during a single 12-month period, nevertheless, accepted 
accounting practices determine the depreciation charge by spreading the cost of plant facilities over 
the estimated total production during the life of the plant. In recent years, particularly, swelled by special provisions permitted 
by legislative enactment, have 
set aside for depreciation and amortization have become in-
creasingly important in the in-
come showing.

For example, accelerated amort-
ization in excess of normal 
depreciation, stimulates 
financially new need production has 
reached very high amounts as 
the chemical companies are now 
watched for distortion of market 
ratings. The principal funda-
ment of this is the high rate of the accelerated depreciation and amortization which 
will depress current 
account for increased 
Profits. For the high and unmeasurable 
results, with the aid of the 
profit-sharing plans and 
with the help of the holder, 
and are, in fact, another 
example of long-run 
phases.

The Comparative Test

Again in your scrutiny of the 
comparative tests, you may 
apply the comparative test—

The Stockholder's Essential 

Status

For the new word on your status 
as a public stockholder. The 
stockholder finds himself impor-
tant in a public corporation. The 
status stems from the basic tech-
ique of the corporate system, as 
originally constructed and 
organized from control, this was origi-

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It is still sometimes asked by 
the public and worried about by 
the shareholders, whether company 
reports are truthful, whether par-
cial or complete. Depreciation 
figures are often critical, 
whether profits are 
overstated or understated. 
In contrast to other sectors of the 
community—represented by a 
reasonable public opinion, in 
contrast to whom the "share-
holdery" and the "stockholder 
or organization, remains the real 
"forgotten man."

Barker or Rescuer

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Continued on page 100

*Transcript of one of a series of 
lectures at the School of Social Research, New York City.
Inflation: Cause and Prospects

BY LAWRENCE FERTIG

Columnist on Economic Affairs, New York City

Economist insists inflation remains as main problem here and abroad, and hence prevalent confusion about its nature should be clarified. Cites as basic the fact that prices are rising merely the result of a wartime monetization of the debt and postwar credit inflation by business and individuals. Asserts upward thrust of wages is important factor in continuing inflation. Denies pessimism "Terrible inflation" will bring ball market to bonds into 1958, predicts as inflation moves take effect, industrial activity as well as wages and prices will again start upward.

I am not a mind-reader, but I am certain that the feeling that this discussion is out of date. Some of your comments on this subject are a bit confusing, isn't it?

"I'm saying isn't it, isn't it, isn't it, isn't it"...

Secretary Fertig

May I say at the start that anyone who thinks that inflation is dead shortest since September 1945 is mistaken? I will not have to argue with you on this with a column entitled "Inflation Dead?" and answered positively by a group of economists who have lived rapidly and become factors in our own problems of inflation.

Inflation is not merely the long-term problem of the world today. Why? Because this process seems like an ever expanding bubble. As the bubble grows, it is as if we have reduced the inflationary tendency of the Frenchmen of the 1760's. The idea is to give people the illusion of prosperity by allowing more money instead of permitting the market to correct the waste, inefficiency and bad judgment which grows cumulatively during a long period of inflation. Stalling inflation is more a political problem than a monetary one. While every administration will pay lip-service to the stability of the dollar, the highly speculative and unstable government will try to cure the opposite of what ails it. The cause of inflation, they will all find it difficult to agree on. Economists have agreed on the cause of inflation. And since the end of the 1948-52 inflation, they have agreed on the cause of inflation. But the cause of inflation is never the same in the future, so that the solution to the cause is never the same in the future.

Inflation is the long-term problem in the world today. Why? Because this process seems like an ever expanding bubble. As the bubble grows, it is as if we have reduced the inflationary tendency of the Frenchmen of the 1760's. The idea is to give people the illusion of prosperity by allowing more money instead of permitting the market to correct the waste, inefficiency and bad judgment which grows cumulatively during a long period of inflation. Stalling inflation is more a political problem than a monetary one. While every administration will pay lip-service to the stability of the dollar, the highly speculative and unstable government will try to cure the opposite of what ails it. The cause of inflation, they will all find it difficult to agree on. Economists have agreed on the cause of inflation. And since the end of the 1948-52 inflation, they have agreed on the cause of inflation. But the cause of inflation is never the same in the future, so that the solution to the cause is never the same in the future.

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Meeting Deep-Seated Problems
With a Firm National Purpose

BY NELSON A. ROCKEFELLER
President, International Basic Economy Corporation
Former Assistant Secretary of State

Rejecting negative stance and belated response usually mark¬
ing our foreign policy, Mr. Rockefeller recognizes continuous revolutionary change in the world. The U. S. S. R. were
miraculously transformed or not, which he avers requires
knowing not only "what we are against," but, also, knowing
"what we are for." Advocates: (1) regional and functional
groups, including all free world nations; (2) reorganization
of existing and new international institutions in such
groups to meet functional needs; (3) a national training and research program and rehabilitated defense set¬
up—addressing the whole economic, political, and social
picture; and (4) progress in our domestic social gains.

Nelson A. Rockefeller

We are fortunate as perhaps no other people in history in having
achieved a degree of material well-being for more of our peo¬ple
than any previous society.

The chief threat to this security is from abroad, despite all that remains to be done at home. It would be easy to speak about
the specific aspects of the Sino-Soviet shape of events abroad—the Middle East, the Soviet East, and intercontinental missiles, etc.

However, these threats are symptoms of more deep-seated problems, specifically of the revolu¬
tionary forces moving around the world in the world today and our lack of a clear national strategy in relation to them. This makes it diffi¬
cult for us to establish priorities in our planning, to shape events in advance and thus to avoid a crisis coming upon us. Unfortu¬nately, we often do not know a problem exists until it has become a crisis.

We have had a clear national purpose in terms of our domestic life.

The original motivating force which impelled people into action was a belief in spiritual independence and human dignity.

And ever since our whole political and social history has shown the importance of the role of purpose. One has only to look at the Federalist papers to see its clear design in the minds of the Founding Fathers who produced a political structure at once the stabllest and most progressive in the world.

Negative Foreign Policy

But in foreign policy our purpose has been on the whole nega¬
tive. We have primarily wanted to be left alone to work out our own destiny. "Isolation" has not been too different from that of many of the neutral nations of today who also want peace without prior involvement.

When we have intervened abroad it has usually been a belated recognition that our security and that of others are being threatened and we have been directly challenged.

This was our position in World Wars I and II.

This was our position in constructive programs such as the Marshall Plan.

Even our notion of peace has been essentially passive. We have considered it the absence of war; rather than the concept of making peace with the concrete set of active re¬lations among states on which peace ultimately depends.

But a passive stance is no longer enough. It always causes us to lag behind events.

Our actions too often become haphazard and determined by Communist initiatives or other pressures.

Our course will become increasingly defensive and, to make matters worse, our position will appear increasingly manipulative.

Constantly digging oneself out from under avalanches started by others has a conveying a sense of direction. In short, if we do not threaten others, we will become their prisoner. We need to find a new and broader orientation—a larger sense of purpose. Just as when a young person grows up, his focus which has always been centered on himself and his family broadens to encompass the world around him and we as a nation must broaden our awareness and take into account the concerns of the world around us. This involves our accep¬
tance of the reality of the free forces which exist in the world—their character and inter-relationship.

Four revolutions are occurring simultaneously:

Changes Facing Us

First, the breakup of the old system of world order through imperial alliances and the appearance of more than 50 new sovereign nation states.

Second, the surge of rising expectations and population growth.

Third, the ever accelerating rapidity of scientific development.

Fourth, the unali-bond of industrialism and the need for a more just international community and a balance of power, especially in the Sino-Soviet region.

With relation to these revolutions we should be clear about two things:

We must discard the assumption that our international problems would end if the Soviet Union were somehow miraculously transformed.

And we should realize that a negative stance with relation to these forces is not being true to ourselves for many of them were inspired or produced by the American example and American actions.

Let’s look back for a minute.

The American Revolution, based on liberal 18th century thought in Burke and Paine, produced a new doctrine of political equality and the inalienable right of all men to life, liberty, and happiness.

The French Revolution followed a decade later with its call for equality, liberty, and fraternity.

This started two revolutionary trends:

First, the breakup of the system of empires, which had for so long dominated the basis of world order and trade; and

Second, the creation of a large number of free sovereign nations, first in the Western Hemisphere and Europe, after the Second

World War in Southeast Asia and now in Africa.

At the end of the 18th century, Simon Bolivar, the great liberator of South America, saw no new sovereign nation could be in position to defend its own borders nor to provide an economic level of life which could satisfy its people without help from the outside. He was the first to advocate the free association of free sovereign nations who could work together in their common interest. Thus he was pointing the way to a new basis for international order.

This leads us to the basis of a revolutionary force.

Social Equality

During the 19th century, the doctrine of social equality was added to that of political freedom.

This challenged the traditional view that poverty and want were no more to be questioned than equality and liberty.

Gradually it was recognized that the privileged groups within a community could not make proper use of their right of political participation.

As a result, most governments have gradually undertake programs dedicated to social and economic justice.

The collateral advent of the Industrial Revolution gave tremendous impetus both to need and the possibility of realizing these objectives.

The level of the well-being of the citizens of the West began to change.

The U. S. especially was successful in implementing its political philosophy into economic and social reality. The spectacular material achievements and power of our country and the extra¬ordinary rise in our standard of living have had a profound effect on the people of all lands, particularly of the underdeveloped countries and newly independent nations.

These new political and social concepts, and the tremendous industrial development have been responsible for the surge of the great revolutionary force of rising expectations among the people the world over.

People who had never known hope before are feeling increasingly that they have a chance for a better life, that the world possesses the means of producing more than the bare necessities for survival, and that they are en¬
titled to their share.

This hope is a constructive force and one with which we sympathize deeply. The difficulty is that too many don’t understand that re¬

On page 117

$3,705,000
Northern Pacific Railway
Equipment Trust of 1958
3% Serial Equipment Trust Certificates
(Philadelphia Plan)
To mature $247,000 annually January 9, 1959 to 1973, inclusive
To be guaranteed accordianly as to payment of par value and dividend warrants by endorsement by Northern Pacific Railway Company.

Maturities and Yields

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

HALSEY, STUART & CO. INC.
DICK & MERLE-SMITH
R. W. PRESSPHRICH & CO.
FREEMAN & COMPANY
IRA HAUPP & CO.
WM. E. POLLOOCK & CO., INC.
SHEARSON, HAMILL & CO.

$1,545,000
Chicago and North Western
Railway Company
Equipment Trust of 1958
54/4% Equipment Trust Certificates
(Philadelphia Plan)
To mature $100,000 annually January 1, 1959 to 1973, inclusive
To be guaranteed unconditionally as to payment of par value and dividend warrants by endorsement by Chicago and North Western Railway Company.

Maturities and Yields

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HALSEY, STUART & CO. INC.
R. W. PRESSPHRICH & CO.
McMASTER HUTCHINSON & CO.
It is a little early to be addressing a group of Investment Traders, but if I were a younger facing a career in the foreign service, I might take one to foreign and exotic countries on a little moon, would unabashedly choose the latter with all of mathematics, geometry, calculus and all the others go with it. The problems are undoubtedly harder to make than those of foreign countries, but I come easy once one is grounded in Latin America. High school and college graduate should be.

By CARLIE BARGERON

From Washington Ahead of the News

It is a little early to be addressing a group of Investment Traders, but if I were a younger facing a career in the foreign service, I might take one to foreign and exotic countries on a little moon, would unabashedly choose the latter with all of mathematics, geometry, calculus and all the others go with it. The problems are undoubtedly harder to make than those of foreign countries, but I come easy once one is grounded in Latin America. High school and college graduate should be.

FOREIGN INVESTORS

"Argentinean trailer manufacturing corporation seeks foreign investors. Write to, "KOLLER S.A.C.I. Caracarana - Argentine Republic"

But take life thereafter. Supply yourself with all the knowledge you can and always be prepared to move forward.
Gearing Economic Policy to the Crisis Before Us

By HARRY A. BULLIS
Chairman of the Board
First National Bank of Kansas City, Missouri

Mr. Bullis urges bold, aggressive plans for American industry to meet double threat of Stagnation and economic recession. Describing a Maginot military stance, Mr. Bullis wants in our defense overwhelming strength in scientific knowledge, reliance upon advancing science and technology dedicated to economic growth. 

asks business: to keep prices stable, increase sales and promotional efforts, step up research and development, and avoid becoming a victim of psychological fears. seen business higher in 1958 than this year.

In this crisis, we in the United States should ask ourselves a searching question: Have we permitted the radar warning line to become a sort of Maginot line that has dragged us into a false sense of security? Should we not take the necessary steps to regain knowledge and rocket weapons in the eyes of the world? Have the best defense and position of overwhelming strength in science and technology advanced and so far out ahead as to give pause to any who would seek world domination?

If our answer to these last questions is affirmative, then it is time for the Government of the United States to take action, not only today but even more so over the next several years, to prevent a repetition of the mistakes that have been made in the past.

Gaining knowledge and rocket weapons in the eyes of the world: Have the best defense and position of overwhelming strength in science and technology advanced and so far out ahead as to give pause to any who would seek world domination?

The net result of all this is that the economic boom was probably of limited duration. It is interesting to note the extent to which this has been the case in our economy was misjudged only temporarily. In fact, as recently as last month we were told that the inflation was our greatest concern.

When World War II ended, about 90% of the value of the money was lost. That economic recovery would follow the war was a complete surprise to everyone when the United States would cut back substantially on its $100 billion a year spending on the war.

What were the three factors which brought the economy through with less than a 1% change in the Gross National Production? The first of these was the war, which led to the greatest economic contractions. As a result, the women of America could spend only the wages where they previously had spent only one dollar.

Next, liquidity savings were increased by $225 billion, and thus we were able to buy both of our exports and our imports in large quantities.

Finally, it was the pent-up accumulated demand for savings, representing the large stock of goods, services, and investments that were saved, and of income that was saved, which were then consumed by the drop in military spending. We had a business boom, but it was a very small one.

Financial and Government Policies

The first question the present rate, has already been by the Federal Reserve au. There have been no reports of the Federal Reserve's policy to increase interest rates since December 1957, and the government has lost its pushing-power. Many people are more fearful of the inflation than the loss of employment.

With conditions as they are and the outlook uncertain, how can economic policy be geared to the needs of the time?

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With conditions as they are and the outlook uncertain, how can economic policy be geared to the needs of the time?
Economic Outlook Implications For Interest Rates and Deposits

By J. BROOKE WILLIS
Vice-President, Savings Banks Trust Company, New York City

Prominent banker reviews general economic prospects and their implications for savings deposit and interest rate trends. Mr. Willis observes: (1) a marked lag in the place of funds being greater than set increases in housing credit or government borrowing; (2) a decline in interest rates, should business decline continue and easier monetary policy come into play; (3) a slower rate of deposit growth accompanying halt in personal income rise; and (4) less intense competitive pressures from commercial banks in 1958 as interest rates fall. While unable to detect near future forces other than expanded public spending and easier monetary policy, the rising trend, the author sees, however, basic economic growth factors generating, in due course, resumption of postwar economic progress.

The business boom has topped out during the past nine months and, judged by certain indicators, the economy has already experienced a readjustment for a considerable period of time. The Federal Reserve Industrial Production index reached a peak of 147, last December and by October had declined to 130. Gross national product in current prices has continued to rise reaching $430 billion in the third quarter, as compared with $417 billion a year earlier, a rise of about 3%. Per capita personal income, after taxes, has risen about 2% in the past year. However, rising prices have accounted for most of the reported gains in the national product accounts and all of the gain in income per person.

Within recent months the statistical evidence has increased that the high rate of growth has experienced something more than a "breather." Yet at the same time, political events have been moving with unusual and startling rapidity and are influencing new influences upon economic behavior. The break-through in power by the Russian Spatnik has raised doubts about the adequacy of our national security, has catalyzed a reevaluation of our foreign policy and trade relationships, and has led to a rethinking of our economic policy. Under these circumstances, the question of interest rate policy and its implications is receiving increased attention.

Jane Willis Brookes

The main features of the National Industrial Conference Board's "Economic Outlook Survey" for the first quarter of 1958 are as follows: (This survey is based on replies received during late September and early October.)

(1) That business plans to reduce their capital expenditures by $2.6 billion or 7% over all as compared with 1957; and most companies are cutting back at their reduced levels in 1958.

(2) The drop in capital expenditures is due to a general decline in business confidence the result of soaring interest rates and slower credit to industry. The survey indicates that the decline in business confidence has reached the point where business plans for capital expenditures have been reduced below normal levels. While the rate of decline is likely to subside, the outlook for the future is for a relatively stable level of capital expenditures. This is significant in the light of the current level of economic activity and the expected increase in the price level.

(3) The survey also indicates that the decline in capital expenditures is due to a general decline in business confidence the result of soaring interest rates and slower credit to industry. The survey indicates that the decline in business confidence has reached the point where business plans for capital expenditures have been reduced below normal levels. While the rate of decline is likely to subside, the outlook for the future is for a relatively stable level of capital expenditures. This is significant in the light of the current level of economic activity and the expected increase in the price level.

In the past, the high cost of labor has been one factor inducing capital spending. The outlook for labor costs, however, is not clear. Labor costs are likely to remain high, but the rate of increase may slow down as the economy continues to expand. In addition, the high cost of labor may lead to a decline in the rate of capital spending, as firms may find it more profitable to increase their labor force rather than to invest in new capital equipment. The outlook for the future is for a relatively stable level of capital expenditures, but the rate of increase may slow down as the economy continues to expand.

Business Investment

The most significant economic change now taking place and the one having the most bearish implications is the decline in business spending for new plant and equipment. Business investment in plant and equipment has been stimulated in the past by new and larger markets, increased government expenditures, and tax incentives. However, recent developments have led to a slowdown in the rate of growth of business investment. Increasing interest rates and reduced consumer spending have reduced the demand for new plant and equipment. In addition, the outlook for the future is for a relatively stable level of capital expenditures, but the rate of increase may slow down as the economy continues to expand.

For some time it has been apparent that the extraordinary rise in outlays in plant and equipment during the postwar period is giving way to a much slower growth rate. This is evident in the survey of manufacturers' capital expenditure intentions, which shows a substantial decline in capital spending plans for the next year. In addition, the outlook for the future is for a relatively stable level of capital expenditures, but the rate of increase may slow down as the economy continues to expand.

Residential Construction

Residential construction has been in a recessionary phase for about two years, and the outlook for the next year appears to be for a further decline in capital expenditures. This is evident in the survey of manufacturers' capital expenditure intentions, which shows a substantial decline in capital spending plans for the next year. In addition, the outlook for the future is for a relatively stable level of capital expenditures, but the rate of increase may slow down as the economy continues to expand.

While construction activity has been declining, the outlook for the future is for a relatively stable level of capital expenditures, but the rate of increase may slow down as the economy continues to expand.
Specific Labor Proposals of Eisenhower Administration

BY HON. JAMES P. MITCHELL
Secretary of Labor of the United States

Proposed Federal labor legislation recommended for 1956 Congress: Labor unions are asked to help prevent abuses in union funds, union democracy, and labor-management relations. In presenting specific proposals, Labor Secretary Mitchell states: (1) basic responsibility in these areas rests with the union; (2) the Federal Government wants to keep its involvement in the internal affairs of unions to minimum required to eliminate abuses; (2) the Administration will fight against any national right to work legislation or lawsuit limitation of union shop, and will include Taft-Hartley revisions of secondary boycott and "hot-cargo" practices.

The AFL-CIO, with the strength and wisdom of generations of forebears behind it, has a responsibility to do everything possible to prevent labor abuses and to keep every man on the job and well paid.

Strength in numbers is the challenge. From crisis comes greatness. George Meany and his fellow men of responsibility, by defying the challenge and faced the crisis, and I believe that secrecy will be a criticism for this organization will surely follow.

It is thus with profound confidence in the AFL-CIO that I shall do everything to maintain the integrity of the American labor movement. And I am going to do this by taking the first step in the fight for the rights of the workers to organize and bargain collectively through representatives of their own choosing.

Guiding Principles

First, it is the firm and permanent policy of our government to protect by law the right of American working men and women to organize into unions and to bargain collectively through representatives of their own choosing.

Second, it is the policy of our government to maintain the integrity of labor-management relations by the use of all means at our disposal, and to that end we will see to it that all American labor-management relations are conducted in such a manner as to prevent any deviation from the principle that is fair. We shall enforce the law and the Administration will do its best to see that the law is enforced.

Thirdly, it is the policy of our government to support the frame- work of laws to protect the basic rights of the American worker when voluntary processes fail to do so.

There are the principles upon which we propose to base the plan for improvement in the framework of laws safeguarding labor-management relations. Now I do not think there is any question of that character in this country today, and I believe that we have here today that some trade union officials have foolishly abused their power and influence to prevent the interests of many union members; that they have endeavored to prevent reasonable employers or employers agents against them from doing anything to keep any work- ing people; and that they constitute a threat not only to the trade union movement but to the nation.

In the case of these conglomerates, I am sure you will agree that this Administration will not, and it will be vigorously opposed by all organized labor or collective bar- gainers. There is not only a dollar that will be lost by the establishment of a club to suppress unionism.

In President Eisenhower's words: "The American labor movement is devoted to the development of peaceful, non-violent efforts to achieve social and economic gains, which in the past have been called 'socialism in a whole.'"

I am sure you are familiar with the Hartley Act having to do with the right of a union and an employer to enter into collective bargaining agreements which provides for union security. We are going to support such right to the best of our ability.

Next I come to the question of the application of anti-trust laws to unions. I believe that working men and women who choose to enter into collective bargaining for the purposes of collective bargaining have the right to do so and that all laws should acknowledge and respect those rights. The labor of man is not a commodity to be bought and sold in the market place like a piece of potatoes. I feel it is an affront to the dignity of the American worker to assert that his labor should be regulated by the same laws which are designed to preserve competition in business. I am sure you will agree that this Administration is not proposing any move to extend anti-trust laws to unions. As a matter of fact it must be remembered that those laws at present cover instances in which there is clear evidence to either the Administration, the company, or the courts. In the case of the anti-trust laws to be extended to unions. We are not going to propose any such move by the Administration.

Administration Proposals for the Protection of Individual Workers

In the first place, the President's message, will, I hope, have the basic responsibility for honest and democratic trade unionism in the United States. They will be given to public view and will operate to the advantage of union and management affairs which are for the benefit of all employees and racketeers have operated.

In the second place, the President's proposals will correct certain condi-
Challenges to Banking in 1958

By HOWARD F. PARSHALL

President, Bank of the Commonwealth, Detroit, Mich.

Drawing upon 45 years of banking experience, Mr. Parshall broadly reviews banking in the United States as it con-

fined in 1958 and offers a succinct prescription to "cure" inflation. The Detroit banker emphasizes that "bank earnings have been far too low," and suggests security of a good profit margin. On the saving side, he believes that the public has to be taught the values of saving and the benefits of semi-

managed economy since leaving gold in 1933.

I know a little bit about that which happened yesterday, and particularly about the little or nothing concerning that which will happen to-morrow. A little good illustra-

tion of this happened on Thursday, Dec.

H. P. Parshall

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these two conditions exist simultaneously. Also, in connection with the larger government bond portfolios, there are opportunities to make capital gains by buying and selling securities. It is possible to take losses by selling Government bond securities and actually improve your bank's earnings over a period of years. This is due entirely to the peculiarity of our tax laws and especially the capital gains pro-

vision. Do not think that I am advocating taking losses — I am a profit man myself, but I do think that we should bring it to your attention.

Inflation

I mention these two economic topics together not because they are synonymous; but rather because they are opposites. Since going off the gold standard in 1933, we have had almost con-

tinuous increases in the so-called semi-

managed currency and economy. We will not go into a detailed discussion of this subject. The writer is not equipped to do that. We will note that the current currency is very, very delicate. Faith and confidence are what make it effective. It seems to me that the board of governors of the Federal Reserve System, controlling inflation, are dealing with the symptom and not with

are many things that a bank can do to improve its earnings with its employees and secure high grade people. Of course, I re-

peat, the bank's ability to pay salaries — good working condi-

tions, the five day, weekly pay and of course employee train-

ing. In other words, personnel is very important; and should be given adequate attention. Suc-

cessors must be available, and must and should be provided. Today, as never before, courses in banking and economics are being offered by many universities, and our American Institute of Banking is doing an excellent job. Encourage your people to avail themselves of the banking knowledge that is being offered. There are ennumerable books on all phases of banking. Encourage dog-eared banking manuals.

New Business and Deposits

Deposits are stock in trade and without them we cannot ex-

ist. We are only worth our salt if we get these deposits in. Put them to work profitably and always return them to the owners upon demand. This is a large size order. The acquisition of new deposits is paramount. It is good for the officers of a bank to pillarize in their community, to engage in community activities and to call upon their customers. Many a bank's "savings" morale is the activity is the acquiring of new accounts, mainly commercial but also savings business. We have found that you should seek security in the people who are salesmen, who like people and who enjoy the promono-

tional effort. They are the ones to be in your new business de-

partment. We believe that this is a more successful procedure than to depend on the officers to make the sales. A bankers' are desirable. Remember, as long as a new businessman pro-

duces sufficient volume that the earnings on these new deposits will pay all of his expenses, his salary and produce a profit for the bank, he is a valuable employee and you can multiply him many times.

Loans

The making of loans and buying of securities is just as impor-

tant as other activities of the bank, and more important than the making of acquiring deposits. Here again, every bank, large or small, must have men of discernment and training in order to make proper loans. This is such a vast subject that I will not dwell upon it. We are not interested in the banking business. Here is no definite answer to the question:

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Of the 113 meats, meat spreads or combinations of meats and other dishes now available in the all-convenient and sanitary "tin" can what's the top favorite? Luncheon meats! Next in order: canned ham, chili con carne, beef stew, corned beef hash.

More than 75% of American families today rely on these products for their protein-packed palatability, their meal-preparing convenience in the home, on outings. But Americans have "gone for" this "tinned" staple since as far back as 1872 when the first successful canned meat—ground beef—was introduced. Today, it's estimated that a total of 1,270,000,000 cans of meat and/or meat products are turned out annually.

The "tin" can—sanitary, unbreakable, easy to store and to keep—is actually about 99% steel, tin-coated for corrosion resistance.

Vast quantities of tin plate go into the more than 40 billion cans produced each year to bring you the hundreds of products packed in cans today. And our Weirton Steel Company's Tin division is a major supplier of both electrolytic and hot-dipped tin plate for the canning industry.

Tin plate is just one of the many steel products made by National, where our constant goal is to produce better steel for the industries of America.

NATIONAL STEEL CORPORATION
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R. W. Pressprich Co. Opens Coast Office

R. W. Pressprich & Co., members of New York Stock Exchange, have opened a San Francisco office at 685 Market Street under the management of Thomas E. Liebmann. The firm also announces that Gordon Dickinson will be the Manager.
The Puerto Rican at Home: Operation Bootstrap

By EDWARD MARCUS

Although the Commonwealth of Puerto Rico is only a few hours by air from the mainland, the average American is as ignorant of Island as he is of the more distant parts of the Pacific Ocean area. Vaguely he is aware that there are, for the unrestricted immigration accounted for, that status has brought thousands—indeed, hundreds of thousands—to the larger urban centers, and that they are unassimilable.

Like the many waves that preceded them, these newcomers are primarily in the lower paid and unskilled jobs, reflecting the lack of first generation immigrants, strange, unfamiliar, and initially unsuited to the American way of life. Every day more planes arrive from San Juan, the capital, adding still further to the housing problem now faced by so many of these new Americans.

It is estimated that New York City alone has between two and three times the number of Puerto Ricans that now live in San Juan, the Commonwealth's largest city, and that there is one Puerto Rican living in the United States for every three in the Commonwealth. One-third of all Manhattan schoolchildren, up to the junior high school level are Puerto Ricans.

But the casual visitor to the Commonwealth must wonder why this large-scale migration is taking place. It is certainly a pleasant place to spend one's winter vacation, and the boom in San Juan's hotel construction is evidence that there is a pleasant place to retire. But the rigors of the colder North, or the prosperity limited to the tourist trade, all over the Island there is an immense unfulfilling of creative energies indicative of a people on the move. Only when viewed against the brevity of this pogram can a clear picture be seen of these various cross-currents that make the composite Puerto Rican today.

I. Operation Bootstrap

According to the 1950 Census Puerto Rico had a population of almost two and a-half million living in an area of 3,435 square miles, or almost 700 square mile. This overcrowding can be illustrated by a simple comparison: were all the world's people to move into the present inhabited United States, the density would probably be no greater than in Puerto Rico. Moreover, less than one quarter of the two million acres of agricultural land is first grade, while about 800,000 can be considered as second grade. Of the latter, sugar accounts for 35% to 45%. Much of the country is mountainous—beautiful like El Yunque, the nation's forest reservation, but unable to support a people hard-pressed for existence. Much of the wood is low-grade or waste, so efficient methods cannot be used to harvest the commercially valuable types. Even desertland claims some of the precious space.

According for and increasing the population pressures is the high birth rate, while modern sanitation has reduced the death rate sharply. In 1936-57 the birth rate was 25.9 per thousand population, only some 15% below 1940, while the death rate was 13.6 per thousand, or 60% below 1940. Were it not for migration, such an increase would double the population in a quarter of a century.

As recently as 1930 the per capita income was estimated at $322 less than that of the poorest of the 48 states, and about a sixth the New York State average.

To meet these challenges, the Government of Puerto Rico has been trying to induce rapid industrialization through its "Operation Bootstrap," primarily by attracting mainland firms to establish plants in the Island. By prevailing its surplus labor into manufacturing, the over-all productivity can be raised, and with the investment made the cost of living will fall. For the Commonwealth's Income.

The Puerto Rican standard of living is lower than that of the Caribbean, second only to oil-producing Latin American countries.

II. Real Business Gain

To produce the magnet for which the American industrialist, the Commonwealth resorted to a series of measures designed to lessen the tax burden of the new industries. For example, a corporation could eliminate 50% of the federal income tax for ten years on income earned in Puerto Rico. Moreover, Federal individual and corporate income taxes are no longer in force in the Commonwealth (regardless of the location doubly exempt. Only if the corporation's income is subject to the commonwealth's corporate tax, the income to which a 50% federal tax reduces the resulting rate from the 50% corporate tax and income tax. Hence the corporation's income tax is reduced to 25% or 20% depending on the location.

In addition, Puerto Rico allows flexible accounting methods, and the annual rate the company wishes, in contrast to high fixed savings to which desired.

As a result, in part, of the above incentives, several hundred new enterprises have been established, including many of substantial size, but as time passed more and more of the larger corporations—General Electric, Chrysler, International Harvester—are participating. (See table.)

To date the bulk of the industrialist who have expressed interest in Puerto Rico have been manufacturing firms with high-volume, low-price goods, such as textiles, apparel, electronics, and plastics, reflecting the Island's agricultural abundance and its products with low transport-to-finished price ratios, which would make the relocations suitable.

As would be expected, most of the beneficiaries have been Mainland-financed establishments. Hall of Fame have not yet been in Puerto Rico, except those who had previously been condemned to slums and shacks. A few have been located in the area will reveal the widespread housing shortage and the poor standard of living, and the numerous electrical appliances that the masses all over the Island can ill afford, but do not get, and the economic data they give, and will certainly aid the cost, the distribution is being attacked through the rapid introduction of superstores, etc., which will enable the newly-won dollar to spread around a little more far and wide in a region which has more than a dozen times the number of its quarter-million population.

Moreover, the Puerto Rican has been branded as a tax haven. A recent study conducted on a sample of profit margins of the American firms in Puerto Rico with all U.S. corporations indicating that the tax haven, turn over at half as high as in the main market, the 1955, the average profit (on a year for which data were available), was 64.4 percent. Only four years earlier the average profit was 89.6 percent, with the experience gained in the Island, the Puerto Rican worker slowly stepped up to pre-Island standards, to 8.2 percent. Of course, thanks to the tax differential, the after-tax margin is of the Puerto Rican firms is fourth that experienced in the United States itself.

The government of Puerto Rico is anxious to improve the prosperity. FHA foreclosure statistics, for example, show only one-fourth that experienced in the United States itself.

It is clear that this industrial progress has not been limited to the larger centers. The government has also made special efforts to get new business established in the smaller cities and farming communities, and since 1950 the number of new plants in the Valley, as well as in the remotest areas of this Island, have been included by the government. This is all part of the same policy of industrializing, which has already been mentioned.

But even among the areas traditionally native-owned the recovery and growth in the over-all industrialization. To cite just one example: the provision for large amounts of capital are often necessary for such undertakings, and the local markets simply do not have the means for mobilizing this investment.

The Puerto Rican theory, however, has been challenged. From 1949 to 1957 employment declined a quarter compared with almost every other sector of the economy. Unfortunately, however, shows that the unemployment rates,

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IV. Accomplishments

When has been the results of these attempts to raise the Island's economic status, through its own efforts—Operation Bootstrap, to give its popular title—are still not too much accomplished. Since 1950-51 to 1960-61 the Economic Growth National Product rose some 55% in the Mainland, while in the Government-sponsored sector, sugar, since the Economy's recession, the economic recession,�

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The Commercial and Financial Chronicle . . . Thursday, December 19, 1957

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Two From Texas

By IRA U. COBLEIGH

A yearend look at two up-and-coming Texas companies, in entirely unrelated fields of endeavor—Lone Star Steel Company and Texas Instruments, Inc.

We don't know just how the marketing of the recent issue of this piece got arranged, but we do know that these Texas entries are likely to provide operating in ex-pansion segments of our economy. Both should make more money next year than this, and both should make a genuine appeal to investors seeking growth equities—assuming, of course, that such have not gone out of fashion in the financial markets of today.

Lone Star Steel Company

Lone Star Steel has experienced a swift rise in corporate stature. It was founded in 1942, and now is an integrated producer-majority in steel and cast iron pipes. Starting off as an operator of a Government owned and operated plant during the war, it would have been buying the plant at twenty cents on the dollar by end of 1946. It wasn't just the steel mill at Lone Star, Texas (how do you can get?) but 64,000 acres of one kind and some coal mines in Oklahoma also went with the deal. In 1950 a cast iron pressure pipe facility (100,000 ton capacity was built. In 1951 Lone Star arranged a $7 million loan (form) with which it bought the $15,000,000 plant in Oklahoma. In the next two years, an electric-welded pipe plant and related plant and strip mills. This was a big venture stepping up annual output capacity to 50,000 tons. But it was a smart investment.

When the facilities were all built and under way, Lone Star was ready and able to turn out the finest quality pipe in the U. S. A fine product, unexcelled by customers and a big bulge on competitors due to lower transport costs. It was quick to keep Lone Star Steel humming. In addition, the company does a rapidly expanding business in cast iron pipes for water supply which, in the Southwest, can mean a major long range problem.

Lone Star has, with the exception of a strike this Fall, been operating at capacity. It expects to continue the same way in 1958, in sharp contrast with many of its brethren in the steel business who have been sitting the blues lately.

The king size indebtedness has dictated postponement of cash dividends by Lone Star. In fact, most of the company's earnings have been zooming abroad. But the plowback of these earnings, plus heavy depreciation and depletion allowances (about $1.20 a share for the last year), has enabled a large-scale debt reduction (from $37 million to $56 million) in six years; a $37 million reduction in net current assets of 9/30/57. Sales are reported to cross the $100 million mark for the first time, this year.

Right now capitalization of Lone Star is about $58 million in long-term debt followed by 2,804,000 shares of common. The per share earnings have risen from $1.04 in 1955 to $2.30 for 1956. This year they should cross $4, and analysts are talking about $5 for 1958. The common trades over the counter having ranged in 1957 between a low of 221/2 and a high of 421/4. At current quotes of about 28 the stock appears adequately discounted. Here's a real two-fisted President, Mr. E. R. Hoggatt, who pays lip service to optimism for Texas, and enthusiasm for Lone Star Steel. He's a back to back! While steel shares are certainly not the market darlings of the moment, here's one that's going to look better in 1958 and possibly pay a cash dividend for the first time. (There was a 25% stock dividend in 1949 and a 10% one this year.) Quite a company, Lone Star Steel—deep in the heart of Texas.

Texas Instruments, Incorporated

And now, if you can stand the jolt, let's switch from steel to electronics, but sticking to the same State, withal. Let's talk about some remarkable instruments, to wit, the securities of Texas Instruments, Inc.

Texas Instruments makes transistors, a gadget that does what electron vacuum tubes used to do—but better and in 1/100th of the space. These transistors will, in due course, find their way into computers, electronic guidance and control systems, not to mention the most common applications in radio and TV sets.

The recent spate of missile launchings (and press releases) of Cape Canaveral, points up the fact that we're now going all out in rocketry. This is all the more good for Texas Instruments, Inc, since about one-third of its business has been the supply of electronic guidance systems for both manned and unmanned aircraft and missiles. This division of company operations seems likely to increase importantly in 1958.

Related to the foregoing is the company's optical division. Here are produced a wide assortment of spherical, cylindrical and prismatic lenses used for strategic mapping, military target location, airborne guided device detectors, instruments, guidance, tracking and photography.

Another interesting facet of company operations is Geophysical Service Inc. This division is a contractor for field exploration for minerals of many kinds. On shore and offshore search for oil is going on all over the world. GSI (using instruments made by Industrial Instrumentation Division of the Company) makes survey reports and bases on detecting subsurface devices which locate and record the depth, the probable extent, and character of oil and other mineral-bearing zones within the earth's crust. This is a profitable business and a rapidly expanding one.

Texas Instruments Inc. has its main plant at Dallas, Texas and its Industrial Instrumentation Division at San Antonio. The company has always been non-union. Whether in suits, or because of the fact that labor relations have been excellent and plant efficiency high.

Research at Texas Instruments Inc. has been patient and effective and led to pioneer production of the earliest transistors used in this nation. Later on, engineers in silicon led to substantial production of that element, and its application to the manufacture of silicon transistors. Today Texas Instruments is the recognized leader in this field of silicon transistors.

The growth of this company has been phenomenal. For 1948, sales were just a shade below $5 million. This year they should cross the $65 million mark. Sales are expected to advance another 20% in 1958, so that net income has been equally impressive. It was $375,000 in 1948, and should reach $5,000,000 this year.

Capitalization consists of 3,200,000 shares of common preceded by $7 million in funded debt. The stock makes absolutely no appeal to yield-minded buyers since it has paid no cash dividends, and management is not particularly interested in commencing same. This is essentially a play-back situation wherein net earnings and net worth have risen with unusual velocity, reflected by a rise in share prices. The stock sold at $3 in 1951. This year it has ranged from a low of 13% to a high of 31%. The stock, at the current price of around $24, must be somewhere near a buying level for those interested in an animate electronic equity with high-collage possibilities. It's not for widows and orphans, however. In these days, this way of life is a bit on the daring side since most of the security savants have, in recent weeks, been: confident about the market.
Short-Run Interest Rate Outlook

By EDWARD E. BROWN*

Chairman of the Board, The First National Bank of Chicago

Dean of Chicago bankers finds our recession is mild, so far; our interest rates are low by present world experience and by our historical standards; and that the interest rate trend will correlate closely with the business picture.

Barring war, interest rates during December and the first six months of 1958 will remain almost entirely unaltered from current levels. Actions by the Federal Reserve Board will have only a minor effect. The United States and most other countries of the world are in a mild recession. No one can say with certainty how long the recession will last before it or how much deeper it may go... To me, it seems most unlikely that the present recession will last as long as six months of '58. Assuming this to be the case, I think that interest rates, both short- and long-term, will certainly not increase in the next six or seven months and probably will decline somewhat. With a mild recession on, businesses are not voluntarily going to increase inventories, they are going to decrease capital expenditures for new plant and equipment below the level of last year, and savings are almost certain to increase. Savings in the past have always increased when people geographically still had their jobs and had some worry about the security of their jobs in the future. That is the situation now. Employment and income are still high, but people are concerned about the future and the rate of savings is increasing. A loosened demand for money and increased savings can only mean somewhat lower interest rates, both short- and long-term.

Interest Rates and Business

I do not think that any action of the Federal Reserve Board would have much effect one way or the other. By open market operations or reducing reserve requirements they may give the banks more money to lend and thus slightly hasten the time of a decrease in interest rates. But the all-decisive factor determining interest rates during the next six or seven months will be the development of the business picture.

Let us not forget that by historical standards the level of business activity is still high in this country, that the recession which we are experiencing is so far slight and that interest rates in this country are still below those in most of the world and are low except in comparison with those of the last 25 years. We cannot expect to live forever at the top of a peak.


Ralph Winthrop Opens

Ralph Winthrop is engaging in a securities business from offices at 61 East 47th Street, New York City.

Joins Eastman Dillon

(Special to The Associated Press)

BOSTON, Mass. — James F. Chery has joined the staff of Eastman Dillon, Union Securities, Inc., 50 State Street.

Sidney Ungar Opens

Sidney J. Ungar is engaging in a securities business from offices at 351 Fifth Avenue, New York City.

With Smith, LaHue

(Special to The Associated Press)

ST. PAUL, Minn. — Harry J. Holmes has been added to the staff of Smith, La Hue & Co., Pioneer Building.

1600 Supermarkets Serving
231 Communities in 11 States
East of the Mississippi

GENERAL OFFICES: ATLANTA, GEORGIA

THE MARKET... AND YOU

By WALLACE STREETER

Stocks continued to put their worst foot forward this week at a season when a rally is traditionally doubly discouraging. The industrial average, far from lending encouragement, appeared to be in the process of testing the October low.

Tax selling was still a factor in the continued decline, but Strenuous talk might have better treatment at a year-end but now have become depated.

Dipping Indices

Basic indices were no help to either sentiment or the market—steel operations continued to dip, auto sales lagging, layoffs spreading and forecasts generally far from hopeful. Predominant was the turn for the better weather to arrive sometime in mid-1958 are hardly calculated to spur any action for the early.

As it frequently does, the market even ignored some of the hopeful spots, notably the aircraft-missle section where continued high activity is more or less assured. These shares were fully as soft as the general market when the going was rough. United Aircraft, in fact, was prominent at a new 1957 low, which is a distinctly new note in this section.

New Laws for Steels, Motors

The heavier sections, in tune with the economic barometers, were the steels and motors, and their strings of appearances at new lows were long. Chrysler was the harder-hit item in the auto section most of the time, but the steels were rather universally easy. Bethlehem and Youngstown Sheet got around a bit more readily than the rest.

While the Big Three of motors were appearing at new lows simultaneously, American Motors was a bit distinguished in that it not only was far from threatening its low but even able to show a small plus sign at times when general selling was rife, and theReminder of the list otherwise.

An interim report to stockholders from the company indicating that a profit of more than $3 million will replace the $2.9 million loss of the fiscal quarter last year was largely responsible for the above-mentioned average action. American has put its major effort behind the low-priced, compact Rambler—the only maker that hasn’t been involved in the race for lower, longer and more expensive automobiles.

The bet would seem to be paying off for American. The company had coped with an operating loss of $31 million in the 1956 fiscal year, trimmed it to $10 million in 1957 and for the first two months of the new fiscal year was able to spur a more than 50 percent rise in stock prices in the black ink category.

Aircraft-Missiles Favorable

Despite their poor market performance, the aircraft-missile shares were still highly sought by stock analysts. Douglas had retreated to where the yield was around 6% for an above-average return. And the omens aren’t at all bad for this company.

Last year’s earnings of $8.96 well covered the $4 dividend. Making a buy analysts Douglas had retreated to where the yield was around 6% for an above-average return. And the omens aren’t at all bad for this company.

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emerged as a definitely defensive section when market selling is on, and have been among the better-acting items at other times. It follows the ages-old adage that "people have to eat" despite economic conditions. The difference is that this group was definitely neglected up to here. H. J. Heinz, which sold for 60 in 1956, has been holding all this year in a 10-point range of 44-54. The stock offers a yield of around 5 percent and a price-earnings ratio of only 7½ where others in the food line sell around 12 times earnings. The stock's dividend history of unbroken payments is re-arranging the half-century line although it wasn't available publicly until less than a decade ago.

* * *

Rails were being scanned for the first time in a long while, both because they have been severely depressed and because the group on occasion has shown an ability to rebound sharply from what is apparently an oversold position.

Special Situations

Special situations like Missouri Pacific where the possibility is for eventual consolidation with Texas & Pacific Railroad of which it is the dominant stockholder were favored for the increase in net income that would result from the merger. Like others, Missouri Pacific has suffered a dip in profit this year but earnings are still substantial.

* * *

Denver & Rio Grande is one road that has been able to boost net the first 10 months producing $5.24 a share against $4.44 for the similar period last year. Even with a slowdown in the profit-making in the final two months, the line is still projected to a record high in earnings with the $2.50 dividend well sheltered and a return of around 7½ percent.

Bright Spots

The leisure time stocks are candidates for maintained or even higher profits for next year. One of them—Brunswick-Balke-Collender—is being projected to earnings of a dollar or better above the final figure for this year when some extraordinary charges were incurred. The appeal here is the sharp increase in sales of automatic pinsetters for bowling alleys. At the start of the year the company had planned on 500 pinsetters a month as a goal but ship-ments lately have risen to as much as 800 of the devices. More importantly, no sizable doses have been made in the backlog.

Also something of a trend-bucker is Ruberoid which is expected to show increased sales despite the dip in home building. The company has stressed maintenance and modernization to fill the gap.

And home building next year is expected to show improvement with easier money now in effect. The stock has been available at around 6½ percent yield for an above-average return.

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.

H. W. Knepple With Cruttenden, Podesta

Cruttenden, Podesta & Co. announced that Howard W. Knepple has been made manager of their Municipal Bond Department in the New York City office, 27 Wall Street.

Mr. Knepple has been active in the securities field for more than 30 years and was formerly manager of the Municipal Department of Bruton, Norcross & Co. in New York.

Singer, Deane Appoints

Edwin A. Clark has been appointed manager of the New York office of Singer, Deane & Scribner, 120 Broadway.

With Cradock Securities

Cradock Securities is engaged in securities business from offices at 89 Wall Street, New York City.

Form Diran, Norman

Diran, Norman & Co. Inc. is engaged in securities business from offices at 89 Wall Street, New York City.

* * *

"FARM SHED IN A BUCKET"

America's farmers outproduce the world in food, thanks to the tremendously efficient tractors, cultivating and harvesting equipment developed for them by the farm machinery industry.

Shed space is often lacking in which to store these machines; consequently they often are exposed to the weather for months, when not in use.

Here again, petroleum, on which the farmer depends for power and lubrication, performs another vital service.

Out of a bucket comes a low-cost "farm shed"—a rust-preventive coating that does the weather and protects his machinery. Working with industry, Texaco research has developed such coatings to fight rust, the great destroyer . . . another way in which Texaco research has proved itself a vital partner in industrial progress.

TEXACO Progress . . . at your service
Guarded Optimism on British Fight Against Wage-Price Rise

By Paul Einzig

Imposed by British Government's genuine determination to carry its deflationary policy to a successful conclusion and to resist demands for higher wages, Dr. Einzig admits this runs counter to his misgiving previously held. Expects private firms to resist claims for higher wages and living standards. Failure to hold wages may lead, the writer opines, to further credit squeeze to check consumption.

LONDON, Eng.—At present it would be premature to toy with the idea of an end to the effectiveness of the British distribution policy inaugurated with the increase of the bank rate to 5 per cent on Sept. 19. There are, however, a few indications which justify some degree of guarded optimism. The most striking is the Government's attitude towards wage demands in Government departments. While the main features of the new policy, according to Dr. Einzig, are likely to be continued, the present central bank rate is to be allowed to stand.

At the present time the Government has embarked upon a campaign of exhortation to induce industrial firms to lower their prices or risk losing their markets. The prime objective is to instill into industry the need to cut their costs and to stop the present decline in profits and dividends. In turn, these firms are expected to pass on their cuts in prices to consumers in the form of lower cost goods and services.

The Government has also made it clear that it will not allow wage increases to undermine the price reduction drive. It has threatened to impose controls on wages and prices if necessary to maintain the deflationary policy.

The British Government's stance is seen as a strong indication of its commitment to the deflationary policy. This policy, while it may be effective in the short term, is unlikely to be sustainable in the long term. The government may need to consider alternative policies to ensure economic stability.

BOND TRADERS CLUB OF CHICAGO

The following have been elected to serve as officers for the Bond Traders Club of Chicago, Inc. for the year 1953. (Effective March 1, 1958, name will be Security Traders Association of Chicago, Inc.)

President: Adolph C. Egger, Jr.
V. President: Orville H. Strong
Secretary: Donald D. Schubert
Treasurer: William J. Gratzka

THE SECURITY TRADERS ASSOCIATION OF NEW YORK, INC.

The Security Traders Association of New York, having just completed its 21st Anniversary, has elected the following members to hold office for the year 1958:

President: John F. McLaughlin
V. President: Bernard J. Conlon
Secretary: Salvatore J. Ruppa
Treasurer: Wilbur Krissan

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Investment Traders Association of Philadelphia will hold their Annual Mid-Winter Dinner on Feb. 28, 1958 at the Philadelphia-Stratford Hotel at 7 p.m. with a luncheon and reception to be held at 12 noon.

Tight Money
And Faith

By ROGER W. BABSON

Popular shibboleths concerning tight money and antidotes to deflation have been expounded by Mr. Babson, who finds a very high correlation between "material and spiritual" growth, and declares that the "tougher" the material, the "lighter" the present-day difficulties.

The difficulty today is not "tight money," but the poverty and depression that have accompanied it. There is an optimistic fallacy in the belief that mere richness of many oriental nations now will bring us comfort and peace. The people in poverty and depression are no different from their rich neighbors; they are just as afflicted by the same diseases of poverty, and have no more than their poverty to console them.

Our democratic government is a basic reason for optimism. The "American Way of Life," with freedom of enterprise and equal opportunity for all, has been a powerful force in our nation's history. However, the reality of life is that we have a few great industries and a large number of small industries. The former, however, have the capital and the resources to sustain them, while the latter do not. This is a problem for the present-day world, and it is a problem for us to face.

Great Funds Spent

Many financial experts today consider the large appropriations being made by the government for research as insurance against depression. I believe that such spending is now approaching $10,000,000,000 per year. This spending, however, will not be enough. There is a danger that the development of new products, such as the harnessing of new energy sources, will give great prospects of prosperity. However, their effectiveness will depend on the influence of financial institutions, which are used for social advancement.

I might add other causes of "political prosperity," such as the growth of installment selling, radio, television, and automobiles, which would bring great prosperity unless they were not used for social advancement.

Do We Understand the World?

There is an obvious need to understand the world as it is now. The world of today is vastly different from the world of a few years ago. There is a need to understand the world as it is now, and to understand the world as it will be in the future.

If we are to understand the world, we must first understand our own country. The United States is a great country, and it is important to understand its place in the world. We must understand the United States as it is now, and we must understand the United States as it will be in the future.

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the socialist movement led by William Jennings Bryan in the early Nineties. They were backed by selfish interests, they drew "the gravy" without regard for the good of the nation. Manufacturers bought for tariffs; home builders for 9% interest. These labor unions succeeded in remaining exempt from anti-monopoly legislation. Frankly, these labor movements were due to lack of real relief, which caused the "tight money" of those days.

Material vs. Spiritual Growth

History proves that these two must progress together. When a nation is actuated by some religious growth based upon the Ten Commandments only, these continued material growth. On the other hand, when material growth exceeds spiritual growth, then depression and failure with its falling prices, unemployment, and business failures. The real reason why money is "tight" today is because most people have gone haywire materially seeking money, entertainment, and more gadgets, including stylish clothes, autos, TV sets, and all the other things their neighbors have.

Church leaders quote statistics on church attendance, but church attendance is largely the "trend" of religion. The best barometer of the true religious state of this nation are Sunday Observance, Family Prayers, Temperance, Devoted Families, Respect for Law, Civic Interest, Honesty, Industry, and the Practice of the Golden Rule. Truly spiritually minded people always have Faith—in God, their country, their fellowmen, and themselves. Such Faith is what America needs today. It will provide the only relief from so-called "Tight Money."

Continued from page 14

Puerto Rican at Home: Operation Bootstrap

the associated Government services such as sewer pipes.

More and more people are learning a complete workweek, with the accompanying increase in annual take-home pay.

But more important is the momentum generated by these forces. The largest obstacle is to get the plan going and get it off the ground. It is as a catalyst, multiplying the impact of each dollar expended for new plant and investment, that the Government's efforts are to be expected to pay off. It is estimated that every dollar so spent generates at least three-to-four additional dollars of income, with the accompanying aid to increased employment.

Thanks to its location Puerto Rico offers the manufacturer many advantages. Situated between the boiling South American markets and the United States mainland, the island could serve as an intermediate fabricator, drawing on the raw materials of each to feed finished products into the other. Already the petroleum industry has its main source for petrochemical feedstock and the crude oil is refined for both the mainland and this country. This role would be especially important where the weight of the products involved bears a low transportation cost relative to the selling price, so that carrying charges would not have to be included.

With further development should come a greater integration of the Island's various industrial components. For example, the petrochemical industry could serve as a feeder of synthetics to local textile, apparel, and plastics industries. Expanding local incomes would make the Puerto Rican market more attractive, so that firms could sell both within the Island and on the Mainland, thus achieving longer and more economical production runs. And, finally, there is always the possibility that atomic power will be employed to supplement the Island's limited sources of electric power.

How far can the Commonwealth go? No one can make a truly worthy guess, but its present Governor, Luis Munoz Marin, has set his goal a standard of living by 1975 that is the equal of the average Mainlander today. Since 30,000 per capita personal incomes in the island have risen at a rate faster than that enjoyed by any state in the Union. If this rate can be maintained, it would certainly make that goal attainable. Moreover, it would not take excessive amounts of capital to achieve the industrial expansion necessary to meet such a challenge. If American industry were to put only one-half of one percent of its normal expansion expenditures into the Commonwealth, the resulting impact on local living standards would be so beneficially explosive as to have been witnessed in modern industrial progress. It would indeed speed up the rate of "Puerto Rican on the march."

With Estabrook & Co.

[Special to the Providence Chronicle, BOSTON, Mass. — Robert A. Wilbeck has become associated with Estabrook & Co., 15 State Street, members of the New York and Boston Stock Exchanges. Mr. Wilbeck was previously with Rockefeller Atlas National Bank of Boston.]

Walling, Lenchen to Admit Three Partners

DELOFT, Mich. — Walling, Lenchen & Co., Ford Building, members of the New York and Detroit Stock Exchanges, on Jan. 1 will admit Guy L. Ireland, Alfred R. Moran and Paul D. Rich¬ mond to partnership. Mr. Ireland and Mr. Richmond were formerly with Merrill Lynch, Pierce, Fen¬ ner & Beane.

On Dec. 31 John H. Savage, a general partner in the firm, will become a limited partner, and William G. Lenchen will cease to be a general partner, but will re¬ main a limited partner.

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SOUTH AMERICAN GROUP
Effect of Recent Events on Realty and Mortgage Markets

By HUGO STEINER
President, Hugo Steiner, Inc., New York City

The 24th day of December 1957 will be the Tenth Anniversary of the date when the Federal Reserve Board took its initial step in abandoning its easy money policy. It was on this date in 1947 that the Board announced a point reduction in the pegged buying price of Treasury bonds issued in the 2% series of 1927-1928.

Induced by political causes (influenced by the Keynesian theory of the necessity for finance the heavy burden of World War II), Federal Reserve refinancing had caused a long bull market for Federal Reserve securities issued from U. S. Bonds, which in 1933 carried a 4% coupon, sold at a substantial discount; in 1947, the 2% of 1972-77, a war bond issue, was priced so high that the issue had traded at better than an 11 point premium or on a yield basis of 5.45%. This situation was not deemed comparable pattern manifested itself in the mortgage market and mortgage field. The Union Pacific Railroad, for example, was able to float a $150,000,000 issue with a 2% coupon—virtually unheard of in January 1947. The pegged price of the U. S. 2% was lowered from 24, 147 to 101, it was not until March 1951 that they cracked the par (100) level. In 1947, prices of residential and commercial mortgage loans were widely quoted by encroaching investor lending institutions to refinance their outstanding 5%, 6% and 7% mortgages. Mortgage refinancing had reached such refinancing. Keen competition for the available mortgages produced liberal premiums of four to five points for 5% and 6% mortgages. In the case of the 6% bonds of 1946-49, in instances where original purchasers retained a servicing fee of 4% or 4 1/2% somewhat lower prices prevailed.

Schneider, Bernet Hickman
In New Location

DALLAS, Tex.—Schneider, Bernet H. Hickman, Inc., members of the New York Stock Exchange, announce the removal of their offices from 51 Wall street in the Dallas Federal Savings and Loan Building to 153 South Akard street, the building celebrating its twenty-fifth anniversary this year.

Form Palmbrook Inv.

M&T, VERNON, N. Y.—John A. Schneider and Bernet H. Hickman, in December, 1957, formed Palmbrook Investment Company with offices at 22 West 51st St., New York, to engage in a securities business.

Charles S. McCain

Charles Simon McCain pass away Dec. 15 at the age of 44 years. Mr. McCain was President of Dillon, Read & Company, Inc., and retired as a director of that firm in 1956. He was also a former President and former Chairman of the board of the Chase National Bank (now Chase Manhattan Bank).

R. Penfield Brown and Donald D. Miner

R. Penfield Brown, Donald D. Miner and the chairman of the Trust Department of the Chase Manhattan Bank, New York, it was announced on Dec. 17 by Harold H. Helm, Chairman, that Mr. Miner has been appointed the Trust Director of the Bank.

NEWS ABOUT BANKS AND BANKERS

R. Penfield Brown, Donald D. Miner, and Herbert Miner, have been elected officers of the Chase National Bank of New York, it was announced on Dec. 17 by Harold H. Helm, Chairman, that Mr. Miner has been appointed the Vice-President in charge of the Trust Department.

Fifteen years ago, the Board of Governors of the Federal Reserve System, under the leadership of Mr. Frémont, announced the establishment of the new Federal Reserve Bank of St. Louis. The Board of Governors, in making this announcement, expressed the view that an additional Federal Reserve Bank was necessary to serve the economic needs of the nation and to strengthen the Federal Reserve System. The Board also emphasized the importance of creating a new Federal Reserve Bank in a city other than New York, to provide a geographical balance in the system of Federal Reserve Banks.

The announcement of the establishment of the Federal Reserve Bank of St. Louis was made on Dec. 17 by Harold H. Helm, Chairman, of the Board of Governors of the Federal Reserve System. The announcement was made in Washington, D.C., at a meeting of the Board of Governors, and it was announced that the new Bank would be located in St. Louis, Missouri, and would begin operations on Jan. 1, 1959.
A. Manse, President of the National Olympia, is a director.

Plan of merger together with the certificate of compliance of the respective corporations providing for the merger of the National Bank of Silver Creek into Manufacturers and Traders Trust Company, Buffalo, N. Y., under the title Manufacturers and Traders Trust Company was filed with the New York State Banking Department.

- Approval was given to increase the capital of the National Bank of Silver Creek and the Manufacturers and Traders Trust Company, Buffalo, N. Y., to $3,000,000, of which $2,000,000 will be in the form of new stockholders' and $1,000,000 in the form of new stockholders' shares of 1,000,000 shares of the par value.

At a meeting in January, the stockholders will be asked to approve a proposed merger with the Madison Trust Company, Ossela, N. Y., into the Lincoln National Bank and Trust Company, Syracuse, N. Y. Holders of the Madison County Trust Company would receive $50 per share under the terms of the agreement. A total of $7,000,000 is outstanding.

- The New Canaan Bank, New Canaan, Conn, and officials of the Stamford Trust Co., Stamford, Conn, announced that the First National Bank and Trust Co. plans in March to join with three other banks that are merging Jan. 1, to form the Fairfield County Trust Company. The new trust company will have total resources of more than $175,000,000, and total deposits will exceed $14,000,000.

- Stockholders of Montclair Trust Co., Montclair, N. J., and the First National Bank of Montclair, Montclair, N. J., approved plans for a merger. If approval is given by the Commission on the Currency, it will become effective Dec. 2.

The National State Bank of Newark, N. J. Dec. 12 announced that it would pay a 10,000 share stock dividend on Jan. 24, to holders of record Jan. 14 subject to the approval of its share capital and the Commissioner of the Currency. The dividend will be at the rate of one share for each 21 held.

The stock dividend will result in increasing the bank's capitalization to 350,000 shares from 375,000 and raise the capital of the bank to $2,500,000.00 from $3,462,500.00. Earnings per share at the Annual Meeting on Jan. 14.

The bank states that after payment of the stock dividend it anticipates continuation of a regular annual dividend of $2.20 a share on the larger capitalization.

A regular quarterly dividend of 35 cents plus 10 cents extra on the present share was also voted for payment Jan. 2 to stockholders of record Dec. 13. 

- The Boardwalk National Bank of Atlantic City, N. J., with common stock of $1,800,000; and The Ventor City Bank, Ventor City, N. J., with common stock of $250,000, merged effective as of Dec. 1. The consolidation was effectuated under the charter of and the Boardwalk National Bank of Atlantic City.

At the effective date of consolidation the Consolidated have capital stock of $2,000,000, divided into 20,000 shares of $100 stock of the par value of $100 each; surplus of $2,000,000; and undivided profits of not less than $783,672.

- The New Jersey Supreme Court on Dec. 9 ruled that the state could take over unclaimed stock and dividends of the Clinton Trust Company, Newark, N. J. The court held the state could require the Fidelity Union Trust Company of Newark to pay it the value of stock and dividends which had been unclaimed 14 years. Fidelity Union purchased the assets and obligations of the Clinton Trust Company. The case was remanded to the Chancery Division of Superior Court for a precise determination of the unclaimed stock and dividends the state could take over. The state's suit was for slightly more than $50,000 of property.

- Provisions: The Bank and Trust Company, Philadelphia, Pa., announces the promotion of Augustus F. See, from Assistant Treasurer to Assistant Vice-President. Mr. See, will be in charge of President's Trust, 6th and Spring Garden Streets offices. The bank also announces that

Erwin Weber, Assistant Vice-President, will be in charge of its Foreign Department, succeeding A. F. Hauck, Vice-President, who retired Dec. 1.

- In the City of New York, July 23, 1923, the New York Stock Exchange announce the death of New York Mayor Vincent C. "Vince" H. H. Miller, aged 67. Mr. Miller was one of the leading figures in New York City politics and was active in various civic and charitable organizations. He served as a member of the New York City Board of Education and was a staunch supporter of the city's educational system.

- Girard Trust Corn Exchange Bank, Philadelphia, Pa., opened its 3rd office on Dec. 7. The new branch is located on 3rd Street near Girard Avenue.

- Hans A. Jungels, Assistant Treasurer of the bank, will manage the new office, with John W. Fox, as Assistant Manager.

- Charles E. Kinsey was elected a Vice-President, Raymond F. Ehrhart and Gerald T. Dugger Assistant Vice-Presidents of the Union Trust Company of Maryland, Baltimore.

The appointment of Russell H. Metzler as Investment Officer of the Central National Bank of Chicago, has been announced by J. M. Kilpack, Executive Vice-President. Metzler, who is a Vice-President, will continue to serve as the bank's Economist, a position he has held since 1951.

- As investment Officer of the bank, Metzler will assume the management of the bank's investment portfolio, formerly administered by C. M. Colyer whose retirement has been announced.

He joined Central National in Continued on page 108
Current Economic Situation and Prospective Fiscal Policies

By ROBERT H. CRAFT

Retiring President, Investment Bankers Association of America
President, Chase International Investment Corporation

Imposition of additional taxes rather than fiscal deficits is recommended by retiring IBA President in pointing out that though we can afford any necessary defense costs we cannot afford to finance such costs through sizable deficit financing. Mr. Craft holds the latter would undermine our domestic economy and achieve Kruschev's objective of peacefully destroying private capitalism. Defends Federal Reserve policies, expresses awareness of credit policy's limitations, warns of inflation's return if we succumb to unwise political pressures, and presents list of encouraging factors providing strength in the economy. The banker opines the current adjustment can be held within reasonable bounds and that the long-term growth picture is "as bright as it has ever been."

Illusion and Reality

As the year wore on these sources of potential difficulty became more obvious, although they were somewhat camouflaged by the continuing and accelerated rise in prices. The price rise in fact created the illusion that the economy was still moving forward; whereas in fact the physical volume of production was showing little change. The increase in the gross national product reflected almost solely a rise in prices. In brief, the economy was being supported increasingly by forces acting to sap part of its underlying strength and the boom was beginning to live on borrowed time. Last month the Federal Reserve Board index declined to 142, but a principal change in the business situation became more apparent early in the year in a reduced level of inventory spending by business.

During most of 1956 business had been adding to its inventories at the annual rate of about $3 billion. In the first quarter of 1957 inventories were liquidated to a small extent and while some accumulation took place in subsequent months it was not great. The persistent weakness in prices of nonferrous metals, the more recent drop in carloadings, and the reduction in the operating rate in the steel industry to 72% of capacity indicate that business has again moved toward liquidating inventories, and probably at a somewhat accelerated pace. While retail sales remain high they also have leveled out, and currently neither government nor business expenditures are providing the impetus for a further advance in the economy generally.

The question arises as to how far the slide which has begun will carry and how long it will last. The answer to these questions depends in part upon the manner in which management and labor face up to their respective responsibilities, but the answer also depends heavily upon the manner in which we conduct our national affairs, particularly on the monetary and fiscal front.

In gauging the outlook for the private sector two factors should be borne in mind. These are first, that business has been going through an almost uninterrupted advance since the end of World War II, and second, for the first time in a long while there is over-capacity in industry coming at a time when consumer pipelines have been pretty well filled by the heavy consumer buying of the last three years. In addition, the rest of the world for various reasons, principally because of a shortage of dollars, is not clamoring for our goods to the same degree as has been the case for the past few years.

Calls for Cool Appraisal

The events of the last several months have unfolded with such rapidity that it is difficult to appraise their short run economic effects. There is no question that business psychology has undergone a sharp change, and probably it has been heavily influenced by the action of the stock market. The launching of the Russian Satellites created a temporary state of jitters in the markets as was apparent from the fact that each piece of minor news seemed to produce disproportionately wide swings in prices. If this truly reflects the state of mind of the financial and business community it is not a healthy situation. I would like to suggest that this is no time for panic, nor is it a time for burying our heads in the sand. Rather this is a time for a cool appraisal of our present position. A time to stand off and take a good hard look at such deficiencies as may exist and to set out in an orderly manner to correct them.

Certainly Sputnik has had the effect of shaking us out of our complacency. But to jump to the snap conclusion that we are irrevocably behind in the field of missiles would be a serious error. Unquestionably the Russians have won a race but the track meet is not yet over. The Russians scored first but we have come from behind before and there is no reason to believe that we will not do so again. In fact, throughout history this has been the experience of democracies. We found ourselves in the same situation at the outbreak of both World

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The Administration is conscious of the inherent dangers of unbalanced budgets and deficit financing. In his recent City speech, the President made this quite clear when he indicated that whatever additional expenditures may be called for to catch up and surpass the Russians in the missile field must come in large measure from cutbacks in other phases of the military program and in nonessential domestic spending. He pointed out that some domestic programs while desirable are not absolutely essential, and that the President said must be deferred to a time when the budget will stand them and to a time when other demands are not as crucial to our survival. The President said further that this will be one of the hardest and most distasteful tasks that the coming sessions of Congress must face and pressure groups will no doubt be against it. But let us not tell this gathering that the lesson of the 1939-1945 inflation in which the cutting the purchasing power of the dollar in half was established by the methods in the present case, that the money supply through the deficits of World War II and the past two years. Once rationing was abandoned, and price controls were removed, and the money supply was the cause of the subsequence inflation. I have indicated in my recent talks, during a period of full employment additions to the money supply do not create additional goods. Creation of additional money in an economy operating at capacity simply intensifies the demand for goods and the more money there is, the more the price is increased the more the price is increased. During a period of as high economic activity as that which we have experienced during the past several years substantial Federal budget surpluses should have been provided for debt reduction and for much needed tax reform and tax relief. With the negligible progress that has been made in reducing the debt, however, we cannot afford to run the risk of unbalanced budgets. Adoption of this expedient during a period of high national income simply would be an invitation to rekindling the smoldering fires of inflation.

Favors Heavier Taxes

The Administration needs the active support of all of us in its efforts to provide the funds for military purposes and for whatever else is required for defense purposes. In fact, it is on record that nonessential expenditures in all other programs. In passing, I might add that the holding of Federal expenditures within reasonable bounds is not going to be an accomplishment during an election year. Nevertheless, I sincerely believe that the majority of the people still are heavily in favor of economy in government, as was made clear to the Congress during the Easter recess this year. Of course, the difficulty now lies in again persuading the Congress of this fact. In the crucial times

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Continued on page 29
Financing Problems of Small Business

By EDWARD N. GADSBY
Chairman, Securities and Exchange Commission

SEC head blames small businessman's and investment bank's unfamiliarity with what laws and regulations require for small business' public financing troubles. Chairman Gadsby denies his agency places undue restraints, and calls for investment bankers' participation in an educational campaign to overcome small businessman's reluctance to "get mixed up" with SEC.

private citizens to study whether the Securities and Exchange Commission is placing excessive restraint on long-term financing by small business and is encouraging the intent of Congress." This resolution implied a serious criticism of the Commission. As I hope you all know, it has never been the Commission's intention to impose any more restraint upon financing by small or large business than is required by the statutes which it is our responsibility to administer. And we would be surprised and disappointed if interested and reasonable persons should conclude that we were imposing excessive restraints or that we were doing our job so as to carry out the intent of the Congress.

In response to this resolution, Mr. Wendell Barres, the Small Business Administrator, called a meeting in Washington on Nov. 25, which was attended by Commissioner Patterson and myself, certain members of our staff, and about 15 investment bankers, lawyers, and executives in private industry. Among them was Mr. Yost Fulton, Chairman of our Small Business Committee. Various suggestions arose from this meeting, but I am pleased to say that no one present seemed to believe that our Commission was in any way imposing excessive restraint on small business financing. It was rather the consensus of the group that the plight of small business arises from problems of economics and communications.

Core of Problem
At the meeting, I suggested that at least a large part of small business's trouble in public financing comes not from what our laws and regulations in fact require, but from lack of familiarity of the small businessman and even perhaps the investment bankers with the requirements, and what might be deemed the foregoing appearance of our regulations. These factors create a reluctance on the businessman's part to "get mixed up" with the SEC. I suggested further that to the extent that lack of familiarity and knowledge was the difficulty, much could be done by explaining on a joint educational program to inform small businessmen and their legal and financial counselers of our laws and regulations and procedures. Specifically, I suggest that we might organize conferences on a local basis of small businessmen, lawyers, and investment bankers dealing at this level, at which members of the Commission's staff, and any other persons whose advice might be helpful, could explain in detail what our laws and regulations require and how one goes about meeting these requirements in a practical way. We could also answer questions as to our practices and policies under the laws and regulations. We at the SEC cannot remove the real obstacles to financing small business, but with a vigorous educational program we should be able to lift the dark curtain of misunderstanding that prevents these real obstacles erected by the imagination.

Requests Aid of IBA
Such a program, however, requires your enthusiastic cooperation for real success. It is my hope that your association, through your national and regional committees, will participate actively in organizing such conferences. If you will do your part in this organizational work, the SEC will readily and fully cooperate.

Edward N. Gadsby


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Aluminum's New Era

By RICHARD S. REYNOLDS, JR.*
President, Reynolds Metals Company

Reynolds Metals head depicts aluminum industry as being at the threshold of a "revolutionary break-through" from a job order business to a mass production industry. Mr. Reynolds refers to prospects for rolled sheet for such items as aluminum cans, ships, railroad cars, tanks and other large structures; describes automatic pipe-welding machine which permits accelerated pipe production for oil, gas, and irrigation; pictures export possibilities; and expresses the opinion that the present over-supply is merely temporary.

The aluminum industry, in its brief history, has made frequent and substantial claims upon services of the investment banking industry. In the past 10 years alone, it has come to the financial community for—and received—over $2 billion. The vitality and growth potential of this industry strongly indicate that its demands for your services will be even greater in the years ahead.

In my opinion aluminum is on the threshold of a new era—a revolutionary break-through. For the first time in the history of non-ferrous metals, aluminum, I believe, will develop from a job-order business to a mass production industry.

The impact of this change-over will be in economies and efficiencies, will, in turn, affect the structure of the aluminum industry as we know it today. It will make obsolete our present pattern of thought concerning it.

This country, since the turn of the century, has seen the miracle of mass production occur again and again in its basic industries—automobile, steel, paper, and so forth.

We are no longer astonished. We have come to accept the abundance of our goods and services as an American birthright. It would not be a surprise to anyone that the aluminum industry, in turn, is on its way to industrial maturity.

There are some who will doubt my assumption. Among them are those who know, as we all do, that today aluminum is in oversupply. They will point to recent stretch-outs of expansion plans. I can assure you that the present valley in our business activity is neither new nor unusual. We are used to imbalances between supply and demand.

Fast Prophecies

We have marched up the hill in war, and gone down the hill in peace—accompanied by the dire predictions as to our future.

In September, 1942, at the close of World War II, the Surplus Property Board reported to Congress that, with 45% of the nation's low-cost capacity idle and in reserve—"We expect markets for primary metal to require five years before the present private capacity would be necessary.

Therefore, the government plants would not be needed for at least that period." The World War II government plants, comprising 50% of U. S. capacity, were put to use within a year. In three years the industry was again increasing its primary capacity.

Despite prophecies such as this, we have gone up the hill again in peace-time, and have discovered that our true role in this nation's economy goes far beyond military needs.

Production has jumped from 160,000 tons of aluminum 20 years ago to 700,000 tons in 1950; and more than double again to about 1,000,000 tons in 1957.

This spectacular growth has, moreover, been accompanied by steadily increasing profits and sales.

To speak of over-supply, or over-production, in an industry that is growing like ours is a contradiction in terms. What our critics consider a liability is, to me, a unique asset.

This supply compels the industry to sell aluminum, rather than deliver it—as is the case in time of shortage. This pressure to sell, in turn, accelerates the industry's progress toward future markets.

Of course, with all primary producers facing similar operating and market conditions, the production time-table is being adjusted to actual current consumption. But this temporary lull should not distort the basic view.

The future is a matter of perspective. There are those who stand in the present valley of over-supply and see nothing but gloom around them. I suggest we look up at the foothills and then, look higher to the mountain peaks beyond.

My own company's long-range planning department has surveyed these foothills in a recently-completed study which looks ahead to 1975.

They based the study upon the most conservative and realistic estimates; concerning themselves only with the known uses of aluminum and uses already in the development stage. We asked them to lay aside the crystal ball; giving us only a consensus of

R. S. Reynolds, Jr.

Known facts and the best opinions available. We were seeking, not predictions, but guidelines for the years ahead.

This meeting of the Investment Bankers Association is an appropriate forum to present, for the first time, many of the conclusions reached in these studies. I know of no audience better able to realize the limitations of our study; and at the same time appreciate its value.

We have attempted to model our procedures upon the methods you yourselves use in major investment decisions. We assemble the facts, add our knowledge and experience and, with care and caution—decide.

Stable Conclusions

Our study assumed the economic conditions commonly accepted by industry and government; a stable and growing economy; the absence of war; a rising population; and a steady increase in production and consumption.

Then working through our sales division, we determined for each major market how far aluminum could be expected to penetrate in the periods covered. These estimates combined the analysis of our own market specialists with the opinions of experts in the consuming industries.

In architecture and construction, for example, the estimates were concerned with roofing, siding, windows, doors, screens, awnings, store fronts, trim, curtain walls and many other uses.

These estimates were then translated, on a tonnage basis, into the products we make—such

Continued on page 52

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The Return of Power to State Governments

By JOHN H. STAMBAUGH*
Special Consultant to the President
And Vice-Chancellor, Vanderbilt University

University official and Pres. Eisenhower's special consultant reviews unprecedented action undertaken by pioneering Joint Federal State Action Committee to transfer certain Federal functions and taxes to State Governments. The admittedly limited efforts confined, so far, to vocational education, civil defense, urban renewal and atomic energy, and to releasing estate-gift and certain excise taxes, are optimistically viewed by Mr. Stambaugh as an essential step towards the battle of halting a trend.

Recommendations for Action

The Joint Federal-State Action Committee as a result of its first series of meetings made the following recommendations for action to the Federal Government and the States:

The States assume full responsibility for carrying out the provisions of vocational education and provide annually a holding authority for grants to the older programs of vocational education as soon as practicable and to set up control standards in agriculture, home economics, industrial and distributive trades.

The Governors and the legislative bodies of the several States develop necessary means for providing the additional funds to replace the Federal grants.

The joint State-Federal consultation proceeded with this understanding of full responsibility for the financial support of the more recently developed practical nurse training program. The President requests the Congress to terminate Federal grants for practical nurse training as soon as practicable and no later than the period presently authorized. The Federal Government and the legislative bodies of the several States develop necessary means for providing the additional funds to replace the Federal grants.

The President urges Congress to take necessary action to discourage and prohibit any State-local waste treatment facilities at $30,000,000 is authorized annually for this purpose. And, the Governors request the State legislatures to provide such financial assistance for waste treatment facilities as may be necessary; strengthen as need be State water pollution control programs as they relate to both municipal and industrial wastes; and improve municipal capacity to raise funds to finance waste treatment works.

It was also recommended that the President take such steps as necessary to put into effect a schedule of State-local expenditures to be made before qualifying for Federal aid and to guide the continuation on page 55

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Speaking in Frankest Terms as an Understanding Friend

BY HONORABLE DONALD M. FLEMING
Minister of Finance, Canada

Speaking candidly of room for improvement beyond the already good relations and mutual confidence between the U.S.A. and her country, Canadian Minister of Finance directs attention to the serious harm U.S. trade and surplus disposal policies is creating for Canada. In contending America has "a special responsibility not to damage Canadian export opportunities abroad", Mr. Fleming reiterates the strong protest made at a recent meeting of representatives of both countries in Washington, D.C. Turning to investments in Canada, the Minister appeals for voluntary reversal of irritating and damaging policies conducted; particularly, by U.S. parent corporations. Depicts a bright future for Canadian economic outlook; and pledges full friendship and support to the U.S.

given to her, the incomparable, rich inheritance of two cultures. In toleration and integrity would have denied Canada this destiny; good will triumphed over these divisive forces. Canada owes its creation and existence as a nation to the spirit of tolerance and mutual respect among men of different tongues, cultures and creeds. Unity and uniformity are not the same thing, and Canadian unity is not and never will be based upon uniformity.

When Canada in 1763 passed from French to British rule there were sixty thousand French Colons in Canada. Two centuries later their descendants number almost five million persons. This is one of the miracles of modern times. Under the guarantees given first by the British Parliament and now by the Canadian Constitution, their rights of language, law, creed and culture have been preserved in the fullest measure. France is one of the two official languages of the Canadian Parliament, of the Federal Courts and of the Legislature and Courts of the Province of Quebec.

With these two principal racial strains has been mingled in more recent times the blood of men from many other lands. The Canadian family has been strengthened the more. Up to the present the culture has been enriched by their contributions.

The march of Canada to full nationhood is as notable a record in her physical march as in expanding frontiers. Her assumption of the attributes of nationhood was at its tima when in 1919 the wartime Prime Minister, Sir Robert Borden, signed the Treaty of Versailles on behalf of His Majesty in the name of Canada. It was the first time that Canada had entered into an international treaty in her own right and her own name. It is said that as Sir Robert signed that historic document, his eyes filled with tears and he remarked that he felt that he was signing the treaty in the blood of sixty thousand young Canadians who had given their lives in the Great War.

From that point Canada has gone forward to achieve an ever-increasing measure of recognition in the eyes of the world. To this end have contributed various factors, her resources, her ports she has played in the evolution of the Commonwealth of Nations, her close relationships with the United States of America and the fact that historically she has had nothing to do with the world's recognition has given Canada great opportunities. It has also been brought to her vast challenges.

Considering their relatively small population Canadians are an outward-looking people a degree not excelled by any other nation in this hemisphere. The fact that we are a young nation has not meant that we are an immature people. Our external policy is built upon four bases, our treaties in Canada, the Commonwealth of Nations, the United Nations and NATO, and our very close, almost unique, relationship with the United States of America. Our attachment to these four bases is strong and solid. Withal, Canadians are a studly, self-reliant people who cherish their independence. May I remind you that these qualities of the Canadian people are strikingly evidenced by the fact that almost alone among your allies in war and peace we Canadians have never accepted any aid from the United States, whether in the form of lease-lend during the war or material aid in these post-war years. Indeed, like the United States, Canada has heavily supplied material aid to our allies in the North Atlantic Treaty Organization.

The Canadian population today numbers 16½ million. In geopolitical terms, Canada is the second largest country in the world. In our soil is a vast storehouse of nature's bounty. What appeared some years ago to be gaps in Canadian natural resources have been filled in overwhelming measure by the discovery in recent years of vast deposits of oil, natural gas and iron ore. We possess in abundance the five known sources of energy: water power, coal, oil, natural gas, uranium. We are a major world supplier of forest products and metals.

Canada produces over 90% of the world's uranium, titanium and other much-sought metals. Nature has been good to us. The opportunity to develop these resources is a challenge to Canadians of this generation and will likewise be a challenge to generations yet unborn.

One of the blessings of the extraordinary and cordial relations which exist between Canada and the United States is that we can speak to each other in the most candid terms without endangering, not to say rupturing, good relations between us and our sense of mutual confidence. Opportunities of this kind are given to us. We are the people who will enable you to speak to us with utmost frankness.

We Canadians recognize the position of world leadership which is held by the United States. We view with admiration the way in which the American nations in these past fifteen years has risen to the challenge of destiny and has assumed the exactions as well as the responsibilities of world leadership. The greatness of the United States in sustaining other nations in these post-war years is without parallel in history. I traversed free Europe in the critical year 1948. I saw there left no room for doubt that Marshall Plan aid saved Western Europe.

Canadians and Americans are allies in that grand alliance of nations. The

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Correspondents in

Continued on page 70
Satellites . . . the Doorway to Space

By George S. Trimble, Jr.*
Vice-President—Engineering, The Martin Company

Investment bankers are advised by Martin scientist-official of crucial differences governing investment decisions in plants of advanced technology and science active in building missiles. Mr. Trimble outlines criteria to identify firms most likely to succeed in this field, and points out profits come not so much from today's operational efficiencies as from making and keeping a head start. Expresses confidence in U.S. A.'s ability to gain rocketry lead in recalling that past experience shows those who are not always most successful.

Because of these things, it would be foolish for us to concentrate too heavily on fractional cost cuts in detailed manufacturing areas as is so often true in the usual industrial case. Rather, we must concentrate on tools and processes of extreme flexibility. For all we know, next year we may need to use an entirely different metal to obtain the best performance.

The factors that make our operation a success and hence return a profit are the ones you are in the habit of considering, but the balance and emphasis are profoundly different. We do not so much make our profit on the little efficiencies of today's operation as we do on the seemingly unprofitable advanced efforts that will lead to customer recognition of Martin as the company best suited to produce the world's best performing machine of the future. I shall illustrate this process with an example from the past and then show you how it is now working for us in the future.

Long Yared in Rocket Work

It has been said that the reason the United States lags the Russians in rocketry is because of a hiatus in American rocket development extending from 1945 to 1951 or thereabouts. This is not strictly true. The Martin Company managed to retain a rocket program of significant size through this period. It was a high altitude research rocket program, called 'Viking' sponsored by the Navy. You can read about it in a book called "The Viking Rocket Story" written by one of our friends at the Naval Research Laboratory at Milton Brown. We acquired a great deal of experience over the ten year period of Viking's active life. Many of our men became trained in all phases

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of rocket work, inventions were made, and new techniques were developed. More importantly, we learned things of such abstraction as to be uncommunicable to others even now. Because of this experience and other work we had done, we were able to accept the challenge of Vanguard on July 29, 1955, when we announced that the United States would attempt to place an earth satellite during the International Geophysical year (which started last July 1st and will end Dec. 31, 1958). The job to be accomplished was formidable. In two years we were to develop a new rocket which was necessarily complicated by the high performance required, an advanced guidance system to assure accurate placing of the satellite in space, and all of this to be done at a minimum cost, permitting development of new components only when absolutely necessary and in time for the IGY. This task could not have been undertaken without the background of Viking. Similarly, Titan, the Intercontinental Ballistic Missile we are designing and building at our Denver plant, has many of the roots in this early Viking effort. It may interest you to know that we develop oddball items as early as 1947 and that in our opinion a satellite of this size has been launched two years before now if we had started construction then.

Some time ago we established RIAS, Inc., a wholly owned subsidiary of Martin. RIAS confines its efforts to basic scientific research. Dr. Hans Trunt, one of the senior members of the staff, has been investigating for two years "What Makes Grass Green..." How does a plant convert water, carbon dioxide, and sunlight into oxygen, starch, sugar, and protein? Eventually he and his co-workers will learn how to synthesize food and give life to plants. By this time next year, very few people could understand Martin Company interest in such things. But this problem must be solved to make space travel a practical thing. I need hardly point out other important applications of the capability of synthesizing food.

This is but one example of the things we at Martin are doing today that will have profound effects on our business of the future... just as Viking helped us put where we are today. There are many more, some so seemingly remote to our business of today as to give rise to questions of our nationality in the minds of some.

Company's Future Plans

Our course, however, seems quite clear to us. As we have successfully evolved from a manufacturer of aircraft to this country's leading missile company, so shall we continue to evolve as a departure from strictly military to a broad spectrum of advanced technology and science. In the immediate future we expect to be very active in the fields of space exploration and advanced machines that are needful. We believe we have prepared well for this. At the same time we shall continue to prepare for the future products, as yet undelineable, by exploring the foreseen and the unforeseen. We are confident that the United States will continue to lead the world in space exploration and all those things that it makes possible. The Martin Company intends to make major contributions to the winning of this race.

Continued from page 23

Current Economic Situation and Prospective Fiscal Policies

As I do not wish to leave you with a gloomy impression of the future, I should like to point out that there are still many factors of strength in the economy. It is my preparation for you that 

In conclusion I do not want to be more optimistic than I am, for every one of us is as yet no indication that the consumer has been antagonized by the new taxes on wages, interest and dividends. There are others, however, who feel that the value of the dollar is not what it should be, and that a rate of $17 billion above that of last year should not have been only slightly below their three-year high. Even some of the overoptimists are not so sure of our economic stability as a problem as it appears on the surface. While the purchasing power of the dollar is not a problem as a whole that believes that it can operate more efficiently in a period of relative unemployment of capacity rather than 100%. Furthermore, the labor market will continue in capital goods outlays in manufacturing is not expected to carry us through. The growth of the utilities and the oil companies. And unless the new corporate building is expected to remain at about the same level as for the past year. The pattern of state and local government spending also calls for substantial increases in 1959. These will provide at least a partial offset to whatever decline takes place in private spending.

Within the immediate outlook unanswerably is somewhat cloudy, there is no reason to expect that the adjustment we are now going through cannot be held within reasonable bounds. Certainly we have needed a breathing spell for a long time, and if in this period we can eliminate some of the maladjustments that have been built up during recent years, we may process some of the inflationary strains, the adjustment will prove to have been all to the good. Certainly it is far better to have some adjustment now than later, and for such adjustment to proceed from a current level rather than from an artificially stimulated higher one. Looking beyond this intermediate period, the prospect for long-run growth is just as promising as it ever has been. Several weeks ago I attended the International Financial Development Conference in San Francisco. At that conference there were some 500 bankers and industrialists from 62 countries of the free world. I wish the time to tell you about the predictions of things to come that were made there, to tell you about the potential that exists in what was described as the world-wide population explosion and the possibilities inherent in the combination of nonnew energy and electronics, indeed, the full potential inherent in the vast research that is now under way, not only here but throughout the industrial free world, the frontiers that are opening up. Looking at the longer run, I can find only a solid basis for optimism. But in the short run, I think we still have a pre- terminal job to be done—correct some of the maladjustments that have crept into the economy during the period of unprece- dented prosperity and thereby lay a solid basis for the renewed advance that is to come.
Report of IBA Municipal Securities Committee

Chairman William M. Adams, 60 Water St., New York, submitted his committee's report covering encouraging municipal financing prospects, broker-dealer regulation fees, tax-exempt securities' amortization, and metropolitan area and state legislation problems, among others to the 46th Annual Convention of the Investment Bankers Association of America.

Text of Report, including Appendices, follows:

Although money has continued in tight supply thus far throughout the year with low prices and high yields on municipal bonds (compared with the levels of recent years prior to 1950), the demand for construction of public facilities, particularly schools, water and sewerage facilities, has resulted in a large volume of municipal bonds. The total new volume for the first 10 months of this year is close to the volume of the record year of 1954, and it is possible that volume for 1957 will set a new record. The volume for each of the last five calendar years is also shown in the accompanying tabulation.

The Committee has worked on many problems this year, legislative, mechanical and planning problems, and this report summarizes some of the principal issues.

I

Federal Legislation

(a) Federal Aid for School Construction

The Federal aid for school construction, the bill, to authorize a Federal program of grants, loans and credit assistance for the construction of public elementary and secondary schools, was defeated in the House on July 25 by a vote of 208-202. The IBA Municipal Securities Committee opposed this bill, and the Chairman of the Committee testified against the bill at hearings before the House Committee on Education and Labor.

A tremendous job is being done by states and local educational agencies in rapidly providing needed classrooms. During the 12-month period from Oct. 1, 1956, through Sept. 30, 1957, there were sold 2,069 issues of school bonds aggregating $2,351,667,700, of which the construction of public elementary and secondary schools accounted $279,739,000—greater than the total in any one of the 12 preceding months.

We are making a study of construction costs of public elementary and secondary schools and of the amount of Federal aid that would be required to make the construction feasible. To obtain information for this study, we sent out questionnaires (3,276) to school districts and local educational agencies with a pupil enrollment of over 300, which aggregating 12,000 questionnaires, and we have received over 3,000 replies.

(b) Federal Broker-Dealer Registration Fees

S. 2520, which would amend Section 31 of the Securities Exchange Act of 1934 to require every broker-dealer registered with the SEC to pay a fee in an amount equal to 1c per $1,000 of the aggregate dollar amount of the price of securities sold as a broker-dealer, otherwise than on a national securities exchange, was reported favorably to the Senate on July 11 by the Senate Banking and Currency Committee as a new bill. This was an unusual procedure because no previously introduced bill on the subject had been before the Committee and no hearings were held on it. The bill as originally reported on July 11 would have applied to transactions in state and municipal bonds. The Senate Banking Committee on July 16 approved an amendment to exempt transactions in state and municipal securities from the bill. S. 2520, with the amendment exempting state and municipal bonds from the proposed fee, passed the Senate on Aug. 8 and is now pending before the House Interstate and Foreign Commerce Committee.

(c) Amortization of Premium on Tax-Exempt Bonds Held by Foreigners

On July 9, 1957, the House Ways and Means Committee reported favorably to the House of Representatives to amend the Internal Revenue Code of 1954 to provide for amortization of under-prices and hardships and to make technical amendments. Section 3 of this bill would require dealers to amortize premiums on all tax-exempt bonds held by them and would apply "with respect to tax-exempt bonds" entering into transactions after July 7, 1956, but only with respect to obligations acquired after such date. The amortization requirement would apply regardless of how long the bonds were held on the maturity of the bonds. The amortized premium would not be deductible. (For example, if a dealer purchased for $1,000 a $1,000 bond maturing in one year and sold the bond in 18 days, the dealer would have to amortize the premium at the rate per day of the premium.) If the $30 premium $1 would be attributable to that 18-day period, then that amortization of that $1 of premium would reduce the dealer's "legitimate bond" tax to a figure close to $1,035 and there would be $2 of tax on this bond for the year.

Present provisions of law do not require dealers to amortize premiums on bonds acquired (1) within 30 days after acquisition or (2) the bonds have a maturity of more than 5 years from the date of acquisition. The Municipal Securities Committee of the IBA actively opposed the provision to require dealers to amortize premiums on all tax-exempt bonds acquired after Nov. 7, 1956. After it became apparent that the House Ways and Means Committee felt that present provisions of the law provided a loophole, foreign dealers may trade premium bonds back and forth between themselves after holding the bonds slightly less than 30 days so that they can report "legitimate bond" tax to the broker and premium disappears while receiving tax-exempt interest on the bonds held. The Municipal Securities Committee recommended that the "loophole" would be largely closed if it was entirely closed by cutting from 30 days to 18 days the period during which dealers may hold tax-exempt bonds with a maturity of five years or less without amortizing premium. This recommendation was not adopted. In any case, it is expected that the Senate, if urged, will disapprove of the proposed amortization requirement, to (1) urge their Representatives to vote against H. R. 3915 which has a similar provision, and (2) to request Representatives to vote against the bill because it would cause an increase in financing costs for states and municipalities.

H. R. 8381 was not considered by the House, but it retains its original provisions for further action next year. The Municipal Securities Committee has requested an opportunity for a hearing by the Senate Finance Committee before the bill reaches the Senate.

It has recently been suggested that the "loophole" would be completely eliminated without imposing any hardship on dealers if dealers were required to file affidavits that they could only buy bonds when they sell the bonds at a price lower than their acquisition cost, provided that dealers who purchase the bonds for new issue are not required to furnish a copy of original issuance would not be required to file an amortization premium for a period of 60 days following delivery of the bonds by the issuer. Inasmuch as this proposal a would not be required to amortize premium on any premium bonds but sells at a profit, and a dealer would not be required to file premium on bonds sold at a profit or less if he purchases the bonds from the issuer or directly from the issuer on original issuance and sells the bonds within a period of 60 days following the date of sale by the issuer. This suggestion will be considered by the Committee at its meeting at the Convention in Denver in August. A similar suggestion should be recommended to Congress as a means of closing the "loophole" without imposing on dealers the hardship that would be imposed by section 3 of H. R. 8381.

(d) Municipal Investment Companies

The House Ways and Means Committee referred to a Subcommittee for study the bills which would permit investment companies to pass tax-exempt interest through to their shareholders as "exempt-interest dividends."

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The resurgence of equity financing relative to total financing and the growing importance of convertible financing are two of several topics stressed in Industrial Securities Committee report to IBA. The unimportance of preferred stock in recent financing is shown, prior to discussion of relative merits and considerations involved in cash and rights versus offering methods.

### Reasons for Wide Use of Equity Financing
Recent emphasis on equity financing reflects the desire of corporations to obtain permanent capital at a substantially lower cost. The growing importance of financial planning and capital budgeting based on sales forecasts is usually the methods used by the management of an industrial company to decide how much additional capital is needed. Then the chief problem is to determine which of the many sources of funds should be used in obtaining the money. There are many sources of funds, both debt and equity, for this decision, but the central problem is whether to use a debt or owner participation. From a cost point of view, borrowing almost always appears cheaper than issuing stock, principally because of our tax laws. Interest is deductible for tax purposes, and this means that the net cost of debt (after bond haircut) is only about half of the interest rate. Therefore, even in periods of high interest rates, interest payments are relatively high, and stock yields are similarly, the effective cost of debt is considerably lower.

Under these conditions one might expect that equity financing would always be minimized. This, however, is not the case, as shown in Table III. Demonstrates the amount of financing with equity varies and for some of the corporations, the proportion of equity funding is high in periods of favorable markets.

### TABLE I

| New Securities Offered to the Public for Cash (S000) |
|-----------------|-----------------|-----------------|
| Total Debt Securities | 92,398 | 92,398 |
| Common Stock     | 8,296,639     | 8,296,639     |
| Preferred Stock  | 8,296,639     | 8,296,639     |
| Total            | 12,984,106    | 12,984,106    |

### Methods of Raising Equity Capital
A large proportion of the equity funds for business are generated internally through the retention of earnings and through depreciation and折旧 allowances. At times, however, this internal generation is not sufficient to meet capital demands, and equity funds must be obtained from outside sources. There are a variety of methods for tapping these sources, including the issue of (1) preferred stock, (2) convertible preferred stock, (3) common stock “rights” offerings, and (4) common stock cash offerings.

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Report of IBA Foreign Investment Committee

The Foreign Investment Committee of the IBA has sought to accomplish two things: first, to establish contact with governmental and private organizations already active in the field of foreign investments so that we might discover what our industry has to contribute in this work, and might thus provide interested IBA members with necessary information. Beyond this practical objective, however, the Committee has attempted in the second place to gain an understanding of the entire foreign investment problem: its impact not only upon the individual industry which our own group represents but also on such wider areas as our national economy as a whole, on the government of the United States and, indeed, on the security of the entire free world.

For your Committee is convinced that the more immediate and practical aspects of the foreign investment question cannot be understood or even properly discussed except in the context of these broader issues which I have just enumerated.

This Committee considered that it was part of its job to interview anyone who might help us to understand the growing world and its needs. Those whom we interviewed included private business men here and in other countries, officials of the U. S. Government concerned with foreign trade and investment, and such individual authoritative sources as Eugene R. Black of the World Bank and Robert Gurner of the International Finance Corporation. Our Report to you represents the information thus gathered by the Committee, and its collective judgment, on three related topics: The expansion of world industry; the respective roles played by government and private capital since the War in the financing of this industrial growth; finally, the reasons which suggest that private industry, especially our own investment banking industry, should and even must assume a greater responsibility for, and share in, this expansion—or if the world of the future is to develop in that tradition of free enterprise and independent action which we cherish as Americans and as industrialists.

Readiness of underdeveloped areas ye ring to participate in economic growth and in passing of our private and public foreign investment policies are interrelated topics studied by IBA Foreign Investment Committee. Chairman Johnson, recalling utterances made five years ago when he was IBA President, asserts we are still attempting to settle a long-term crisis with the same emergency operations and are still no closer to real, long-term solutions. Although praising extent of private investment, the Report nevertheless criticizes much that remains to be done despite existing difficulties.

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Note of Caution

This optimistic picture needs, however, to be shaded with some tints of sober warning. Many of our countries are seeking with the industrial ferment I have outlined, want, first and foremost, to achieve the standard of living which economic prosperity has brought to the United States; but these countries are, in fact, caught between two anchors which have insured our own stability on the high seas of industrial expansion: fixed political institutions founded on a tradition of law, and sound business techniques. Thus they are prone to make mistakes; mistakes produce economic disaster; and disaster in turn invites the malign intervention of a watchful Communism, prepared at every moment to rescue the foundering ship—naturally, on its own terms and to the advantage of its own world policy. To offset this economic threat the estrangement of developing free countries by the Soviet octopus there stands, as modern representative of our historic free institutions, the power of the United States.

The power, political and military, but above all economic, is thus faced with a great opportunity which is at once a tremendous responsibility and both opportunity and responsibility are in danger of being lost by default.

Role of Government and Private Capital

Turning now to the second theme, the role of the U. S. Government and private capital, I wish to remind you, countries and peoples that have long yearned for their proper place in the sun of economic prosperity, and that the free world is now striving diligently to hold within its own camp. Whether or not the huge populations of Asia, Africa, and the Far East are to follow China along the road of Communism, and can be incorporated, with all their vast resources, into our free world—this vital and fascinating question of the history of the world will be decided in great part by whether these peoples, too, can enjoy the benefits of international economic liberty. The history of mankind has come to bring men in the United States.

Consider the facts which substantiate this statement about world commerce now taking the following output in the free world has reached an annual rate of growth of about 6%, three times the double the prewar rate. World trade, excluding the U.S. trade, has risen 85% in the past ten years; and whereas the U.S. rate of increase during this period was a healthy 59%, trade in Western Europe has risen more than tripled. India is en¬ graveling itself into the world and its already respectable steel output; Egypt yields the means for creating one of the most modern and efficient of their ancient farming techniques; in the American continent itself, the U.S. is alone outstanding in rate of industrial expansion by our good brother, Canada, has been more than tripled.

The optimistic picture which has been built on this area in Mexico, South America, where natural resources are still comparatively unstaked.

Continued on page 60
Report of IBA State Legislation Committee

Chairman Gilbert H. Ogood of Blunt Ellis & Simmons, Chicago, submitted a summary report of the State Legislative Committee to the Investment Bankers Association's Forty-Six Annual Convention, held at Hollywood, Fla.

The text and the appendices of the Report follows:

1

State Securities Acts

Appendix A contains the substance of the amendments to state securities acts adopted this year by the following: Arkansas; California; Colorado; Florida; Georgia; Idaho; Iowa; Kansas; Minnesota; Missouri; Montana; Nebraska; New Mexico; Oregon; Tennessee; Texas; Utah; Wisconsin.

The outstanding Legislative actions in this field were the adoption of complete new securities acts in Kansas and Texas. The new Kansas Securities Act is based in large part on the Model Uniform State Securities Act, and it makes many desirable improvements over the previous Kansas Securities Act. The adoption of the new Kansas Act is the result of hard work by Harry Beecroft (Beecroft, Cole & Co., Topeka, Kan.) and Carl Houseworth (Columbia Securities Corp., Topeka, Kan.), in cooperation with the Kansas Securities Commissioner. We commend Harry Beecroft and Carl Houseworth for the outstanding performance in obtaining adoption of an up-to-date securities act in Kansas which will provide better protection to investors and facilitate the conduct of legitimate securities business.

The new Texas Securities Act (1) combines the previous Texas Securities Act (administered under the Secretary of State) and the Texas Insurance Securities Act (previously administered under the Insurance Department) into one Act administered by a securities commissioner and creates a "Texas Securities Board" (of three citizens appointed by the Governor) which in turn appoints the securities commissioner.

We commend for their hard work and success in obtaining adoption of the new Securities Act, the Legislative Committee of the Kansas Bar Association. They are:

Charles L. Fenner, Chairman; Kenneth Pierce & Co., Inc., Dallas.
Edward H. Austin, Austin, Hart, Parvin & Parvin, San Antonio.
Hal H. Dewar, Dewar, Robertson & Dansoff, Austin.
Wilbur E. Hess, Fridley, Hess & Frederickson, Houston.
Charles D. Kirkham, Merrill Lynch, Pierce, Fenner & Beane, Dallas.

Bills to provide complete new securities acts in Washington and Wyoming failed to pass.

Amendments this year in Florida, Maine, and Utah contain important measures for the securities commissions of those states requiring that applicants for registration as dealers or salesmen pass a written examination, and an amendment in Georgia authorized the Commissioner to require that applicants for registration as salesmen pass a written examination.

The procedure in the new Uniform Securities Act to provide a special sales procedure, described as "registration by coordination," for securities which are being registered under the Federal Securities Act of 1933 was included in amendments adopted this year in the Securities Acts of Colorado, Kansas, New Mexico and Texas.

II

"Variable Annuities"


The substance of the decision is given in a brief quotation from it:

"The logic of the law applied to the established facts seems to bring the variable annuity contract within the indemnity and steadiness of the Securities Act, and the defendants within the terms and plan of the Investment Company Act. This Court would feel constrained to hold if it were not for the clear and explicit language and the clear facts and the fact that the defendants are licensed and regulated by the insurance departments of the District and the States where they operate.

"When, however, the Congress passed the McCarran Act ... it excluded all Federal agencies from regulatory jurisdiction over all insurance companies and insurance business except such agencies as it then excepted in the future. SEC has not been made an exception." The defendants have been chartered as insurance companies by the District of Columbia and their questioned contracts have been approved by the Insurance Super

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Volume 186, Number 5700 . The Commercial and Financial Chronicle

(2663) 33
Report of IBA Public Utility Securities Committee

Confident the utility industry is headed for continued accelerated growth, the Public Utility Securities Committee offers the prognosis that electric energy financing, for example, will pyramidal from $4.6 billion scheduled in 1957 and $5.3 billion for 1958 to over $11 billion annually by 1970. Find reassuring the change by some regulatory bodies allowing higher rates of return and affirmation of “fair value" decision by Iowa Supreme Court, and note several unfavorable situations.

POWER

The mainstay of our expanding economy is the certain growth in population. From an average annual increment of 1.6 million recorded since the beginning of the century, we have already reached a rate of 2.9 million a year, and by the late 1960s this will exceed 3.5 million. In 1970 our population is predicted at 212.7 million or a total of 28% over 1956. Between now and then, households will increase 34% and home building to keep pace must average 1.6 million starts each year.

Natural gas product now gaining at a rate of about 2.5% a year should spurt to double this rate and reach 5% or 62% or 62% higher in 1970 than at present. With consumers' disposal income rising to about $1,000 in 1970, average residential customer could easily multiply his present consumption and produce $11.5 billion in revenue for that year.

The same projection is made for industrial production with the S & P B Index at 141 in 1970, but because of changing labor circumstances and further automation, demand for electric power by manufacturers is destined to increase from present sales of 292 billion kilowatt hours to 653 billion kilowatt hours in 1970, and the growth of suburban communities, commercial and all other sales are forecast at 353.4 billion kilowatt hours as compared with present sales of 123.3 billion.

All in all, this prognosis is for an industry-wide production of electric energy in 1970 of 1.7 trillion kilowatt hours or upwards to three times the amount produced last year. In order to handle such an increase, expansion of present generating capacity is being accelerated and in 1957 and nearly double this amount, or 3.4 million kilowatt in 1958. By 1970 the annual production to capacity is expected to be close to 27 million kilowatts. Financing this development along with the increased transmission and distribution facilities will be funded from the $4.6 billion scheduled for 1957 and 1958 for 1958 to something over $11 billion annually by 1970. The demand for capital by this industry will certainly burgeon in the years ahead.

Another look into the future was taken by the Pennsylvania Power & Light Co. at a press conference early this year before the Pennsylvania Electric Association. He estimated that the total-over-the-shelf amount of the electric companies were faced between now and 1970 with a new construction program of about $70 billion of which $25 billion might be expected to come from new capitalization and $45 billion depreciation in retained earnings. The balance of $45 billion would have to be new money.

Financing Costs

The fact that utility companies have had to pay much more for their money this year than a year ago is too well known to merit detailed discussion. For example, the interest rate on the 3% B & I Index at 179 in 1970, yet that rate is still low compared with the breakeven rate of the 5% corporate bond in December of 1955.

The big increase in bond financing in the first months of this year as compared with last year, shown in an appended table accompanying this report, can be traced in part to reluctance of utility companies to sell bonds in the latter part of 1956 when interest rates were firm and may have managed that felt such a trend might be temporary. When it became obvious that interest rates would be on a higher plane, many companies in 1957 proceeded with financing and some of the money raised seemed to have been raised in 1956. While some companies have been inclined to make more use of temporary financing than at times in the past, we feel that the independent skeleton in the utility industry has been the greatest factor in the higher rate for money might be on the theory that these companies are going to have to raise money annually, or almost annually, and that while the short rate may be low, or very high in a given year the cost will average out over a period of time.

We have regularly stressed in these reports that if the privately-owned utilities are to fulfill their obligations to the public the free flow of funds into their securities must be encouraged. It depends on the continued flow of favorable investment climate and the cooperation of state agencies in permitting an adequate rate of earnings. The reasonable rate of return of such an atmosphere is of intimate concern to investment bankers as well as the utility companies.

Some investors have expressed concern about the fact that higher interest rates have meant higher cost of capital for utility companies and whether public utility commissions have been lenient enough in this respect. For example, we do not feel that utilities may be paying more than the rate of 6.5% indicated above, and the answers for the most part were reassuring to the effect that the Commissions would be sympathetic.
Report of IBA Canadian Committee

Temporary slow down in metals, forest products, and capital spending is predicted in Canadian Securities Committee report which holds, however, that less favorable 1958 year than 1957 does not deter optimistic long-run expectations of Gross National Product three times higher than 1955. Outlays for natural gas, hydroelectric and uranium are believed unaffected by overall trend, but report reveals American tariffs’ threat to Canadian lead, zinc, and trade in general.

Text of Report follows:

The Royal Commission on Canada’s Economic Prospects published its Preliminary Report in December 1956. This report, which gives a survey of the possibilities of Canadian economic development over the next 25 years, was based on a broad examination of the present state of the Canadian economy by a 15-member appointed Commission assisted by an expert staff as well as by the views of government at all levels, of universities, of business, of labor, of professional and trade organizations, and many individuals.

Keeping in mind that all long-term forecasts of this kind are necessarily speculative, it is still interesting to see what are the prospects of Canada’s economic growth, based on the assumption that there will be no major war, nor another depression, in the next 25 years.

Assuming a net immigration of 75,000 per year (a figure which is far below the actual immigration in the last 10 years), Canada’s population by 1980 could reach more than 26.5 million against the present 16.5 million.

Assuming a further increase in productivity, the Gross National Product could amount to approximately $26 billion or three times the 1953 figure of $8.6 billion. Based on these figures, the per capita Gross National Product could reach $2,839 or 67% more than in 1955.

All these figures suggest a growth of the entire Canadian economy on a scale even larger than the development which took place during the war years. Even so, expectations of development by 1975 are such that not all branches will share in the same proportion in the growth of the economy as a whole. Some, e.g. gold and coal mining, will probably decline, others will increase their output in absolute terms but will decrease in relative importance, e.g. agriculture, others again will enjoy a particularly strong upward trend.

Specific Near and Long-Term Outlook

Let us now examine the main branches of national activity and compare the long-term outlook with the present situation and the short-term possibilities, beginning with the industries which have the most promising future.

The production of the demand for natural gas suggests that consumption may increase 10 or more times during the 25-year period. The potential output of gas is estimated at over 15 times the 1953 production, leaving large quantities for export.

This branch is also the most promising as far as the near future is concerned. The Western Transmission system has already been delivering gas to customers in British Columbia and the northwestern United States since 1953. Pipe Lines is rapidly extending its market and has already sold some of its capacity for the production.

New distribution systems are coming into being of which the most important are Quebec Natural Gas, Northern Ontario Natural Gas, Inland Natural Gas and Lakehead Natural Gas. New possibilities of industrialization are provided in large areas, especially in northern Ontario where water power resources are important, but where all fuel had to be imported by railways or truck. New industrial development and largely expanded sales are thus made possible in this region over the long-term.

Further, exports, especially to the markets of the midwestern states, are the subject of certain controversy, but generally speaking it can be assumed that sooner or later such exports are bound to become substantial and will cause a further increase in the long period of time.

The picture for oil is more complicated. The potential output for 1980 is estimated at 10 times 1955 production and between one and one and a half and two times anticipated Canadian requirements in 1980, which means that large quantities will be available for export. However, the near-term picture is clouded, as the question of market prices tends to become somewhat more acute.

The 1958 Outlook

The outlook for 1958 is one of unchanged or slightly increased consumption, whereas the production potential will again show a marked increase.

An increase in domestic consumption can be expected, either as a consequence of the growth of the population and of the general welfare which will not be important over the short-term, or as a consequence of the extension of the Interprovincial Pipeline to Montreal, which is not likely to occur in the near future. No substantial increase in exports can be expected over the short-term and it may even be feared that oil imported by tanker may compete with a part of the northwestern U.S. market at present using Canadian oil. On the other hand, considerable new refining capacity is either under construction or planned, especially in the Puget Sound area of the State of Washington. This will substantially alleviate the pressure of surplus production over the middle term.

In the field of hydro-electric energy Canada has vast, still unexplored, reserves. These will be particularly profitable to the aluminum industry and by 1980 the output of aluminum in ingots based on Canadian low-cost power and imported bauxite or alumina, could be five times larger than it is today. However, for the near term the industry faces overproduction and is feeling the consequences of the rapid expansion of installations in Canada, the United States and other parts of the world which has run much ahead of demand. Certain expansion plans had to be curtailed provisionally. Next year will probably see little change in the present situation but consumption should rise considerably in the future and by then there should be a marked demand for all the presently planned increased output.

Base Metals Industry

The situation in the base metals industry presents the same pattern of great possibilities over the long-term, but the near future. Copper has the best prospects because of its relative scarcity. Canadian producers are confident that an increased production is warranted. New mines were opened in 1957, with more expected to go into operation later this year. There seems to be little doubt that the entire Canadian production of the red metal will easily find a market in the next few years. Although at present profits have reached a low point, it can be expected that in a year or two better prices will substantially raise the profit margins of all existing operations.

Some overcapacity of nickel is feared by 1961 when the new mines in Manitoba are scheduled to start production, but the long-term outlook is fairly good. Within two or three years total potential free-world consumption will again exceed the increased capacity. Canadian production is expected to double by 1960.

The outlook for lead and zinc is not so good and it will probably be difficult to find a market for any additional production of zinc in the next few years. This year’s profits are substantially lower than those of 1956 and no relief can be expected in 1958. However, some improvement might occur over the long-term and in 1960 the outlook is more than two to three times the present level as a result of the general industrial development.

The production of iron ore is immediately reflected in the industrial activity of the main market, i.e. the steel industries. Although total shipments for 1957 will exceed those for 1956, the rate of growth is somewhat less than it was last year. The outlook for iron ore is uncertain. The reception which will be given the 1958 model cars and the activity of the heavy industry in general will be the main factors which will govern the iron ore market in 1958.

Over the long-term, a considerable increase in production seems inevitable in conjunction with the depletion of higher-grade iron ore deposits in the Sudbury area. In 1980 production could be four times the 1955 figure.

Asbestos production depends on continued page 68
Report of IBA Governmental Securities Committee

Review of past and expected Federal financing by IBA Gov¬ernment Securities Committee concludes with the hope, in view of growing problems now facing us, that we will be able to maintain good debt management, fiscal and monetary policy and avoid further inflation. The Chairman of the Committee, Emil J. Pattberg, Jr., of First Boston Corporation, New York City, delivered the report at the Investment Bankers Association's 46th Annual Convention, Hollywood, Fla., Dec. 1-6.

The Report reads as follows:

During 1957 the volume of Treasury financing of marketable securities exceeded that of any of the past ten years. Excluding the weekly rollover of bills, the Treasury marketing operations totaled more than $65 billion, or some $3 billion greater than the previous record year of 1954. Of this amount, more than $12½ billion were sold with maturities beyond a year, including over $1 billion of longer-term bonds. Unlike the 1954 operations, most of the first half of which were carried out in a booming atmosphere of widespread credit demands, a restrictive credit policy by the Federal Reserve System and a market which reflected in yields the keen competition of private industry and public bodies for the investors’ dollars.

Few Dull Moments

It is difficult to summarize the activity of the bond market in 1957 in any short paragraph. However, it should be noted that there were very few dull moments. Business sentiment, which has an important influence in the direction of bond prices, fluctuated widely from booming optimism earlier this year to the mild pessimism of recent weeks. Throughout the year, however, the corporate and municipal markets have been under heavy pressure to provide funds to increase plant capacity, build roads, schools, and other public facilities demanded by our enlarged economy. The savings of the country, though increased during the year, never seemed to catch up with the demand for their use. Federal Re¬serve credit policy during most of the year was restrictive. Un¬pledged reserves of the commercial banks were almost always out-balanced to a substantial extent by borrowings from the Re¬serve System. In August, the Federal Reserve discount rate was increased for the seventh time in the past 2½ years, from 3% to 3½%, reflecting Central Bank concern over the rate of living and the symptoms of a boom still evident in evidences of the economy.

Recent Rate Cutoff

The force of Federal Reserve restraint was not reduced until that last month when the Reserve District Banks reduced the discount rate only from 3½% to 3%. Let the borrowers of member banks recite to a point nearer parity with the banks’ ex¬cess reserves. It was apparent that Federal Reserve officials recognized that some of the steam was out of the boom and that the inevitable inflexion in the economy had subsided to manageable date, at least for the time being. The effect of the Federal Reserve action was to dramatically lift the level of bond prices and lower the yields of all high-grade fixed in¬come securities. Prices and yields in all of the high-grade markets fluctuated widely throughout the year. In the government market, the yields on 30-day Treasury bills ranged from 1½% to 2% of 2½% to a high of 3½%; the long-term 3% bonds declined from 5 points in the year before making any sizable recovery. In other sectors of the bond market, the story is almost the same—yields increased until the 3% coupon was common for the new issues of highest-grade corporate securities. Prices of new tax exempt issues also reflected the heavy weight of the Treasury’s action. Investors were thus called on to ration out the available savings of the country to serve a demand that looked unquenchable.

In addition investors were also asking for protection against the possibility of their investment be¬ing refunded at an early date. Higher call premiums and non¬paying-protection provisions for five, ten, and even longer periods of years thus became part of the corporate financing pattern.

4% Coupon Required

It was with this background that the Treasury last July made plans for the refunding of nearly $25 billion of securities maturing between Aug. 1 and Oct. 1. Under present law, it was evident that this was a non-formidable undertaking, even though about $15 billion of the $25 billion certificates were issued by the Federal Reserve System and Gov¬ernment trust accounts. All parts of the investment market were congested. Even the short-term Treasury market, on which reliable means for emergency borrowing, was giving signs of exhaustion.

To get the job done, the Treasury had to devise a new coupon rate for the first time since the Fall of 1938. From 2½% of the long-term 3% bonds, yields of 4% or more were already available in the Govern¬ment markets, and the equivalent yields of some of the most marketable issues outstanding were even higher.

Option to Holders

Besides setting the 4% rate, the Treasury introduced the concept of a redeemable note due in four years and subject to redemption at the holder’s option in two years. The idea of a convertible instrument, offering investors protection against the changing interest structure, turned out to be a suc¬cess in the refunding and was used advantageously later in the year in a borrowing operation for cash.

The big summer refunding of¬fered holders of maturing securi¬ties a four-month 3½% certificate one year. If the holder preferred, the certificate became a 4% note due in four years. More than $2 billion of the four-year notes, quickly nick¬named "2 by 4" because of its form, raised paras the redeemable 4% rate through the four-year period. Considerable excess was bought in the first two years. Altogether, $2 billion were bought in the first two years. Altogether, $2 billion were bought at prices that were equivalent to the 4% rate of interest but paying 4½%. The issue was successful and producers had the backing of the market. It had been backed by the Federal Reserve and the Government and was sold at a time when the market needed a "safe haven" for funds. It was widely believed that Treasury issues were likely to be marketable in the future and the market was prepared to pay a premium for them.

Why Government Borrowing?

The government’s need to borrow large sums of money in a period in which the market has been operating with a budget surplus is to be explained as the result of the Treasury’s need to borrow large sums of money in order to finance the operations of the government. The chief reasons are related to the timing of tax collections, the turn¬ning over of public debt, and the effects of the budget deficit. The Treasury has always had to borrow to maintain its operations.

In respect to taxes, most collec¬tions come in during the first half of the year while the balance of the Treasury’s practice, therefore, has been to borrow in the fall and repay the debt in the spring. The cash investment on refunding operations during the year amounted to more than $3 billion. This is because the Government’s cash surplus is not large enough to finance the refunding of debt thus incurred in turn for cash which has been paid to the Treasury. The Treasury has no other course but to borrow to maintain its operations.

The third reason is the continu¬ous inflow of non-marketable debt. At the beginning of 1953 there were outstanding $31½ billion of savings type securities, excluding the Series E and F and the

Continued on page 77
Report of IBA Nuclear Industry Committee

Team of nuclear experts report on the increasingly important economic role radioactive isotopes will play, and the vast financing requirements for the industrial domestic and international possibilities of atomic energy as a new source of usable energy. Report covers the development and financing highlights in mining and milling of uranium ores, construction and operation of feed material plants, manufature and use of reactors and their components, chemical reprocessing of spent nuclear fuels and “waste” disposal, and new metals. Doubts 1962 will be, as predicted heretofore, the date when atomic energy will become competitive with conventional energy sources. Sees the date pushed back to 1965-67; notes sizable increases in estimated costs of the various projects; and is encouraged by private industry’s response which should remove dominant governmental control both here and abroad.

All these facts clearly define the positive and immediate benefits which are derived from the entire atomic energy program. It is estimated that in four or five years, all such savings will have increased to a yearly figure of $3 billion at an annual cost not in excess of $20 million. We certainly fully concur with the view expressed by Dr. Libby that in five years—probably more nearly three, meaning sometime in 1960—savings through the use of isotopes will offset all atomic energy costs. This would mean the American people and the Western World could pay for atomic armament and atomic power development out of the $5 billion annual savings described above.

In other words, isotopes alone already have begun, and will continue in mounting production over the years, to give us a very substantial return on the total investment in the whole atomic energy program. The capital required for the use of these isotopes is in all instances relatively small, and the companies working in the field of radioactive isotopes have not been hindered by a lack of investment funds.

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Pessimistic about the outlook for the railroad industry unless carriers are permitted to discontinue unprofitable passenger operations and to raise rates, IBA railroad report avers rail securities are in more disfavor today than at any time since the 1930’s.

Carloads Unfavorable
While railroad carloadings are only slightly above 1956 levels, the trend since then has been unfavorable. Cumulative carloadings through November 15, 1957, were 3.4% below the 1956 level, with October alone 10% behind and November loadings as far as 15% behind. The failure of railroads to show the usual seasonal pattern has necessitated their adherence to their potential 1957 net income from early forecasts. Immediate prospects point to a movement of 8,600,000,000 carloads, about $125,000,000 under the 1956 level. The poor showing again is due in part to the lag in freight rate increases, the lag in traffic and the sharp increases in wages stemming from the 1956 agreement which lifted wages 12 cents an hour in November, 1956; 3 cents in May, 1957; 12 cents in November, 1957 and calls for a cost of living adjustment of 5 cents and another 7 cents in November of 1958.

The severe profit squeeze has caused the railroads to consider another petition to the ICC for further rate increases. The petition, which is expected to be filed shortly, will provide for selective increases rather than the blanket percentage increases requested in recent years. Since August 6 decision invited the railroads to file for additional increases when the cost of living increases became a known amount, approval of the present request will be forthcoming fairly promptly. However, it should be noted that the railroads have to absorb the higher wage costs within any amount until the Commission approves a rate increase. Meanwhile, the deteriorating position of the industry has induced Senator Magnuson, Chairman of the Senate Commerce Committee, to schedule hearings Jan. 13, 1958 to explain their troubles.

(1) How the railroads may help themselves; (2) Changes in ICC policy under existing law; and (3) The need to insure a sound railroad industry.

Respectfully submitted,

RAILROAD SECURITIES COMMITTEE
Salim L. Lewis, Chairman
Bear, Stearns & Co., New York
Charles L. Bergman
R. W. Pressprich & Co., New York
James H. Carson
Salomon, Bros. & Hutzler, New York
Walter F. Hahn
Smith, Barney & Co., New York
Gustave L. Levy
Goldman, Sachs & Co., New York
Alfred J. Ross
Dick & Merle-Smith, New York
E. Frederic Uhbrueck
Bear, Stearns & Co., New York

 Shields & Company to Admit Hansel, Green

Shields & Company, Wall St., New York City, members of the

New York Stock Exchange, on Jan. 1 will admit Douglas H. Hansel and Edward E. Green to partnership. Mr. Hansel is manager of the firm’s dealer relations department. Mr. Green has also been associated with the firm for some time.

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Report of IBA Oil and Natural Gas Securities Committee

Though petroleum demand in 1958, at best, may parallel 1957, and high demand for natural gas will continue, both diverging trends share one thing in common, according to IBA oil-gas group, and that is cost-price squeeze. The Committee favors passage of Harris-O'Hara Bill in 1958 to stimulate investor interest in more gas reserves; finds offshore drilling challenges record of any Western Hemisphere region; examines Canadian oil-gas outlook, and sees present oil import plan as an assist to industry survival.

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(2071) 39
Report of IBA Federal Taxation Committee

Investment bankers, meeting for their 46th Annual Convention at Hollywood, Fla., Dec. 14-16, 1957, were told by Walter Maynard, Partner of Shearns, Hannim & Co., New York City, on behalf of IBA’s Federal Taxation Committee that, despite the space satellite threat, this is the time to institute urgent tax reforms.

The text of the Report follows:

A discussion of tax reform at this moment has a possibility of being more fruitful than at any time since the last revision in the tax laws in 1954. This is for the general reason that, despite budget problems and prospective increases in armaments expenditures, both political parties would like to see some tax reduction next year, and the students of the impact of current tax laws are to a greater extent than ever before convinced that the steep progressions in the marginal income tax are harmful to our economic development.

That in the state of industrial activity in this country is rapidly approaching a point at which the stimulus of reduced taxes is badly needed—as it was in 1949 and 1954.

As usual, there will be a wide spread effort on the part of many politicians to use the issue of tax reduction purely for political advantage without regard to considerations of tax reform. In order to counter this effort on the part of many politicians to use the issue of tax reduction purely for political advantage without regard to considerations of tax reform, it is important that each one of us, and to the maximum extent possible, every voter, understand the basic workings of the tax laws—and that we use this understanding to impress upon our legislators the need for radical tax reform.

The traditional area of tax interest of the securities industry is the capital gains tax. In our industry we are fully aware that the capital gains tax differs from all other taxes in that the taxpayer can, at his own option, indefinitely avoid incurring liability for it. We would much like to see the rate of the tax reduced because we know, and many authoritative studies agree, that a reduction in the rate would both produce more revenue for the Treasury and free us for venturesome use tremendous amounts of capital now locked up by the tax. However, we are also aware that because of employers’ tax liability between the top effective rate of the capital gains tax (25%) and the top marginal personal income tax (91%), we can realistically hope for a significant reduction in the capital gains tax rate until the progressivity of our tax structure is substantially reduced. In order to effect any of the arguments for reduction in the personal income tax, we believe it is necessary by suggestions for reform of the capital gains tax.

Our Industry is One of Small Business

To begin with, much sympathy and solicitude is now being expressed on all sides for the small businessman. In this connection, it is interesting that our industry is an industry of small businesses. This is made clear when it is considered that the total capital in our industry is made up of some 4,500 firms, a high proportion organized as partnerships, is estimated to be on the order of $800 million, and the total number of employees is far from 100,000. This compares with such a single giant as, for example, Sears Roebuck, which has capital of $2 billion and 230,000 employees. Our industry, therefore, is small if compared with that of some of the enormous organizations that have been built up by the sizable, increased capital allowed by our punitive progressive personal income tax structure.

Presumably because of concern over the trend of business in general, in which small business plays so large a part, authoritative authorities have recently started a program of easing the policies of credit restraint that have been pursued since 1955. While easier money may be helpful, it should be remembered that no action could be taken which would be more effective, every bit as thorough of a reduction in the capital gains tax would be such that the actual amount of money received by the taxpayer from the new lower taxes would be less than would have been received if the old rates had been kept in effect. It is remembered that in the 1930’s the capital gains were reduced in almost every year, and in every year we received Treasury revenue. A stimulation of this kind to general business would be the most effective single action which the government could take to help the small businessmen.

Let us now turn to some consideration of the kind of reform in the capital gains tax that we would like to see, but before starting that aspect of this discussion, a few basic facts will be helpful in giving perspective.

A Few Basic Facts

One of these facts, not fully appreciated, is that if the Treasury were to tax at 100%—all net incomes of individuals over $20,000 per year, the total additional revenue to the government would be only $1.9 billion—the government now derives approximately $24 billion a year from all personal income tax. The top individual tax bracket were stopped at 50% instead of climbing on up to 91%, the government’s revenue loss would be only about $10 million a year. If the top rate of tax were made 20%—the lowest bracket—the Treasury would still collect $25.6 billion of the $80 billion earned today, and this computation takes no account of the almost insensible stimulus to business that such a tax cut would produce. That particular $5.5 billion returned to the taxpayer would be the most dynamic dollars that could be imagined. A substantial part of these dollars would, in the nature of things, not be employed for current consumption, but would be saved, and much of these savings would be employed in a variety of constructive manner. The facts that stand out here are that very substantial cuts in the brackets above the lowest rate would, at the worst, cause only minor reductions in revenue and, more likely, as a result of the combination of lower brackets, incentives and increased saving, would actually result in a comparatively short time in higher revenues.

Subsidy for Extravagance

Two other inter-related factors stand out in this connection. The first of these is that income tax rates which exceed 50% actually tend to stimulate extravagances of all kinds, in that Uncle Sam bears the big half of the cost of business entertaining, air-conditioned Cadillacs, corporate owned airplanes, seasonal trips to sunny Florida, and the like.

The second factor is that tax rates exceeding 60% create positive and continuing incentives for avoidance. If income tax rates exceed 50%, it becomes more worthwhile for businessmen to devote their time to avoiding a dollar’s worth of taxes than to earn back the dollar of income, and this is a fundament—er of the maximum rate of taxes. For the record your Committee feels that the policy of this Association and the be to advocate a reduction, in both personal and corporate income taxes, to an effective maximum rate of 50%. This reduction in the maximum rate should be accomplished in a fair, equitable manner, in accordance with a prescribed schedule. The purpose of a prescribed schedule of tax reductions extending over a period of years is to assure that increased tax revenues would, at the end of the period, be needed and possible, and in accordance with a prescribed schedule.

Continued on page 78

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The text of the Report follows:

Your Investment Company Committee as selected by the President is composed of Association members representing underwriting, management, and the retail distribution of investment company shares. Those who have served on the Committee this year are named at the end of this report.

Open-end investment companies—those innovation only once and a half decades ago—have now become an institutional property of 10 billion industry with a growth pattern that augurs well for IBA members.

Investment Companies in 1957

This growth has been impressive in 1957. By Dec. 31, investors have purchased 7.4 billion of new mutual fund shares, a record high; value of shares turned in for redemption will total 7.6 billion, lower than the figure for 1956. More than 425,000 net new accounts will have been opened by individual and institutional investors, bringing the total number of accounts to more than three million. A record number of redemptions—222,000—for regular monthly purchase of mutual fund shares will have been opened, and more than 653,000 such plans will be on the books.

The IBA members have at least a dual interest in the activities of investment companies. Nearly all members engaged in the retail distribution of securities offer investment company shares to the public; and nearly all IBA members perform services for investment companies in connection with the operation of their portfolios. Investment company portfolios are not static, but constantly adjusted as management deems necessary to keep their portfolios responsive to the policies and objectives. In 1957, for example, investment companies will have purchased stock for portfolios, securities valued at about $2.5 billion; sales from portfolios will total approximately $1.4 billion. All but a small portion of this volume will have taken place in the over-the-Counter Market.

In 1957 the Committee has reviewed fully and discussed the effects of the Investment Company Amendments Act of 1956 on the industry and the Committee’s recommendations on the subject. It is evident that the ever-volting Investment Company responsibility is facilitated through consultation with the SEC. 

Federal and State Legislation

In 1957 there has been more significant legislative and tax proposals affecting investment company shares and their shareholders than in any year since 1939. Of particular importance are the following:

Proposed Revision of the Investment Company Act of 1940

Following consultation with the National Association of Investment Companies (NAIC) and other interested groups, the SEC proposed to Congress several amendments to this basic law. (HR 9225 and S. 2796.) Many of the proposals were technical in nature, having little serious impact on the industry. However, it is probable that the bill will repeat in legislative hearings the objections previously submitted to the SEC with respect to two specific provisions of the Commission’s proposal:

Transfer and Issuance Taxes

The excise tax Technical Changes Act as presently written would have a most serious impact on investment companies and their shareholders. The bill, as presently written, would require the issuance of Representatives in June and referred to the Senate Finance Committee, which will probably hold hearings early in 1958. The investment company business maintains that imposition of an issue tax on investment companies, which is likely to result in a net loss to such companies and their shareholders. The bill, as presently written, would impose an issue tax on securities which have already been paid, represents death to the growth of the investment company industry. Consistent with the conduct theory applicable to taxation of income dividends distributed to investment companies shareholders, the industry has contended that its shares should be exempt from tax. It has also contended that there should be an exemption for funds transferred from one investment company to another. The Committee is unreconciled to the proposal in the bill and urges its rejection.

The Committee expects that industry representatives will support the enactment of the necessary legislation by the 1958 sessions of the 85th Congress.

New York Prudent Man Law

When New York State revised its Prudent Man Law in 1959, it permitted fiduciaries and trustees to acquire limited amounts of common stocks; it limited selection to issues traded on national security exchanges. Shares of open-end investment companies, even though they represent in most cases a portfolio of eligible securities, were disqualified since such shares are technically limited issues. This makes it impossible for the New York trustee, in the absence of authority in the trust instrument, to take advantage of the professional management and diversification available through investment company shares.

In many instances, particularly where small amounts are involved, this inadvertent discrimination works.

Continued on page 62

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Report of IBA Aviation Securities Committee

Expert committee on air industry financing castsigate CAB rate regulation in charging "airlines lack the earning power and financial strength to serve the public adequately and to finance new jet equipment that will require more capital than at any time in airline history." Finds our aircraft industry hamstring by arbitrary cutbacks and airplanes jeopardized by outmoded regulation at a time when U.S. S.R. endangers our security. Recommends threefold program to ensure U.S. aviation superiority.

Donald N. McDonnell of Blyth & Co., Inc., New York City, Chairman of the Aviation Securities Committee of IBA, warned the Association's 46th Annual Convention, at Hollywood, Fla., that the Committee is seriously concerned about the state of the air industry and defense.

The text of the Report follows: The aviation industry today is absolutely vital to the future of America.

I The Aviation Industry In America

Up to its well being may depend our national survival, our military defense, and our domestic and the aircraft manufactured in our growth. With the Soviet totalitarian economy a potential enemy to our national defense, the development of intercontinental and international air routes is of vital importance. The economy carries passengers and cargo between Europe and the Orient, Japan, China, and the Orient, Japan, China, and the Orient. The economy is a vital link in our defense strategy.

II The Basic Problem Confronting the Aviation Industry

The domestic trunk airlines and their counterparts in the Eastern region are subject to CAB utility-type regulation of fares and rates and operations plus the added hazard of enforced competition. A government ceiling is imposed on fares, which are substantially below market rates, and with low fares remaining at 1942 levels, while average labor, repairs, depreciation, and equipment costs all have increased. In contrast, intercity rail rates have risen an average 11% and 18% respectively. The ICC, in addition to these increases, has also increased its revenue and recently granted Eastern railroads a fare increase of 26%.

The airlines are subject to a narrow rate type of regulation in effect placing a restrictive ceiling over the operations and management of the company. The CAB staff has taken the position that the airlines' fares should be determined on the narrow basis of rate of return on capital, which is further compounded with the added hazard of fluctuating capital gains on sale of airline stock. The determination of fair earnings has also been the subject of investigation by the CAB.

The airlines lack the earning power and financial strength to serve the public adequately and to finance their expansion. Under the violent fluctuations of Defense Department procurement policy, the airline manufacturer may find it increasingly difficult to maintain levels of long-term credits necessary to finance their crucial role in America's national defense.

Therefore, both as bankers who have financed the growth of aviation and as citizens dedicated to the national welfare, we believe it is time for the CAB to consider constructive suggestions concerning the airlines' treatment by air transport manufacturers' separate problems.

III The Domestic Trunk Airlines' Problems: The Aviation Securities Banking Viewpoint

A. Historical Problems of the Aviation Industry

From the investment bankers' viewpoint the domestic trunk airlines' problems have involved two sets of financial and governmental problems. The restrictions of Civil Aeronautics Board rate regulation, the airlines' lack the earning power and financial strength to serve the public adequately and to finance their expansion. Under the violent fluctuations of Defense Department procurement policy, the airline manufacturer may find it increasingly difficult to maintain levels of long-term credits necessary to finance their crucial role in America's national defense.

The airlines have suffered a declining earnings trend during their period of greatest growth, in contrast to the normal industrial pattern of rising earnings with revenues. During the 1946-56 period, the airlines' operating ratio (ratio of total operating expenses, depreciation, and taxes to total revenues) averaged 98.6%. This is significantly higher than the ratio of five other regulated industries—water, electric, natural gas, telephone, and railroads—which ranged during the same period from 71.9% to 90.3%.

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B. Investment Community Appraisal of the Airlines

The result of the above problems has been a decline in the market value and price-earnings ratio of airline stocks, indicating the investment public's disfavor and the future of their fluctuating return and high risk.

Whereas airline stocks sold at an average 50% premium above book value as recently as 1951, today they sell at a significant discount. While Standard & Poor's 30 industrial stock index has declined from 156.7 in 1956-57 highs, investors have down valued airline stocks a further 53%.

While investors capitalize Standard & Poor's Dow industrial index, it has

Continued on page 54
bills introduced by the ranking Democrat and Republican members of the Committee (H. R. 8810 and H. R. 8811) would permit the pass through of the tax exemption by regulated investment companies whose income is at least 90% from tax-exempt sources. H. R. 8702, introduced on July 15 by Representative Curtis, would permit any investment company holding tax-exempt bonds to pass the tax-exempt interest through to shareholders in "exempt-interest dividends" if the investment company meets the income test of regulated investment companies prescribed in Section 851(b) of the Internal Revenue Code (i.e., all corporations deriving at least 90% of gross income from dividends, interest, and gains from the sale of securities, if less than 30% is from the sale of securities held for less than 3 months).

(c) Bank Underwriting of Revenue Bonds
No action was taken on the bills to authorize banks to underwrite revenue bonds.

(d) Federal Financial Aid to Economically Depressed Areas
A subcommittee of the Senate Committee on Banking and Currency held hearings in March and April on bills to develop and maintain stable and diversified economies in areas by a program of financial and technical assistance and on a bill "to alleviate conditions of substantial and persistent unemployment and underemployment in certain economically depressed areas," but neither of the bills was reported by the Committee. No action was taken on similar bills in the House.

The summary of the programs proposed in these bills is contained in Appendix A.

(e) Financial Institutions Act
S. 1451, to amend and revise the statutes governing financial institutions and credit (including the National Bank Act, the Federal Reserve Act and the Federal Deposit Insurance Act) passed the Senate with amendments on March 21. Extensive hearings were held on the bill by the House Banking and Currency Committee, but it was not reported by the Committee.

(f) Tax Exemption of Housing Authority Bonds
No action was taken by the House Ways and Means Committee on H. R. 5900 which amended the Internal Revenue Code to deny tax exemption to housing authority bonds.

(g) Federal College Housing Loan Program
The Federal College Housing Loan Program authorizes the Administrator of the Housing and Home Finance Agency to make loans with maturities up to 50 years to "educational institutions" to finance the construction of housing or other educational facilities at an interest rate determined annually under a formula that is not more than the average of (a) 3% and (b) the average annual interest rate on one-year obligations of the U. S. forming part of the national debt as published at the end of the fiscal year next preceding the issuance of the loan. The loan is available only upon terms and conditions equally favorable.

The administration's housing program would be "actively marketed" by all Government's full faith and credit obligations of a comparable maturity were yielding to yield higher than 3%.

The administration's housing program would be "actively marketed" by all Government's full faith and credit obligations of a comparable maturity were yielding to yield higher than 3%.

(h) The Housing Act of 1957
Increases from $750,000,000 to $625,000,000 the funds available for Federal college housing loans under the Federal college housing loan program. The act also amended the definition of "educational institution" for which Federal loans may be made to include the program to authorize loans to (1) any educational institution beyond the level of high school (no part of the net earnings of which inures to the benefit of any private stockholder or individual) the income of which is derived from rents to trains persons to carry on the vocation of clergyman of a religious denomination, (2) any hospital operating a school of nursing beyond the high school level, (3) any hospital approved by the appropriate State authority, or any hospital approved by a Federally recognized authority, if such hospital is either a public hospital or a private hospital, no part of the net earnings of which inure to the benefit of any private stockholder or individual, and (3) any non-profit educational institution of any State establishment for the purpose of providing any educational facilities for the purpose of providing any educational facilities to persons of low income, or to educational institutions qualifying for a loan under the program.

The Municpality Securities Committee of the IBA. The principal subject of discussion at this joint meeting was the recommendation by a special IBA committee last year that the notice of sale or the bid form on state or municipal bonds should expressly provide that the issuer would furnish to the purchaser a certificate stating that no litigation is pending or, to the knowledge of the signers thereof, threatened to involve the validity of the bonds or the means provided for their payment.

While this resolution did not go quite as far as the recommendation in the report by the IBA Special Committee, adoption of the resolution by the Municipal Law Section of the American Bar Association, at the meeting on July 17, adopted the following resolution on this subject:

"Whereas State and Municipal Bonds are customarily offered for public sale subject to the opinion as to validity of the Bonds rendered by an attorney, commonly called a Bond Attorney, and whereas the Bond Attorney is usually selected by the issuer of the Bonds, and whereas the purchaser of the Bonds, being required to accept the opinion of such Bond Attorney, should have the assurance, as practicable, by the standards of practice in the rendering of such opinions, that (a) the opinion of such Bond Attorney is based on an informed view of the law, (b) the opinion that such Bond Attorney may give, or the opinion that any subsequent Bond Attorney may give, will be the same as the opinion of the Bond Attorney at the time of the sale of the Bonds, and (c) the Bond Attorney will continue to be available as to the purchaser of the Bonds, or a certificate stating that no litigation is pending, or the knowledge of the signers thereof, threatened to involve the validity of the Bonds or the means provided for their payment."

We wish to express our appreciation for their cooperation in these joint meetings particularly to the following:

From the M. F. O. A.: George N. Shaw, President, (Director of Financial Institutions, Illinois) Lynn Crossley, Chairman Liaison Committee (City Auditor, Dallas, Tex.); Joseph Clark, Executive Director, Municipal Law Section of American Bar Association: George F. B. Appel, Chairman (Townsend, Elliott & Munson, Philadelphia, Pa.); Robie Mitchell, Chairman Liaison Committee (Mitchell, Pershing, Shetterly & Millet, St. Louis, Mo.) Observation, Previous Chairman Liaison Committee (King & Dawson, New York); William Tempes, Secretary.


To further the cooperation between these organizations through joint meetings the Liaison Committee of the Chairman of the Liaison Committee of each of the Associations referred to above was invited to attend this Conference and there will be a joint meeting of these representative during the coming Conference.

In order to ratify closer cooperation with the American Bar Association, the Liaison Committee of the American Bar Association, whose members have many contacts in the municipal field of interest with our industry, a special
III Legal Opinions

Recently one of the outstanding law firms on the Pacific Coast has proposed that legal opinions be printed on the back of municipal bonds. A copy of a memorandum preparing the way for the issuance of this proposal was sent to members of this Committee and to members of the Municipal Bond Committee for comment. The proposal procedure could not be used where the legal opinion is too long to be printed on the back of the bond, as is frequently the case in the revenue bond issues. Several substantial objections have been raised with respect to the proposal but most municipal bond dealers have evidenced enthusiasm over the possibility, and the proposal is to be considered further at the meeting of the Committee during this Convention.

In connection with the proposal to print legal opinions on the back of bonds, it has been suggested that at a meeting of the Committee each purchaser, bonds might carry a statement that a legal opinion regarding the bonds has been prepared with an indicated depositary. The Committee does not believe that this would be a desirable procedure. The purchaser did not receive a copy of the opinion, and the depositary might be subjected to suits by purchasers who claim that the opinion is invalid. It is believed that an opinion prepared in this manner would be useful in other areas.

An IBA Subcommittee on Metropolitan Area Problems has been appointed under the Chairman of the City of the National Municipal League, which will issue a draft model law. The report of this Subcommittee is in Appendix B. The report itself is in Appendix C.

IV Metropolitan Area Problems

There has been an increasing interest and concern in recent years regarding metropolitan area problems, particularly with respect to determination of (1) the appropriate governmental units to furnish certain services, 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.

The IBA is participating in a "Continuing National Conference on Metropolitan Problems" which is designed to serve as a cooperating agency for groups and organizations concerned with metropolitan problems; to encourage and cooperate in such publications and to prepare and coordinate in such publications and to hold such national, regional and other meetings as may further the objectives of the Conference. We request that members send to the Municipal Director for a central file copies of any reports regarding metropolitan area studies in their respective areas, so that this information will be readily available when it may be useful in other areas.

An IBA Subcommittee on Metropolitan Area Problems has been appointed under the Chairman of the City of the National Municipal League, which will issue a draft model law. The report of this Subcommittee is in Appendix B. The report itself is in Appendix C.

V Model Revenue Bond Law

A preliminary draft of a Model Revenue Bond Law has been prepared for the National Municipal League which will sponsor the Model Law when it is in final form. A copy of the proposed "model metropolitan area law" was sent to all members of the Municipal Division Council and the Municipal Securities Committee with a request for their comments or suggestions. A subcommittee under the Chairmanship of Mr. Orlando Brewer (Phelps, Fenner & Company, New York) was appointed to study the draft and to submit comments and suggestions, and a list of the members of this subcommittee is included in Appendix B. The suggestions of this special committee have been considered by the Municipal National Municipal League.

VI Industrial Revenue Bonds

In previous reports of the Committee we have referred to revenue bond issues in various organizations in addition to the IBA, for use as a substitute for municipal finance. Officers Association and the Municipal Law Section of the American Bar Association, pointing out the possible adverse effects of such actions of municipal bonds to be issued for industrial plants to be leased to private industry. On April 5, 1937, the Supreme Court of Nebraska in State ex rel. Beck v. City of Omaha declared unconstitutional a Nebraska law adopted in 1935 for issuance of municipal bonds to issue revenue bonds to finance the acquisition of corporations to be leased to private corporations. The court held unconstitutional the provision of the law which provided that the bonds were not absolutely, never be granted or loaned in aid of any individual, association or corporation.

Continued on page 46

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Appendix F con¬
tains summaries of some recent court decisions believed to be of interest to persons engaged in the municipal securities business.
Respectfully saluted,
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Report of 18A Municipal Securities Committee

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Dillon, Union Security
Farrell
MUNICIPAL
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Appendix F con¬
tains summaries of some recent court decisions believed to be of interest to persons engaged in the municipal securities business.
Respectfully saluted,
MUNICIPAL SECURITIES COMMITTEE
William M. Adams, Chairman
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Report of 18A Municipal Securities Committee

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The Pacific National Bank of Seattle, Seattle
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William N. Murray
The Illinois Company Inc.
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tils, New York
Delmont K. Pfeifer
First National City Bank of New York
Marsom B. Pratt
Establish Nat. & Co., Boston
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Rand & Co., New York
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Francis L. Sater
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Locketl Shenton
Republic National Bank of Dallas, Dallas
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The Manufacturers Trust Company of Western New York, New York
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Security First National Bank of Los Angeles, Los Angeles
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Chicago American Government Company of Texas, Dallas

As industries have grown in size and complexity, the task of relating an industry's activities and contributions to its many publics has grown considerably.

Incidentally, a catalyst is needed to "mediate the desired reaction" between the company and the potential users of its products... between company and financial community between company and many groups of people affected (unwarily or otherwise) by the industry's progress.

A number of America's leading companies have found a potent catalyst to achieve this through the various relations service of Albert Frank Guenther & Co., Ltd.

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The Commercial and Financial Chronicle . . . Thursday, December 19, 1957
The problem, as in other cases, is to determine whether the objectives of the legislation are sufficiently clear, definite, and important. To this end, it is necessary to analyze the present situation and to propose remedies for the defects in the existing arrangements. The need for such a study is well recognized by the City Council of Toronto and the Provincial Government, which have recently established a special committee to investigate the matter. The committee recommended that the necessary resolutions be adopted calling for an election on the formation of such an entity. The Council of Metropolitan Toronto on March 11, 1956.

**Tokyo Metropolitan Area**

The Municipality of Metropolitan Tokyo Act of 1953 provided for the establishment of an area council to handle the problems of the growing metropolitan area. The Act also empowered the Council to adopt regulations for the area, including consolidation of local governments, development of public facilities, and provision of adequate services. The Act mandates that the Council shall be responsible for the provision of public welfare, public health, and public safety services, as well as for the promotion of economic development and the protection of the environment.

**Seattle Metropolitan Area**

The Metropolitan Council Act was adopted in the State of Washington in 1967 to enable cities and counties in the area to jointly meet the challenges of urban growth and development. The Act provided for the creation of a metropolitan council to carry out the functions of the council. The council was given authority to consolidate the governments of the area, to provide for the acquisition of real property, and to plan and construct public facilities. The Act also authorized the council to establish a metropolitan transportation system and to provide for the use of public funds for the acquisition of real property.

The council was given authority to consolidate the governments of the area, to provide for the acquisition of real property, and to plan and construct public facilities. The Act also authorized the council to establish a metropolitan transportation system and to provide for the use of public funds for the acquisition of real property.

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**References**


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**Note**

The information presented here is a summary of the main points of the referenced articles. For a complete understanding, please refer to the original sources. The author assumes no responsibility for any errors or omissions in the presentation of this material.
Underwriters, Distributors, Dealers in
CORPORATE AND MUNICIPAL SECURITIES

Established 1890

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Philadelphia Daily News Exchange...Philadelphia Stock Exchange...American Stock Exchange...New York Stock Exchange...
their requirements cannot ade-
quately be provided, the mixes of
services required in the area and
which therefore must be carried out through cooperative
operators with other municipalities
cities, which are County-wide in
area and which is administered on a
County-wide basis.

As a result of its study, the
Commission in 1955 recommended
the plan released in 1955 concluded that
many of the existing govern-
mental problems could be effec-
tively approached if the existing
County Government was reorgan¬
ized into a form capable of performing
newer area-wide services.

This, the Commission felt, could
be done without eliminating the
individual local governments of
the County if the County could be
conferred with the degree of home rule. A constitutional
amendment granting the County
authority to institute an urban
home rule charter was therefore
recommended by the Commission.

The recomstructured County
Government envisioned by the Com¬
mission would have basic authori¬
ity over public health, libraries,
county park lands, county roads,
traffic, disposal of refuse, purchas¬
ing, planning, regulation of
plumbing practices, roadbuilding,
sale of air pollution, property assess¬
ment, and (3) those functions, if
absorption, it would have regulatory
authority over water supply and dis¬
tribution system. The administrative
activities of the reorganized
County Government are divided
among a chief executive or ad¬
able officer, and the legislative
activities would be concen-
trated in a single body elected
for that purpose, with the number
being sufficient in number to represent
adequately the people of the County.

While the necessary constitu¬
tional amendments to this extent
had been adopted by some of the
functional towns and to the extent
they have been affected and others
are in the offing.

Recognition must also be given
to the work of the "Allegheny Con¬
ference on Community Develop¬
ment" in metropolitan area plan¬
ning and action in the Pittsburgh-
Allegheny County metropolitan
area. Established in 1943 and chartered by the Conference is a non-profit, pri-

The Conference is non-profit. The form was
created as the over-all civic or¬
organization for Pittsburgh and Allegheny
County to manage the community's full energies
and resources. The Conference plans, stimulates
and coordinates the development of a comprehensive unified
plan and program for the region as a whole, to achieve civic lead¬
ship to carry it forward. One of its major objectives is to secure
and obtain public support and community action for the
plan as the Conference proposes. Public information meetings,
the Pittsburgh area, radio, and television broad¬
acasts have kept the public fully in
formed of the Conference's vital support to the program.

In broad terms, the Community Development
Program spearheaded by the Allegheny
Conference on Community Development covers the major
area elements where taller a clear
rivers and streams, conservation of
resources, flood prevention, land use,
regulation, sewage disposal, point re-
development, increased educational
resources, more and better housing, greater recrea-
tional facilities, improved mass transportation, adequate airports,
economic growth and expansion,
expanded health and welfare facilities, agricultural develop-
ment and enriched cultural oppor-
tunities.

The operating budget of the Conference is provided through
assistance from the Commonwealth of
Pennsylvania, which is the central
State agency for planning in the Con¬
ference area. Their assistance is
provided to the Conference in
procurement of State funds in accordance with the administra-
tive system.

The Conference also maintains a
research and study program. The
Conference assists in the continuing
training and employs a research staff to
contribute to the Conference's
improving its programs and services to the
public.

Respectfully submitted,

S.W. REESE
Phillips, Finn & Co.
New York

John S. Clarke
Cleveland

Charles N. Fisher
Scribner, Scribner & Co.
Pittsburgh

C. G. Killen
Philadelphia & Co.
Toronto

Francis R. Schanck, Jr.
Field & Philpope & Co.
Chicago

Lyle F. Wilson
Pacific Northwest Co.
Seattle

APPENDIX D
Summary of Chicago Meeting of the Joint Federal-State
Action Committee Oct. 3, 4, 1957

The Joint Federal-State Action
Committee met in Chicago, Oct. 3
and 4, 1957, and transacted the fol-
lowing business:

(1) The Committee agreed that
(a) the States should assume full
responsibility for the old voca-
tional education programs, and
(b) the Federal Government
should abandon its present grants
for this program, currently
amounting to $7 million.

(2) The Committee agreed that
(a) the States should assume full
responsibility for the new voca-
tional education programs, and
(b) the Federal Government
should abandon its present grants
for this program, currently
amounting to $7 million.

(3) The Committee agreed that
(a) the States should assume full
responsibility for the old voca-
tional education programs, and
(b) the Federal Government
should abandon its present grants
for this program, currently
amounting to $7 million.

(4) The Committee suggested that
(a) the States should assume full
responsibility for the new voca-
tional education programs, and
(b) the Federal Government
should abandon its present grants
for this program, currently
amounting to $7 million.

(5) The Committee suggested that
(a) the States should assume full
responsibility for the old voca-
tional education programs, and
(b) the Federal Government
should abandon its present grants
for this program, currently
amounting to $7 million.

(6) The Committee suggested that
(a) the States should assume full
responsibility for the new voca-
tional education programs, and
(b) the Federal Government
should abandon its present grants
for this program, currently
amounting to $7 million.

The Committee directed the
staffs to re-examine the feasibility
of turning over to State auspices
the full financial responsibility for
State and local governments for
vocational educational programs in
the fields of practical nursing, con-
struction, and business and indus-
trial arts. They also directed that
the staffs prepare a report to be
submitted to the Committee by
October 15, 1957.

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(a) the States should assume full
responsibility for the old voca-
tional education programs, and
(b) the Federal Government
should abandon its present grants
for this program, currently
amounting to $7 million.

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the fields of practical nursing, con-
struction, and business and indus-
trial arts. They also directed that
the staffs prepare a report to be
submitted to the Committee by
October 15, 1957.
**Report of IBA Municipal Securities Committee**

proposed position on aid to education and a proposed resolution stating the general position of the Committee on Federal-State governmental relations. These were offered for consideration by the Committee at an appropriate time.

(12) The above items concluded the work of the meeting which was held on November 14 and 15, to be held in Washington, D.C.

**APPENDIX E**

**State Legislation**

This appendix contains summaries of some state legislation adopted in 1957 which is believed to be of interest to persons engaged in the municipal securities business.

**CALIFORNIA**

Senate Bill 133, providing the State School Building Aid Bond Law of 1957, authorizes the sale of $100,000,000 of state bonds for school building aid as approved by the voters in the November, 1956, general election.

Senate Bill 729 permits the financing of school building by lease-purchase, requires a two-thirds favorable vote of the district electors, and provides that lease rentals shall be considered as bonded debt for debt limit purposes.

Senate Bill 305, providing the San Francisco Port Bond Law of 1957, authorizes the issuance of $50,000,000 of State of California bonds for port purposes, subject to a referendum to be held in November, 1956.

Senate Bill 1337, providing the Street and Road Bond Act of 1957, permits counties and cities to sell bonds, not to exceed ten years in maturity, in anticipation of and secured by a portion of the highway users’ taxes due from the streets and roads, are limited to an amount that is sufficient to be serviced by not more than 25% of the estimated taxes that are due to be paid by the county or city and are not otherwise provided.

Senate Bill 2174, providing “State Financial Assistance for Local Projects,” authorizes the state to lend financial assistance to any local district, city, county, etc., for water development purposes if the local program is in accordance with the California Water Plan and if the District Securities Commission certifies that financing is not otherwise available. The bill provides for legislative approval of each proposed qualifying project.

Assembly Bill 977 amends the Education Code, the Water Code, the Health and Safety Code and the Los Angeles County Flood Control Act to permit (1) the issuance of bonds payable from a fixed and determinable share of the county’s property or general revenue, (2) bonds payable from natural resources, and (3) issuance of bonds in denominations of $5,000.

**FLORIDA**

Chapter 57-763, Laws of Florida, Acts of 1957, provides that any bonds heretofore or hereafter authorized to be issued by any unit under the provisions of any general, special or local law and any interest coupon attached thereto may, if so authorized by the governing body of such unit, bear or be executed with a facsimile signature of any official authorized by such law to sign and execute such bonds or coupons provided; that each such bond shall be signed by at least one official of such unit. It is also provided that in case any such law shall provide for the sealing of any such bonds with the seal of the corporation seal of such unit or of its governing body or any official thereof, a facsimile of such seal may be imprinted on the bonds if so authorized by the governing body of such unit, and it shall not be necessary in such case to impress such seal physically upon such bonds.

**M ASSACHUSETTS**

Chapter 728 of Massachusetts Acts of 1957 provides that users of the Massachusetts Turnpike may apply for a refund of the 51/-cent-per-gallon state gasoline tax based on usage of the Turnpike (this is a state gasoline tax of from one gallon every five miles for any purchase and 2½¢ a gallon "every 15 miles for passenger cars.

**MISSOURI**

House Bill 261 adopted at the general session of the Missouri Legislature, repealed Section 93.150 of the Missouri Statutes and enacted a new Section 93.155 which includes the following provisions relating to the execution of bonds issued by cities, towns and villages: (1) provision for the execution in the proper manner and form of the signatures by the execution of such bonds in certain cases; (2) "all such bonds shall be signed by the mayor of the city, or chairman of the board of trustees, of the town or village, as the case may be, as authorized by the signature certificate of the governing body of such municipality. In the event that the charter under which a municipality may be operating makes no provision for the office of mayor, such bonds shall be signed by the officer designated by the charter as the custodian of the seal of the municipality. Provided, however, that when bonds of more than one issue or more bonds are to be executed as of the same date, the ordinance relating to such bonds is issued may direct such that bonds issued on or after August 25, 1957, shall be signed by the mayor, or by the facsimile signature of the president of the governing body of the municipality, if the charter so provides.

House Bill No. 1 adopted by the first extraordinary session of the Missouri Legislature amends Section 4 of an act authorizing the issuance of revenue bonds to pay the cost of state building bonds by striking out the word "strike" and inserting the word "build" in the act. In case issued under this act shall be sold at public or private sale at such rate as to be sold at public or private sale at a price not less than its face value, and for the accrued interest from date of issue to date of delivery. Since the Missouri Constitution prohibits the sale of state bonds at a coupon rate in excess of 3/4%, it was impossible for the state to issue Missouri state bonds under the provision previously in effect, that bonds issued under the authorizing act could not be sold at less than their face value. The amendment permits the sale of state bonds at a coupon rate in excess of 3/4%.

**NEW JERSEY**

Senate Concurrent Resolution No. 100, 1957, makes it an emergency and appropriated $50,000 to aid in the study of the city's general government, and in the establishment of a Commission to study legislation designed to enable school districts to issue bonds to finance the purchase of a privilege of redemption at improved interest rates. Chapters 10, 11 and 12 of 1957, permit the issue of bonds in excess of the normal debt limit, subject to approval of the New Jersey School Bond Commissioners of the State Division of School Bond Commissions. Senate and House Bills 272 of 1957, provide for the establishment of a premium scale by the State Division of School Bond Commissions, and the approval of such scale by the District Division of School Bond Commissions.

**NEW YORK**

The New York City Comptroller, in a report adopted by the Board of Estimate in November, 1957, recommended the authorization, subject to approval at the general election in November, 1957, of the issue of $250,000,000 of bonds for the purpose of financing projects for the construction of public housing facilities for New York State University. The authorization was approved at the election in February, 1959. It is reported that a bond issue of $250,000,000 was issued by the New York City Housing Authority in 1958. The “effectiveness” of the interest on such bonds as determined. The Municipal Securities Committee of the Board of Governors, Federal Reserve System, has examined and approved the proposal. The Municipal Securities Committee of the Board of Governors, Federal Reserve System, has examined and approved the proposal.

**TEXAS**

Senate Bill 131 contains the following requirements regarding publications and their financial statements of certain municipalities. The governing body of each school district, junior college district, road district, soil conservation district, water improvement district, water control and improvement district, water supply district, drainage district, navigation district, river authority, conservation and reclamation district, or any other kind of district organized under Section 52 of Article II, Title 13 or Title 5, Chapter 13 or Chapter 5, Acts of the 51st Legislature, shall be prepared to be published an annual financial statement showing the total receipts of each fund subject to its orders during the fiscal year, and the sources of such funds, whether taxes, assessments, service charges, sale of state money, gifts, or any other general source from which such funds are derived. The State Auditor shall prepare and submit such financial statements to some newspaper in each county in which the district or any part thereof is located, and the publication shall be made contemporaneously with such publication of the fiscal year.

Chapter 212, effective Aug. 15, 1957, makes it an emergency and appropriated $50,000 to aid in the study of the municipalities and counties an emergency exception to the revenue bond statute limits. Upon filing by the Local Government Board an application for the issuance of revenue bonds, providing that no bond in issue issued under such act shall be sold at public or private sale at a price less than its face value, and for the accrued interest from date of issue to date of delivery. Since the Missouri Constitution prohibits the sale of such bonds at a coupon rate in excess of 3/4%, it was impossible for the state to issue Missouri state bonds under the provision previously in effect, that bonds issued under the authorizing act could not be sold at less than their face value. The amendment permits the sale of such bonds at a coupon rate in excess of 3/4%, and the state shall be authorized to sell such bonds at a coupon rate in excess of 3/4%.

**Ohio**

The New York City Comptroller, in a report adopted by the Board of Estimate in November, 1957, recommended the authorization, subject to approval at the general election in November, 1957, of the issue of $250,000,000 of bonds for the purpose of financing projects for the construction of public housing facilities for New York State University. The authorization was approved at the election in February, 1959. It is reported that a bond issue of $250,000,000 was issued by the New York City Housing Authority in 1958. The “effectiveness” of the interest on such bonds as determined. The Municipal Securities Committee of the Board of Governors, Federal Reserve System, has examined and approved the proposal. The Municipal Securities Committee of the Board of Governors, Federal Reserve System, has examined and approved the proposal.

House Bill 268 authorizes the issuance of $250,000,000 of bonds for the construction of public housing facilities for New York State University. The authorization was approved at the election in February, 1959. It is reported that a bond issue of $250,000,000 was issued by the New York City Housing Authority in 1958. The “effectiveness” of the interest on such bonds as determined. The Municipal Securities Committee of the Board of Governors, Federal Reserve System, has examined and approved the proposal. The Municipal Securities Committee of the Board of Governors, Federal Reserve System, has examined and approved the proposal.
In substance, the argument of Triandifl is that any and all municipal revenue derived from any source other than ad valorem taxes on property can be pledged for the payment of specific obligations contracted by the city. That said obligations thus secured by first lien on specific revenues do not create "debts" within the meaning of the constitutional prohibition. It does not require the wisdom of Solomon to point out that if the proposition be so construed it would be possible to pledge all revenue other than property taxes financing "public facilities" which may, or may not, be demanded by the inhabitants of a city and that the property taxes would then be called upon to carry the full burden of general fund obligations. Such taxes, already burdensome, would soon become confiscatory. "If, however, the "project or facility" to be created produces all the revenue to be used in discharging the bonds issued to create the project, without recourse on the part of the bondholder to other revenues of the city, then the "special fund" doctrine is applicable. Under such circumstances the "income other than property taxes" are outside the constitutional limitations, and do not create "debts," whatever the meaning thereof."

In Dell v. City of Durango, the plaintiffs sought to have an ordinance prohibiting the sale of "special funds" declared unconstitutional and void and to obtain an injunction prohibiting enforcement of the ordinance which provided for rental payment of the public building. In December, 1955, a nonprofit Colorado corporation was formed known as Durango, Colorado, Community Building Association which was to be an "endowment of the City of Durango to acquire land, construct and maintain a public community building." In February, 1956, the City Council of Durango adopted an ordinance which provided for the leasing of the community building to a nonprofit corporation. The City of Durango was to receive $20,000 in the first year and $20,000 for each year thereafter for a period of 25 years. The rentals were to be derived from charges made for the use of the building after operating expenses, the net revenues of the city water system, the proceeds of the city cigarette tax, and from its parking meters, all of which revenues were irrevocably pledged for the rental payments. The city was further obligated to pay the rental "if necessary, from other revenues of the general fund after the proceeds of taxes be levied by the city." The city had the privilege of terminating the lease upon giving thirty days' notice paying whatever amount might be necessary to redeem all of the outstanding bonds issued by the corporation to finance construction of the building. In May, 1956, the ordinance was approved at an election, but the election was not limited to election of the bonds and, as such, was invalidated within the preceding year.

The Supreme Court of Colorado on October 16, 1957, concluded that the ordinance was constitutional and valid. The Court stated that the obligations of the city under the ordinance were debts within the meaning of the Constitution of Colorado, and that the obligations to the city which was pledged extended beyond the limits prescribed by the Constitution. The Court also stated:

"In view of the fact that the application of the "special fund" doctrine in this case is not such that the city is irrevocably obligated to pay the rental, the revenue from the proposed public facility could not be used for other taxes, parking meters, and if not sufficient, to reach into the city's general fund obligations."

MICHIGAN

On June 28, 1957, the Supreme Court of Michigan in a test case involving provisions of Article X, Section 27 of the Michigan Constitution, which was approved at the election on April 1, 1955. In general, this amendment to the City of Ypsilanti empowered the State to issue up to a maximum of $1,000,000 in general obligation bonds, of which $300,000 were to be used for the proposed public building.

The Supreme Court held that the law violated a provision of the State Constitution which provides that the credit of the State shall never be given or loaned in aid of any individual, association or corporation.

The Court stated that it deemed "to be most persuasive reasoning and a statement of controlling

Continued on page 52

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PENNSYMPAC 5-0400
continued from page 51

Report of IBA Municipal Securities Committee

principle" the following statement by the Superior Court is noteworthy in its decision in State v. Town of North Miami:

"This Court has approved special acts of the legislature authorizing advertising purchases of the acquisition of land, for golf courses, parks, playgrounds and recreational and hospital centers. The court has also approved special acts authorizing the condemnation of buildings which served a public purpose and many other acts authorizing municipalities to acquire property and make improvements to public property which served a public purpose. In none of the cases decided by this Court since the adoption of our present Constitution have we approved any special legislative acts which authorized any of the political subdivisions or governmental units of the State to acquire property and erect buildings contrary to the exclusive use of a private corporation for private gain and private profit."

"Every new business, manufacturing plant, or industrial plant, which may be established in a municipality, will be of great benefit to the public interest. A new supermanet, a new department store, a new manufacturing plant, a pulp mill, or other establish-
ments which could be named without listing the innumerable matters beneficial to the growth, progress, development and prosperity of the community. But these consider-
tations do not make the acquisition of the property and the erection of building-
s, for such purposes, a public purpose, a municipal purpose. Our organic law prohibits the expenditure of public money for a private pur-
pose. It does not matter whether the money is derived by ad valorem taxes, by bond issues, or otherwise. It is public money and under our organic law public money cannot be appropriated for a private pur-
pose or used for the purpose of acquiring property for the benefit of a private concern. It does not matter what such undertakings may be called or how worthwhile they may appear to be at the pass-
ing moment. The financing of private enterprises by means of public funds is entirely foreign to a proper concept of our con-
stitutional system. Experience has shown that such encroachments will lead inevitably to the ultimate destruction of the private enter-
prise system."

The Supreme Court of Nebraska in a recent opinion held:

"The purpose of the statute, and the contract in the present case,51—being therein, is to assist a private corporation that is engaged in an enterprise for profit. It is true, of course, that the city

income funds would gain approximately $1,500,000 over the rate on the U. S. Bonds proposed to be

may be benefited by the location of the company in the city. It may produce employment for citizens of the city and help balance a locally restricted econ-
y. But general benefits of the kind are not the test of the public purpose within the meaning of the Constitution. The court held that there was no public purpose where the city is attempting to use the proceeds of the new issue of bonds of the city to purchase land and erect industrial buildings for the use of a private corporation for private profit and private gain. It revokes public or municipal purpose. The Act

purport to grant powers to cities which are not given by the authority of the Legislature to con-

ments.

New Jersey

In Stump v. City of Middletown, et al., the Supreme Court of New Jersey on March 11, 1957, held that on the petition of a tax-
payer of a municipality, the local ordinance to carry out a reassessment of all taxable property in the municip-
ing was a violation of State law. The court concluded that the

the writ of prohibition, preventing the defendants from proceeding with the proposed plan of reor-

in New Jersey has not a long-term problem of over-supply or over-

vestment, after concluding:

"We furthermore, cannot escape the conclusion that the voluntary sale of invested securities belonging to the permanent school funds as ingot, plate, sheet, wire, rod, cable, extrusions, toll and fabric-

cated parts."

Continued from page 25

Aluminum's New Era

As we enter the 21st century, the aluminum industry continues to grow and expand. The demand for aluminum products has increased significantly. Aluminum has various advantages such as lightweight, durability, and corrosion resistance. These properties make it a preferred material in various industries, including automotive, aerospace, and construction. In this section, we will discuss the growth of the aluminum industry and its impact on different sectors.

Economic Growth

The demand for aluminum has grown significantly in recent years due to its versatile properties and wide range of applications. The automotive industry is one of the major consumers of aluminum, as it is used in various components such as engine parts, structural beams, and body panels. The aerospace industry also relies heavily on aluminum for its lightweight and corrosion-resistant properties.

New Technologies

The development of new technologies has played a crucial role in the growth of the aluminum industry. Innovations such as innovative casting processes and new alloys have allowed manufacturers to create stronger and lighter products. These advancements have contributed to the expansion of aluminum applications in various sectors.

Environmentally Friendly

Aluminum is a highly sustainable material. Its recycling properties make it an environmentally friendly choice. The recycling rate of aluminum is significantly higher than that of most other metals. This feature has not only reduced the demand for raw materials but has also contributed to reducing the environmental impact of aluminum production.

Future Prospects

Despite the challenges posed by the current economic environment, the aluminum industry remains optimistic about its future prospects. The demand for lightweight and sustainable materials is expected to continue growing, particularly in sectors such as automotive, aerospace, and construction.

In conclusion, the aluminum industry has experienced significant growth over the past few decades. Its versatile properties, environmental benefits, and expanding applications have contributed to its continued success. As the industry continues to evolve, it is poised to play a critical role in shaping the future of sustainable and innovative technologies.
require. for the new era that lies ahead.

The expanding use of aluminum in the automobile industry is a classic example of the new availability is bringing about mass production techniques. The aluminum industry is a

In 1950 we delivered metal to automobile manufacturers in pig or ingot form. They melted it and cast it into finished parts.

That year our company worked out a system of delivering the metal in molten form directly to a General Motors die-casting plant adjacent to our smelter.

This was the first shipment of molten aluminum in the industry's history.

In 1950, we signed a slaughter for molten metal contract with Ford, under which they agreed to take substantial tonnage from a new plant that we were building in Alabama.

And early this year, we made another commitment of the same kind with Chevrolet at our newest plant that we are now under construction on the St. Lawrence Seaway.

This is the significance of these contracts to the future of our industry.

In themselves, they represent a mass production technique—the combining of the metal and an insulated product, on a "round-the-clock" basis, 365 days a year, to a production-line industry.

Secondly, they guarantee an adequate supply of aluminum to one of our industry's best customers.

Over the years, aluminum has advanced in the auto industry from its occasional use for pistons, to a point where today a leading motor manufacturer is using 600,000 individual aluminum parts in its 1960 models of cars and trucks.

Every new application has led to a better understanding of the advantages of the metal itself—a lightness, strength, durability, freedom from rust, resistance to corrosion.

Since World War II the use of aluminum has risen from two to 45 pounds per vehicle. In 1960, it is estimated that aluminum will weigh as much as 200 pounds in a single model. As the rate of growth, the time cannot be far off when aluminum components for cars will be found on every automobile line.

Edward Cole, Vice-President of General Motors and General Manager of Chevrolet said earlier this month: "I quote manufacturing techniques indicate that the rate of growth of aluminum usage by the automotive industry not only will be maintained but will probably be accelerated.

"Many of you are aware of another advantage of these molten metal contracts to the aluminum industry, because you helped to finance these new facilities.

"We felt more primary production capacity was needed. We established the fact that the expansion was both necessary and sound.

Actually, the mass production techniques of this company supplied aluminum components for the first oil drillings in the North Slope of Alaska.

"Another example is the huge structures are being installed in Lake Maracaibo, Venezuela, where the corrosion-resistant qualities of our metal have proved its value.

"In short, the growth in use of aluminum is now being made in an effort to provide the President of a worldwide industry with the ever more demanding applications that are developed in new processes to make aluminum from clay is creating a second-line of new reserves.

"We are also aware of the importance of industry to the industrial metal producers. Our company has large reserves of coal in Kentucky and in West Virginia. We are building reserves of gas and oil, and are constantly seeking additional fields. We are awaiting the development of additional applications, and are working with our customers to apply it to our primary production. This too may come about.

"When we began to produce primary aluminum in 1941, there was one other producer in the United States. By the middle of next year there will be six.

Before World War II a handful of fabricators were making aluminum null products, such as sheet, foil, extrusions and forgings. Now there are 200 or more companies.

A decade ago about 4,500 manufacturing plants were using aluminum. Now there are over 35,000.

Now the aluminum industry is prepared for its next great forward movement. We have an abundance of raw materials.

We can assure our customers an ample supply of metal in whatever form they need.

We are aggressively developing new uses and bigger markets.

What I am saying is that break-throughs to mass production challenge us at every turn.

A new era for aluminum lies just ahead.

---

**ALUMINUM CAS**

As I see it, we are moving toward a new era in our industry where a plant such as our huge sheet mill near Chicago will be turning out a standardized, mass tonnage product, instead of the thousands of individualized orders now being manufactured.

At that stage in the industry's development entire plants would be devoted to rolled sheet for such items as aluminum cans. Several mills will be producing extra-wide sheet and plate, which can be welded economically to make ships, barges, railroad cars, tanks and to the structures.

Pipe for irrigation and the oil industry will be mass produced at other single-purpose plants.

In building and construction there is an opportunity today for the mass production of aluminum products never before possible.

For example, in the residential field, current consumption of these products is less than 40 pounds per house. The potential market in Detroit of Marketing of Aluminum is enormous, containing 15,000 pounds of aluminum each.

We are already moving toward break-throughs in many of these mass markets.

Our contracts have recently been signed by aluminum producers with a large oil company and with a major food manufacturer.

In almost every phase of the oil industry—exploration, production, transportation and marketing—we see break-throughs.

**Aluminum Pipe**

For the past year we have been moving toward the oil industry to carry surface and deep drilling areas.

Last week a major oil company adopted aluminum pipe as standard for these requirements.

To meet the expanding demand for pipeline, gas and irrigation we have developed an automatic pipe-welding machine that permits miles of pipe to be laid at amazing rates of speed.

We are selling aluminum plate and extrusions for large tanks that transport liquid natural gas at very low temperatures.

**Overseas Prospects**

Our aluminum industry lies in the immense gap between foreign and American consumption. For example, in the United States, average per capita consumption is about 25 pounds. The second ranking country—Great Britain—consumes around 16 pounds per person.

About 80% of the world's aluminum consumption is presently being used in the United States, Russia and five other countries.

This means that aluminum consumption is insignificant in the rest of the world. To us this is a tremendous challenge and tremendous opportunity.

Since aluminum has become a part of the metal in our economy, second only to steel, it is necessary for us to produce aluminum for our domestic market.

Our markets are in tropical areas, aluminum is particularly well suited to that environment, it is corrosion-proof, rust-proof and insulation.

In over-populated and underpopulated areas, aluminum irrigation pipe is gaining ground and stabilizing agriculture products.

This is another mountain peak above the foothills of our prospects. It awaits only adequate production facilities, assembly-line methods, and the necessary international financing, to bring it about.

We believe that our industry is aware of the future. We know that our greatest asset is the abundance of the minerals we need.

The world is richer in aluminum than in any other basic resource.
C. Future Expansion Problems of the Airlines

At top of past problems the airlines today face what can only be termed a "jet revolution," an alteration of the entire face of the industry. At no time in the past did new equipment have the capacity to render obsolete in onestroke the vast majority of aircraft previously operated. Yet, because of the unique benefits of jet propulsion and pure jet transport--in speed, comfort, and revenue generation--the airlines are planning to virtually eliminate the piston-powered fleet from major routes within the next few years. No single airline can afford not to convert if it is to survive the jet-propelled competition of its fellow carriers.

The jet airliner will involve a leap in speed from a present 500 miles per hour to 600 miles per hour, compressing into one stop an absolute gain greater than the increases in the last 20 years. It will involve an increase in revenue generation, with a single large jet possessing the same annual transport capacity as a large ocean liner. It will involve a jump in costs, from a present $163 to $167 million, or $5 million for various versions of the new large jet transports. The jet airliner will require an entirely new fleet of passenger, city, and express transport, air traffic control, and mechanical maintenance. The airlines are to fulfill in the next five years the largest expansion ever to confront any industry.

The airlines' total jet and jet-prop conversion program has created an intensity of need for additional capital greater than at any time in history. As of June 30, the industry had committed itself for more than $2 billion worth of new equipment. This amount is double the aggregate net worth of the airlines as of last December and is 27 times their net profit for 1955. An estimated additional $1-2 billion investment in jet equipment will be made before 1967.

As of last June, the airlines reported that some $680 million, or 30% of the $2 billion initial commitment, remained to be raised. At that time $163 million had actually been paid, $76 million was expected from depreciation through 1960, and $72 million from bank and insurance loans not yet taken down. The only other internal sources for the lacking $900 million were retained earnings and proceeds from sale of aircraft. Retained earnings averaged $20 million in the 1956-58 period but have been in a decline trend. Optimistically assuming a $25 million yearly retention, this would reduce the amount needed by only $100 million. Again optimistically assuming sale of piston aircraft of two-thirds original cost, or $127 million, the still-remaining generate internally only the $68 million needed. Thus, a $373 million deficiency would remain after full accounting for advance payments, depreciation, loans, retained earnings, and sale of aircraft through 1960.

D. The Requirement for Increased Airline Equity Financing

The airlines, with $460 million of common stock at market value outstanding, may be forced to sell roughly $375 million additional stock or to seek additional loan credit in a fairly short span of time.

In order to finance this enormous and rapid increase in the volume of new aircraft sales, the airlines are forced to seek new sources of funds. In addition, they will have to seek new sources of funds for their own expansion. This is the most critical period in American aviation history. Hence the industry has committed itself for more than $2 billion worth of new equipment. This amount is double the aggregate net worth of the airlines as of last December and is 27 times their net profit for 1955. An estimated additional $1-2 billion investment in jet equipment will be made before 1967.

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single major product and purchaser. Efforts by the industry in the wake of this reorganization to enter diversified civilian fields were generally abandoned with substantial losses.

B. Immediate Problems of the Aviation Manufacturers

In recent months, the aircraft industry has fallen victim to a mounting of historic problems, all relating to extraneous fluctuations in defense activity. In a sudden and unforeseen econonomic effect beginning this spring, the industry suffered a stretch-out of contracts for at least a military aircraft, cancellation of contracts for four aircraft and two missiles, and a projected cut in production of $100 million to $1000 million. As a result, vital, the Air Force, through some other key personnel resigned to seek out more stable but less critical occupations. The elimination of all overtime pay, except on ballistic missile production, is a direct even vital military research and development program a routine week.

Further stresses in the industry will be introduced by the shift towards missile and away from acreage production. Air Force government may be extended by 1961 show a 50% drop in annual defense spending per unit from $3 billion to $2 billion; a 30% decline in jet engine deliveries, from $1.5 billion in 1956 to $1.0 billion; and a 40% jump in missiles, from $500 million to $2.0 billion.

In addition to all the foregoing, the Air Force suddenly imposed reduced ceilings on moderate enterprise payments from October to June 1958. The effect was to reduce monthly payments to the industry approximately $100 million below the $600 million prior rate. The speed and arbitrary nature of the cut-back in what had been considered a firm government commitment left aircraft manufacturers in their own words, "undermined...shaken...very much concerned." Concern was justified by the fact that the industry might have to borrow and finance out of reduced earnings an estimated $8 billion additional funds to absorb the difference between expenditures ceilings and the cost of maintaining production. The arbitrary nature of the cut-back would be to reduce rates of production on vital defense weapons, delay contract completion, and put upwards, and incur additional needs for funds. The effect of widespread industry protests and in sudden awareness that our rocketry was lagging behind the Russians, the Defense Department recently reenacted rigid ceilings in favor of expenditure targets.

C. Investment Market Appraisal of the Aircraft Manufacturers

Due to the above-mentioned defense Department policy as much as to historic industry problems, the investment community has judged aircraft manufacturability stability inadequate for the risks involved. The security markets have reflected this judgment in a heavy selling of Standard & Poor's 500 industrials declining from a high of 98.6 to a low of 93.0, and a heavy selling of aircraft manufacturers' securities, at a low 671 times in contrast with a high of 93.0. In addition, the industry's credit rating has fallen even lower with heightened creditor and government procurement fluctuations.

D. Future Expansion Problems of the Aircraft Industry

While free competition in the investment market has reduced aircraft manufacturers to a state of low priority for new capital investment, the need for such investment in terms of national survival may be greater than at any time in history. Upon this industry's production and test facilities, in advance metallurgy and electronic computer technology, may nuclear - powered aircraft — in the future — be able to preserve through air superiority.

E. Need: An Enlightened and Stable Congressional Approach to the Defense Aircraft Industry

The aircraft manufacturing problem is in large measure a financial problem. The solution lies in a Congressional appropriation policy and a Defense Department procurement policy that will afford the aircraft manufacturers adequate stability, allowing them to successfully compete in the free capital markets for their additional investment in their high risk industry. In this sense, adequacy must be determined not by an arbitrary formula or by administrative decree, but by a growth-stability factor that will attract the required capital to ensure American defense effectiveness.

In view of the overriding strategic and political factors affecting stable funding, it is questionable whether investment bankers do not perceive even to pass final judgment on the basis of our financial analysis. But financial strength is one of the indispensable ingredients to thrive in the future. To achieve this, we urge the Secretary of Defense McElroy and a permanent industry committee to stand together at once to negotiate mutually workable solutions to the host of industry problems—problems including delayed renegotiations, procurement fluctuation, program payment, mandatory subcontractors, and non-reimbursed design charges, among many others.

Only through such government- industry teamwork, within the framework of our dynamic free enterprise system, will the aircraft industry have the stability and strength to preserve American superiority in the crucial days ahead.

Receptively submitted.

Donald N. McDonnell, Chairman
Blyth & Co., New York
Richard Cooch
Courts & Co., Atlanta
Walter M. Giblin
Bayard & Co., New York

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The Return of Power to State Governments

Federal Civil Defense Administration in its grants of assistance. This schedule starts at $250,000 for the lesser income states and graduates to $3,500,000 for the richer states. This should eliminate over 60% of the case load.

Other Functions

Many other functions were included specifically for grant consideration by the Committee. Included were supplemental old age assistance and Federal cash grants to the school lunch and milk programs. After careful discussion, the Committee did decide that these functions were more commonplace than could be contended with at this particular stage of the Committee's activities, if we were to present to the President an initial program for action and in time for consideration by the following session of the Congress.

The barrier to obtaining agreement on the school lunch program was due to the observation that many of the States had constitutional limitations against using funds to private and parochial schools. Subsequent examination of this problem showed that this was not as serious a barrier as implied. Many of the States with such constitutional limitations provide free transportation and free textbooks to children attending private schools. It is our understanding that those actions are justified as contributions to the educational child rather than to the school itself. We believe we can argue here that a free lunch is just as personalized as a free textbook or ride.

With regard to supplemental old age assistance, I would suggest that the vast majority of people present, including myself, is persuaded that a welfare program of this type is more proper for State and local management than for Federal control. However, the political facts of life are that there are too many people involved, too many pressure groups concerned to risk head-on assault in this area without careful consideration and public understanding that it is not intended to deprive the aged of this assistance but rather to transfer the responsibility for its administration.

The Committee also discussed tax sources that could be released by the Federal Government and become available as revenue for the States to finance these newly assumed responsibilities. Taxes discussed were the estate and gift tax, the tobacco tax, the tax on local telephone calls, and a collection of levies such as those on safely deposit boxes, pool tables, arcades, gambling devices, bowling alleys, etc. It was finally concluded that in order to finance the functions presently agreed on as proper for transfer a credit be given by the Federal Government up to 40% of the 10% ad valorem tax on local telephone calls. This would raise for the States approximately $175,000,000 at present rate of collection.

The Federal representatives on the Joint Committee pointed out that as functions were assumed by the States, the executive branch of the Federal Government would be willing and eager to discuss the relinquishment of any amount of tax necessary to finance State administration of such functions.

Emerging Problems Discussed

In its meetings, the Joint Committee also discussed a substantial list of emerging problems. Here I refer to activities obviously at a stage of development where it must be seen decided the parts to be played by the Federal, State, and local governments. These included the problems of juvenile delinquency, the growth of municipalities and urban renewal, State responsibility for health and

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The Return of Power
To State Governments

safety standards in the uses of atomic energy, and better use and
conservation of water resources.

Limited action was taken in two
of these areas: urban renewal and
atomic energy.

It was agreed that the States
should create planning agencies
to be concerned with the problems of
urban renewal and municipal
growth and that these agencies
assume responsibility for planning
grants to municipalities for
pursuits of urban renewal and low
rent housing. These planning
agencies would be financed by
grants from the Federal Government
amounting to some $30,000,000 annually and
reapaid out of the capital structures
of approved projects.

It was also agreed that the
States should join with the Fed¬
eral Government in selecting per¬
sonnel to inspect and control the
uses of atomic energy as they con¬
cern the health and safety of the
people. State responsibility for
workers' compensation certainly
justifies the States' desire to par¬
ticipate in this activity.

In conclusion, I should like
to suggest to this audience that many
among you will be disappointed
with this. This report is an agree¬
ment arrived at by the mem¬
bership of the Joint Federal-State
Action Committee. Many can argue
as to the date the activity of the
Joint Federal-State Action Com¬
mittee is minuteness because it
has not been a massive pull¬
out effort to transfer to the States
many of the functions which have
been theirs under our traditional Fed¬
eral system. Many will insist that
an entire program of public assistance
should be included and that this
is the opportunity given to the
Government to divest itself of
some functions. I think we should
be able to consider this an initial
together, and the Federal-State
Action Committee is making a
start.

On the other hand, there
are many people who will rise up
in opposition to what we have al¬
ready accomplished. Those who
hold the professional organizations en¬
tered in the programs we have
identified, the CIO-ATF and the
Farmers Union. I assure you these
are the worker-oriented organi¬
izations and expert lobbyists who
will use every resource to prevent
the Congress from implementing these
recommendations.

However, I am sure you will
agree that under these circum¬
stances it is important to provide
a limited demonstration that we
can develop a technique which in
fact turns back the clock of.

the battle in which there are
enemies in the battle from which
there can be no retreat.

President Eisenhower indicated
at Williamsburg that this exercise
would be most justified if we turn back
to the States only one function
previously performed by the
Federal Government, and a single
source now collected by Wash¬
ington. Indeed it would be suc¬
cessful if The halt a trend.

I urge all of you who believe in
this cause, and of every are

that we can do everything in your power
to support the President in this
important effort to preserve our
power.  

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Report of IBA Nuclear
Industry Committee

Central Banks of the Blind River
area of about 220 million tons con¬
taining 270,000 tons of uranium oxide.
This indicates that the proven uranium reserves in Canada
are more substantial than
those in Europe. These reserves will support their presently planned
production plans for 20 or 30 years.

The South African uranium-bearing gold fields are also among the
largest uranium deposits in the Free World, with some 1 billion
tons of ore containing some 7 billion tons of uranium. The
projected rate of production, (6,000 tons a year), will cover
25 years.

While the Free World is well supplied with uranium within the
scope of the 10 to 15 year atomic reactor programs at home and
abroad, the need for uranium ore must continue. Cen¬
tral circumstances are thus true in the United States.

There is no short-cut method to discovering uranium on the
face of the earth. Geologists put it: uranium is where you find it. Most uranium mines need financing even be¬
fore their exploration and drilling programs had been completed. In
fact, most mining operations need financ¬
ing just to get started. This of course called for venture or risk
capital. It is customary for banks to deny
money unless the project is well under way.

That was the situation when uranium orebody could be assessed with a rea¬

able degree of accuracy after much exploration work and drill¬

ing, it may be possible to finance mines through production loans
as is now widely done in the
petroleum industry. It seems
however, that for some time
the uranium industry on the whole
will continue to be financed mostly
through equity or other forms of
finance.

In the very same way that
the United States Government
earlier in this decade engaged in
the development of the uranium
industry, so has the Mexican
Government which has 1.5 billion tons of ore and has just
come out for more money to
the requirements of the AEC.

However, I do not have a
reason for concern. In my view
the uses of atomic energy in the
United States and as it increases and as the increased use goes abroad, the
Free World, a time will be
ripe for the American industry to
meet the world's needs.

We do not believe that there
is any reason for concern. When
we look to the future there is
progressive in the United States and as its uses increase and as the increased use goes abroad, the
Free World, a time will be
ripe for the American industry to
meet the world's needs.

We do not believe that there
is any reason for concern. When
we look to the future there is
progressive in the United States and as its uses increase and as the increased use goes abroad, the
Free World, a time will be
ripe for the American industry to
meet the world's needs.
contracted for in this country and other parts of the Free World con-
tinue to operate under the conditions. It is too early to know with certainty what the various nations or governments may do at the ex-
piration of the present contracts, but all indicate, as far as is known, that they will stockpile uranium for a few years until such time as the demand catches up with production. There will un-
questionably be a transition from a government-controlled to a com-
nercial uranium market while it is no longer in the interest of our Government to expand pro-
duction of uranium concentrate, and the change is of vital importance to the United States as the result of our relatively low ratio of re-
serves to production as compared with Canada and South Africa, which we are continuing to pursue a dyna-
mic, internationally competitive policy. This may require action on the part of our Government even be-
fore 1962 to give possibly needed encouragement to the basic uran-
ium mining industry.

C. Feed Materials Plants

Whereas the mining and milling of uranium ore is one of the hand-
ands of private industry, the varying extent of this industry that now exist in the U.S. are owned by the Atomic Energy Commission, although operated by private companies.

These plants are delivered to either the St. Louis and the Weldon Springs, Missouri, feed materials plants, or the Mallinckrodt Chemical Com-
pany, St. Louis, Missouri. Both of these plants process the feed materials materials plant, operated by the National Lead Company. In these plants, the uranium concentration is called "yellow oxide" and is then reduced to uranium dioxide UO2, and then hydra-
fluorinated to uranium tetrafluoride, known as "green salt." Uranium tetrafluoride is then reduced to uranium and some goes to the gaseous dif-
fusion plant at Oak Ridge, Ten-
nessee, Portsmouth, Ohio, or Pa-
due, Kentucky. These plants are owned by the Atomic Energy Commission, and operated by United Carbide and Goodyear. In these gaseous diffusion plants, the valuable uranium isotopes are separated from the non-
uranium uranium-235 as ura-
nium hexafluorides.

As a further step to increase the participation of private industry in developing atomic energy, in 1939 the Commission requested proposals from industry for the construction of gaseous diffusion uranium processing plants that would be in operation by 1940 and 1941. These bids were submitted and in November 1940, the Commission announced that the proposals received from

the Allied Chemical & Dye Cor-
poration had been selected as a basis for the negotiation of a contract for supplying 5,000 tons of ura-
nium hexafluoride (U.O.) equivalent per year as highly purified uranium hexafluoride. This company ap-
plied that it would be able to finance the plant with its own resources. From the late 1940s, we have had other bidders who re-
cived the contract, they would no doubt have entered into the market for uranium financing used in near uranium mills—i.e., short-
term financing from banks or other lending institutions. Here again we are dealing with a pur-
chase contract for a given output at a guaranteed price for a defi-
ned time period.

There was of course no problem of private financing for the other materials plants. In the case of the gaseous diffusion plants since they were built with Government funds.

It is interesting to note that the electricity consumption of the AEC gaseous diffusion plants is enor-
mos. These three plants consume about 10% of all the electricity produced in the nation. The Elec-
tric Power and Water Company, and Ohio Valley Electric Corp., both of which are part of large utility companies, are supplying a very substantial amount of the electricity consumed in these diffusion plants.

Nuclear Reactors

This phase of the business includes the manufacturers of the nuclear reactor plant. The question is whether they for electrical or mechanical equipment or for heat. This phase also in-
cludes the users of the reactors, who are the companies which will operate the ships or industries that use reac-
tors, and the builders of the reactors.

Today, the emphasis is on reactor development at Oak Ridge. The Bill was the subject of much controversy at the time. The feeling had been for quite a few months past that more atomic power was needed if the country was to remain the world leadership in the future. This concern had also been shared by a manufacturer of atomic power.

As the year-two-year-long controversy in Washington over the output of atomic power programs in the United States was resolved temporarily through a series of compromise, reached in the clos-
ing days of the 1937 Congressional session. The picture looks more promising than a peace, however, and it now appears that Congress will have much more power to pass the bill in the next over the nation's reactor development.

Congress passed the Anderson-
Pricing Indemnification Bill which provided $500 million of Gov-
ernment indemnification to re-
actor builders and operators for each atomic reactor project in the United States. The $500 million is over in the bill and in the event of third-party liability insurance obtained by the AEC to be reason-
ably available for each project from the private insurance companies. Introduced on May 8, it passed the House on Aug. 8, the Senate on June 22, and was signed by the President on June 23. It had been fervent hope of pri-
vate and public industry that such a law would be passed during the session of Congress. This law im-
ports an important roadblock in the progress of atomic energy. The new law also creates a statutory reactor safeguards committee and requires that its reports be made public.

The AEC, over its objections, has been directed by Congress: (1) To proceed with the construction of a nuclear reactor utilizing plutonium on a 15,000 electrical kilowatt ex-
perimental reactor utilizing plu-
onium as fuel. (2) To proceed with sufficient design work and engineering and development work of a large-scale single or dual purpose reactor for the production of plutonium and other nuclear materials. (A dual purpose reactor produces plutonium and electric power). (3) To proceed with design, de-
velopment and engineering work on a large-scale natural uranium power reactor projects. To be operated by the graphite-moderated, gas-
cooled type. (4) To contract directly with manufacturers for the construc-
tion of the four small power re-
actors to be operated by the United, Elco River, Wolverine Electric Co-operatives and the

City of Piqua, Ohio. All these so-called power reactors are to be owned by the Govern-
ment for as long as they are useful for research and development purposes, but not to exceed 10 years, and then are to be sold to the operator or dismantled.

Substantial progress on the Civilian Power Reactor Program has been made this year. The pro-
gram points towards a total elec-
tric capacity of close to 1.5 million kilowatts by 1963-65.

First Plant By 1958

The first large nuclear plant in the nation will be completely built by the end of this year at Shippington, Pennsylvania. This reactor comes under the Govern-
ment's experimental program. The Du-
guay Light Company is building the non-nuclear portion of the plant and will operate the plant upon completion. The initial capacity of the plant will be in excess of 60,000 kilowatts.

The Experimental Boiling Water Reactor at Argonne National Laboratory, which also comes under the Government's experi-
mental program, is to be the first civil power reactor designed exclu-
sively for production of electric-
ity, was dedicated last January and is supplying 5,000 kilowatts of electricity to the Ar-
gonne Laboratory.

Established in 1939

The AEC, over its objections, has been directed by Congress: (1) To proceed with the construction of a nuclear reactor utilizing plutonium on a 15,000 electrical kilowatt ex-
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tion of the four small power re-
actors to be operated by the United, Elco River, Wolverine Electric Co-operatives and the

Continued on page 58

UNDERWriters

and

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OF PUBLIC UTILITY,

INDUSTRIAL AND

MUNICIPAL

SECURITIES

SINCE

1912

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San Francisco and Other Cities
Report of IBA Nuclear Industry Committee

The reactors when completed will be owned by the AEC and will be operated by the so-called "Duquesne Formula" which provides for the operating company to be given the generating equipment, operate the plant and pay for the steam produced at a negotiated price. The price would be designed to keep the cost of nuclear power within the limits of conventional power costs. The contract was re-regulated between the AEC and AMP, the company withdrew its offer to undertake the plant at a ceiling cost, and was only made dependent on a straight cost basis. A similar collapse of negotiations took place between the AEC and Foster Wheeler Corporation on comparable grounds for the Wolverine Cooperative reactor. The AEC has extended a general invitation to U.S. firms to submit proposals on the first of these two reactors.

Last January, the AEC expanded its Power Demonstration reactor Program by issuing a third invitation for proposals to develop, design, construct and operate nuclear power plants. There was no deadline for submission of bids other than that plans for construction must be completed by June 30, 1962, except for reactors using a fluid-fuel system, in such cases, the completion date is July 30, 1962.

On April 30, Florida Nuclear Power Group submitted a proposal which contemplates constructing a natural uranium-molten, heavy-water-modernized, gas-cooled reactor of 130,000 electrical kilowatts in West Central Florida.

On May 13, the Northern States Power Company proposed a boiling water reactor plant designed to produce 60,000 kw. of electricity. Pacifi Gas & Electric Company announced plans to build alone or in partnership with other utilities, thelargest reaactor in California.

The Electric Power Group, including utilities which operate in the Ohio Valley and contiguous areas, announced plans to build a small prototype reactor with an output of about 13,000 kilowatts. If the research work on the prototype reactor is unsatisfactory, West Penn hopes to undertake construction of one of the 52 companies which has announced plans to build 1,000-mw. reactors to 200,000 kw.

Isotopes Products Inc. of Buffalo, N. Y., and several of the AEC's corporations announced plans to build a 100-mw. reactor for dual production of Cobalt 60 and process steam, the steam to be used only for auxiliary purposes.

The organizations and reactors in the independent projects announced last year are set forth in Table II.

All of this indicates a dynamic and diversified program, in which private industry has taken its fair share, and one that is not only competitive with energy produced in conventional plants.

Double Earliest Target Dates

There have been recently sizable increases in estimated costs of the various projects. A conservative attitude prevails now than two years ago. The present capital costs has not materialized because of anticipated economies and the delays. The capital costs have been much higher. These research and development costs are capitalized and result in a competitive position. The AEC reactor, 15 years ago was that we would be able to construct competitive plant in the U.S. by 1962. It seems that this position has been pushed back to 1963-65.

Capital costs on a kilowatt basis of the large projects of Consolidated Edison, is up to $220 to $250. Commonwealth Edison, from $250 to $335. For Yankee, from $250 to $425. For Powertech, from $275 to $476. Tele-

Nongard, Showers & Murray, Incorporated

165 W. Adams St., Chicago 3, Illinois

Underwriters and Dealers

Municipal and Public Revenue Bonds

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<td>DEarborn 2-5630</td>
<td>CG 383</td>
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CORPORATE AND MUNICIPAL BONDS

INVESTMENT STOCKS

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<th>Mullaney, Wells &amp; Company</th>
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<td>Chicago 1116</td>
<td>TWI-CG</td>
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</table>
The AEC has no current plans for construction of this unit and the Commission continues to believe that private industry will take over the test reactor phase. As a result of industrial heat reactors, the construction of nuclear plants will face another period of high temperature processes. These high temperature processes will be tackled today in the atmosphere of reactor, but with improved technology the reactors no doubt will produce the same large proportion of the process heat that is needed.

F

Fuel

Thorium-232

Plutonium, which is made from uranium-233, which is made from thorium

Costant

Water

Heavy Water

Carbon Dioxide

Sodium Potassium Alloys

Gadolinium

Gadolinium

Moderators and Reflectors

Water

Heavy Water

Helium

Boron

Bismuth

Sodium

Carbon Dioxide

Gadolinium

Core Elements

Boron

Bismuth

Gadolinium

Structural Metals and Cladding of Fuel Elements

Stainless Steel

Aluminum

Zirconium

Alloys

Lithium

Gadolinium

The reactor, in a number of respects, is likely to resemble more the European Atomic Energy Community (EURATOM), composed of Belgium, France, Italy, Luxembourg, the Netherlands and West Germany, to stabilize thorium production, and the United States hit the 1962 level. This would require that by the end of 1967 nuclear power stations would have been commissioned with an installed capacity of 15 million kilowatts. This is an imperative goal, although it may not quite be reached.

The United Kingdom plans to have 6 or 6 million kilowatts in power plants by 1965. Japan needs another 6 million kilowatts by 1957 and 3 million kilowatts by 1970. In the United States, where emphasis is placed on the purely kilowatt aspect, the nuclear capacity by 1965 may be only 3 or 4 million kilowatts. Doubtless, the Free World 10 years from now should have 25 to 50 million kilowatts of nuclear capacity with a total investment of some $10 billion, exclusive of the nuclear fuel. This figure may even be doubled if we take into account the reactors to assists in supplemental generating.

Private Financing

A substantial but unknown part of the nuclear power industry will be in the hands of private industry. It does not appear that it will be possible for the public to finance vital reactor developments. The money conditions are tight at the present time in most countries. In the United States, the interest and other nations would have to find the necessary resources to import conventional fuels. The drain on these nations’ resources for importing nuclear plants in the early years will indeed be greater than the drain that the import of fuels would represent. The end result, however, would benefit those nations.

Without going into detail concerning the sources of capital for the inevitable requirements of reactors by overseas nations, it can be said that the Export-Import Bank has expressed willingness to engage in long-term financing. In fact, the U. S. Atomic Energy Commission and the Export-Import Bank has agreed upon joint actions to assist with the construction of atomic power plants in nations which entered into Agreements with the United States. The International Atomic Energy Agency which now functions in Vienna, Austria, may become the ultimate depository of these Agreements. In other words, these Agreements will in due time be transferred to the Agency. Furthermore, the existence of the Agency will help to eliminate the marked national preference in Europe for avoiding dependence on United States for enriched uranium. The situation, therefore, is very favorable for the International Atomic Energy Agency.
Report of IBA Nuclear Industry Committee

World Bank As a Source

The World Bank is another possible source of long-term money. This institution is able to make loans in the currencies of the nations from which exports are to take place. In the event of a loan being approved, it must be guar¬anteed by the Government of the recipient nation and the World Bank always insists upon international competitive bidding before letting contracts on projects for which the Bank is financing. We may also mention the International Finance Corporation, recently established subsidiary of the World Bank, the Chase International Investment Corporation, and others. This area of international financing is growing space with the atomic energy field. New organizations and new lending techniques will be developed. We are confident that no capital will obstruct the development by foreign nations of vital atomic reactor programs.

In their efforts to build nuclear power plants, nations of Europe and elsewhere will make greater use of the services of consulting engineers than have we in United States. This will enable them to learn the technology and also to build at home a substantial portion of the equipment needed in nuclear power stations while reducing the foreign equipment requirements considerably below what they would be if the equipment was purchased from this country on a turnkey basis. We shall develop English, Canadian and German technology in the Free World, and this technology may develop rapidly, but we must also develop full listing national. We believe there is a great potential for American industry in the foreign field.

For successful development of atomic energy, it is not only necessary to bring together all national activities as is symbolized by the creation of the International Atomic Energy Agency to have close cooperation between governmental and private firms in any nation. Private industry is grasping quickly the importance of atomic energy and this should remove the possibility of dominant control of atomic energy activities by governments, both here and abroad.

Respectfully submitted,

NUCLEAR INDUSTRY COMMITTEE

Dr. Paul F. Genachte, Chairman
The Chase Manhattan Bank
New York

Robert Cullen
National Securities & Research Corporation, New York

William S. Hughes
Wagner & Durst, Inc.
Los Angeles

Mark Sullivan, Jr.
First Southwest Company
Dallas

Harold H. Young
Eastman Dillon, Union Securities & Co., New York

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Report of IBA Foreign Investment Committee

From us irrespective of the initiative they show in tackling their own problems, the possibility of foreign investment in our economic programs. This attitude is illustrated by a recent statement by the Premier of the People’s Republic of Japan who has let it be known how much the U. S. is prepared to lend it. When the borrower waits eagerly to be wooed by the lender, sound economic practice requires that he conserve purely political ends. Such “ollar diplomacy,” however, may be justified as an emergency expedient, simply does not make economic sense. We regard sound industrial expansion as a long-term process. Our Government has, moreover, sometimes financed state-owned and state-managed projects with the object of exploring the possibility that private capital might be available, and without insisting that the funds provided be given good financial management. It must, I believe, be a further matter of concern to American businessmen that we detect a certain reluctance on the part of our own Government, when disbursing foreign aid funds, to voice the American belief in the virtue of private enterprise and free initiative: Our conviction, that the much-alleged “capitalist system,” with its emphasis on individual action and the independent judgment of individuals, is largely responsible for the extraordinary growth and vitality of the American economy, and that it will produce these same happy effects in other areas of the world if only it be given the opportunity to develop unhindered by the weight of state controls or the thinly inspired economic theories.

Contribution From Private Sources

Meanwhile what contribution to the development of foreign countries has been made by private investment capital, the particular interest of our Association? The policy of the United States Government has tended to ob¬struct private investment in foreign countries. In 1948, U. S. investments abroad totaled about $13.5 billion, only equally divided between direct investments and short-term credits. At the end of 1960, these investments had swelled to $82 billion, some $22 billion of which were in direct investments with $61 billion in short-term credits. The $33 billion was equally divided between developed and underdeveloped countries. These invest¬ments, and the various rela¬tionships which they create, are certainly one of the great sources of stability on the tense interna¬tional scene. They will further the world economic de¬velopments and also to present the world at large a concrete example of “private enterprise” at its typical of the American way of life.

The Committee believes, how¬ever, that this U. S. private invest¬ment abroad, impressive as it is, might have been even larger had our government made a more pos¬itive effort to encourage foreign investment by private capital. How¬ever, the recipient countries tend, of course, to discouraged private investors from attempting to compete in these same markets, since investors must be assured that “the money is going into a sound business ven¬ture that will produce a reasonable return. If the U. S. Govern¬ment is sincere in its numerous invitations to private capital to assume a major role in the long¬range financing of world economic growth, the present flow of investment funds by adopting a policy of positive encouragement of private investors.

Private Capital Must Share Blame

When your Committee recommends that our government adopt in practice this policy of entreat¬ing private capital with major re¬sponsibility for the full-scale finan¬cing of foreign economic de¬velopments, it is not abandoning the crash-program philosophy that has too often influenced our na¬tional activity in this area since World War II, we do not thereby absolve U. S. industry from the blame which it too must share for the condition which today confronts us. Speaking bluntly, we believe that too many of us in business have been so busy criti¬cizing the role of government in foreign economic growth that we have failed during the past decade to seize all the opportunities for self-help that would have assured the dominant role of private capital in this enter¬prise.

For a wide variety of business opportunities and the right climate for private capital to exist—just recently, for in¬stance—the conclusion of the New York Stock Exchange has told us that private investment in South America alone must rise about 300% by 1960, to a total of nearly $60 billion per year—almost, you will notice, the total of our entire foreign investment at the present time—if the current rate of increasing industrial output is continued to be shared by the free countries of our neighboring continent. The challenge, then, is squarely in front of us, as is this observation brings me to my

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Member Midwest Stock Exchange

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Teletype 7086

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KANSAS CITY, MISSOURI
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3446 Main Street
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http://fraser.frb.org
But I urge; it from the Research financing tant exert countries and ideas unquestionably danger U.. Committee, businessmen engaging in policy. that would be held from, the arena have been united business men, it is already for two years..

Difficulties Not Immountable

This present audience does not perceive the full weight of the obstacles, particularly in foreign investment; insolvency of currencies; political and economic instability; duties, taxation and double taxation; fear of expropriation; especially, perhaps, because of a sound business tradition in which they have been blind to the best interests of private enterprise as a whole, unwilling to make the sacrifice of time and effort required by concerted action.

Role of Investment Banking

Your Committee believes that these wider, more general reasons for our failure to win a larger share in foreign economic expansion must be stated; they constitute, in fact, the context within which we must view our more practical attempts to rectify the situation. Turning now to these efforts, the Committee has already experimented within its own industry, I would note that some of the larger investment banks already have experienced in the field of foreign investment. Other companies, I believe, would do well to add to their staff home with specialized knowledge of foreign investment who can devote his full time and energy to expanding operations in this direction. There will be an incredible and increasing number of opportunities for investment in new businesses abroad, enough business for all the world markets. Some of them exist already in a few places, but facilities for underwriting, distribution, and trading are vast.

As industrialization proceeds in foreign countries, there must be credit facilities for all levels of business and governments. Some of these exist already in a few places, but facilities for underwriting, distribution, and trading are vast.

We see the possibilities of attractive opportunities in this area for members of our industry during the next few years...

Challenges to Free Enterprise

All this is true; but “free enterprise,” the central point of our national policy and still another sort of freedom: the freedom, that is, to meet one’s difficulties and to solve them without waiting for a handout, or help from a beneficent government. This response to the challenge of great difficulties is surely one of the commercial successes of the American economy, as it is of the development of our nation as a whole. Certainly the confidence in the market is due to the willingness of men to take the responsibility of the business which is the channel of commerce, enterprise, and social and political order. We believe that the people of the world, and particularly its industrial and commercial classes, are not only capable of creating this kind of freedom but may contribute to the realization of this kind of opportunity, and the capacity for self-sacrifice to the plodding efforts of the hard-working, eager-to-be-unsetled men.

Challenge to Free Enterprise

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Financial Chronicle
Report of IBA Investment Company Committee

Continued from page 41

In 1938 the industry plans to make every effort to obtain legislation in New York State correcting this unfortunate oversight.

The Committee has kept posted on other legislative developments including the following and would be happy to answer inquiries concerning the details of any of these matters.

(H.R. 7728, S. 5258); "Privilege of Doing Business Fee" Bill.

(H.R. 7668); "Pre-Murer Notification" Bill.

(H. R. 9 & 10); "Jenkins-Keogh" Bills.

(S. 1685); "Pullbright" Bill.

(H. R. 1061); "Proxy" Bill.

(H.R. 99); A resolution creating the "Legislative Oversight Sub-committee" to study the SEC and other agencies.

(H. R. 8361); "Unintended Benefits and Hardships" Bill.

In the area of taxation, Committee members have been concerned with Treasury Department regulatory proposals concerning: taxation of investment company gains realized but not realized; valuation of Investment company and stock dividends; Subchapter M, pertaining to taxation of investment companies; valuation of Investment company securities; taxation of bank dividends; and mutual fund dividend taxation.

All IBA members registered with the NASD have received a revision of the Statement of Policy pertaining to literature used in the sale of Investment Company securities. All partners and sales managers of IBA firms should be sure their sales representatives become acquainted with the revised Statement of Policy in order that they may conduct their business in accordance with accepted standards.

Variable Annuities

The IBA, along with every major group concerned with the securities business, has adopted an official position in opposition to the sale of so-called variable annuities. If sold as its proponents advocate, by insurance agents and in the guise of insurance, this type of common stock investment contract would have tax advantages over other securities and would circumvent the body of Federal and state securities regulation which has proved essential to protect the public investing in equity securities. The IBA State Legislation Committee will, so long as present to the membership a full report summarizing variable annuity developments during 1957.

The Investment Companies Committee wishes to implement that report by urging all members of the IBA—underwriters, retail distributors and banks, particularly those with trust departments—to be aware of the dangers of variable annuity. In 1957, proponents of variable annuities made more attempts than in any previous year to circumvent by changing state insurance laws, the Securities Act of 1933, the Investment Company Act of 1940, and the various Blue-Sky Laws and Regulations. In helping defend the business against this threat of unregulated and tax favored competition, and the public against the sale of unregulated securities, the IBA is working single

with itself with varying annuity matters which have arisen in various states, but importantly in Connecticut, Massachusetts, New Jersey, West Virginia and the District of Columbia.

IV

Public Information and Education Section—Investing Banking

A steady growth in the number of IBA member firms offering investment company shares to their clients, has produced a demand for expanded coverage of investment company topics in the Seminar on Investment Banking held each spring at the Wharton School of Finance and Commerce. Industry representatives appeared before both the first and second year classes of the 1957 program; the Chairman of the Committee and the Executive Director of the NASD discussed the role of, and current trends in, asset management. Members of the NAIC spoke before the second year class on experienced IBA investment bankers.

Keeping members up to date on investment company developments is one of the purposes of this expanded discussion prompts your Committee to recommend that an Investmament Company Section be included in the curriculum for each of the three classes in future Seminars. Should this proposal be acceptable, the Committee would, of course, be quite willing to prepare topical outlines for the companies to provide experienced lecturers.

Visual Education Aids

Visual education aids are now available for all IBA members through the National Association of Investment Companies. The Public Information Program of that organization is aiming to create better public understanding and knowledge of the investment company business. This committee has been cooperative with the IBA Committee in assuring that IBA members, informed of new informational materials as they become available. Three visual aids for education are now available.

In June 1957 an eight minute 16-millimeter, sound, animated motion picture in Technicolor titled "The Hope That's in Bank" was released to the public and is currently being shown to audiences in motion picture theaters throughout the country. Already the public has reviewed the film; during the winter, prints will be released for use by local television stations. In addition, prints are available to the industry at a modest cost ($40) or on a rental basis from NAIC.

A 16-millimeter, black and white, sound motion picture produced with the cooperation of the U.S. Treasury Department and the Department of Justice entitled "We Did It Ourselves" continued to be popular with television stations and is available at a cost of $15 to IBA members for church, club, and school audiences. To date over 25 million have viewed this film.

In addition, a series of films narrated by John Cameron Swayze has recently been released. These films include an ideal visual aid for adult public groups and for preliminary training of new investment company personnel.

Publications and Booklets

Many information—educational booklets are now available to you, the individual consumer. These include "Investment Committee Membership" Folders for Shareholders and Trust Officers; "The Reasons for Investing in Mutual Funds"); "The Stock of the Investment Funds in Which You Invest"; and, "When You Invest, "Investing Made Easy" all of which were not obtained from the NAIC. Other information publications are now in preparation.

The Education Committee of the IBA has also received many interesting and worthwhile suggestions for new materials which are required by investment companies created by IBA member firms.

Other Information—Education Section

The Public Information Program of the NAIC is becoming expanding in scope each year. In 1957 it has encompassed the following matters in addition to those described above:

Participation in the program of the National Association of Educators of the Securities Business; Appearances on television by interested representatives of the IBA; Release of a special comprehensive "Press Information Kit";

Cooperation with magazine editors in connection with articles appearing in "The Dental Student Magazine," "The Week Magazine" "Challenge" and "Grit."
vital in the public interest that invest¬
ments in common shares be sold pro¬
sold to the right people with full disclosure of the risks of securities
as well as of the potential benefits of
of such investments.  

William A. Parker Portland Corporation Boston  

Herbert H. Prankard 2nd Lord, Abbott & Co., New York  

Albert C. Purkiss  

Walden & Co., Inc., New York  

Continued from page 33  

Report of IBA State Legislation Committee

III

Gifts to Minors  

Acts involving securities are now effective in 39 jurisdictions in the United States.  

The Uniform Gifts to Minors Act, with some modifications in certain states, is now effective in the following 27 states:  

Arkansas; Connecticut; Delaware; Florida; Idaho; Indiana; Kansas; Maryland; Minnesota; Missouri; Montana; Nebraska; New Hampshire; New Mexico; New York; Ohio; Oklahoma; Pennsylvania; Rhode Island; South Dakota; Tennessee; Texas; Utah; Vermont; Virginia; West Virginia.  

The "Model Act" for gifts to minors, which was used prior to approval of the Uniform Act is in effect in the following:  

District of Columbia; Georgia; Michigan; New Jersey; North Carolina; Ohio; Rhode Island; South Carolina; Virginia.  

In Massachusetts hearings were held on April 30, May 1, and May 2 by a Legislative Study Commission on House Bill 1950 which would permit life insurance companies to establish segregated accounts in the separate state of accounts.  

The Commission concluded to continue study of the bill and other proposals advanced at the hearing.  

Iowa, Maine, Minnesota,  

New York, Oklahoma and Wisconsin are summarized in Appendix B.  

Security Transfers by Fiduciaries  

A Model Fiduciary's Securities Transfer Act was adopted this year in Illinois, Connecticut and Delaware.  

This Act by donor to himself as custodian for a minor donor, pursuant to the provisions of the Model Custodial Account Act, is includable in the donor's gross estate for Federal estate tax purposes in the event of his death.  

The act is effective for Federal estate tax purposes, but does not affect gifts for the benefit of a minor.  

(a) May assume without in¬

quiry that the assignment is valid,  

(b) May assume that a custodian has power to bind a donor,  

(c) May assume that a custodian has power to bind a donor,  

(d) May assume that a custodian has power to bind a donor,  

(e) May assume that a custodian has power to bind a donor,  

(f) May assume that a custodian has power to bind a donor,  

(g) May assume that a custodian has power to bind a donor,  

(h) May assume that a custodian has power to bind a donor,  

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(v) May assume that a custodian has power to bind a donor,  

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(x) May assume that a custodian has power to bind a donor,  

(y) May assume that a custodian has power to bind a donor,  

(z) May assume that a custodian has power to bind a donor,
Report of IBA State Legislation Committee

Simplication of Security Transfers, and that there are wide differences between the published drafts of this proposed uniform act and the Model Fairiciary Securities Transfer Act.

VI Unsolicited Agency Transactions

The proposal in the model bill to authorize the creation of securities from securities registration, the burden of proving an exemption is ordinarily upon the person claiming the exemption so that a dealer, relying on the exemption for unsolicited agency transactions in executing orders for securities which are not registered and are not otherwise excepted, has the burden of proving that the transaction was unsolicited. In some other states where there is an explicit exemption for agency transactions, dealers assume that unsolicited agency transactions are not subject to the securities registration requirements of the state security acts.

We recommend that any firm relying on an exemption for unsolicited agency transactions be required to assume that unsolicited agency transactions are subject to the securities registration requirements (in the states of any state in which it does business, considering obtaining evidence for their files and preserving some written proof that such transactions are unsolicited.

VII Exemptions for Municipal Bonds and Sales to Institutional Buyers

We want to call attention of members to the Digest of Exemptions from the Blue Sky Laws for (1) State and Municipal Securities and (2) Sales to Institutional Buyers. Copies of this Digest were recently mailed to all IBA members and a summary of the Digests is available on request from the IBA.

Cooperation With State Securities Commissions

The Annual Meeting of the National Association of Securities Administrations was held in Santa Fe, New Mexico, on October 6-8, and representatives of the IBA attended the meeting.

Many of the amendments to state securities acts adopted this year were made possible through close cooperation between the several state securities commissions of the state in question and representatives of the investment banking industry. We appreciate the close cooperation which we have received from the state securities commissioners.

In several Groups of the IBA, members of the Committee meet informally during the year with the securities commissioners of the state or states in their commercial problems which are not state securities act problems. In many cases there are no immediate solutions to the problems, but meetings establish a cooperative working relationship which enables such meetings to be held occasionally in all Groups.

IX Plans for Next Year

Although next year is the so-called "off" year in state legislation because the Legislatures of many states are not in regular session, important legislative proposals are being considered in many of the states where the Legislatures meet in May. Also, most of the preliminary work should be done in May on legislative proposals which are to be submitted to Legislatures in June. Whenever you contemplate amendments to state securities acts in your Group, particularly state securities acts, please remember that IBA Council is prepared to draft the amendments and monitor their progress in the state legislatures and make desired amendments and to participate in discussions with the appropriate state officials.

We welcome comments or suggestions regarding the activities of the Committee.

Respectfully submitted,

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APPENDIX A
Amendments to State Securities Acts

ARKANSAS

Section 67-1203 of the Arkansas Securities Act was amended effective June 13, 1957, by adding a new provision which makes it unlawful for any company making applications for registration under the Act to the Insurance Commissioner to have joint powers with the Bank Commissioner in approving or disapproving the registration of securities under the Act, the insurance Commissioner shall have joint powers with the Bank Commissioner in approving or disapproving the registration of any such securities and in the making of rules and regulations in connection with the registration and sale of such securities, and to supervise and enforce the provisions of this Act in the registration and sale of such securities.

CALIFORNIA

The California Corporate Securities Law was amended effective July 14, 1957, by adding a new section to authorize the Commissioner to "authorize a security or securities to be sold to the public," permitting the offering, negotiating, selling, or offering for sale of securities upon the filing of a verified application, without the necessity of a registration statement, until a person purchasing such securities shall have been given an opportunity to review the application, and to issue a certificate certifying that the sale has been made in compliance with the provisions of the Act. In case of securities to be sold to the public, the Commission shall certify that the application has been filed and that the securities have been sold in compliance with the provisions of the Act.

FLORIDA

A provision was added to the Florida Securities Act effective April 24, 1957, to provide that whenever in any matter within the jurisdiction of the Florida Securities Commission, any party is or may be interested in the outcome of the matter, the Commission shall appoint a hearing examiner or hearing committee or commee, and such party shall be permitted to appear before the Committee, or to be heard by the Committee, or to take part in the hearings or to file written testimony or affidavits in support of the application or to file written oppositions to the application.

COLORADO

A new "Fraudulent Practices Law," "Securities Law," and "Investment Company Act" were adopted effective April 24, 1957. The new laws embody substantially the provisions of previous laws with the following principal differences:

(1) Section 125-1-4 authorizes registration by "cooperation" for any security or group of securities for which a registration statement has been filed under the Federal Securities Act of 1933 in connection with the sale of the same offering.

(2) Section 125-1-13 (exempt securities) eliminates the previous exemption for securities issued by corporations, partnerships, and limited partnerships, and listed and registered in any standard manual of securities published and generally circulated for at least five years prior to the sale; adds a new exemption for securities sold to a bank, savings institution, trust company, investment company, investment company or financial institution or institutional buyer, or a broker-dealer; and adds a new exemption for the registration of a transaction pursuant to orders to existing security holders for fractional interests in security.

(3) Section 125-1-14 changes the definition of "offer to the public" by reducing the number of persons who may be included in a non-public offering to include only those persons who, under the circumstances, may be relied upon.

(4) Section 125-2-3 (relating to the registration of dealers and salesmen) provides that if the Commissioner shall require a security or securities to be registered dealers or shall require registered dealers to post surety bonds in the amount of $2,500, the Commissioner shall have the power to vary the amount of such bond, and if the Commissioner shall require the dealer to post a bond, the Commissioner shall have the power to vary the amount of such bond, and if the Commissioner shall require the dealer to post a bond, the Commissioner shall have the power to vary the amount of the bond.

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(1) Section 1(c) defines a "limited dealer" who is only authorized to deal in securities for a particular market, issue, or certain class of securities and Section 2(a) authorizes the registration of "limited dealers." (2) Section 3 of the act, defining "security," is amended by adding a proviso that a security means any insurance or endowment policy or annuity contract under which an insurance company promises to pay a fixed number of dollars either in a lump sum or periodically for life or some other specified period. The exclusion for securities issued by an insurance company subject to supervision by the state is eliminated from the classes of exempt securities. (3) Wherever the previous Act authorized the registration of all non-exempt securities, the new Act authorizes registration effective when filed, the new Act (a) authorizes under Section 4(a) the registration of securities meeting specified requirements by notification effective when filed (the standard for eligibility for such registration is taken from the new Federal Securities Act); (b) requires under Section 4(b) that non-exempt securities by qualification under the Act shall be brought before the Commissioner for registration and (c) provides that when the sale of registered securities is completed, it shall be the duty of the person who has been authorized by the registration statement to notify the Commissioner in writing within 20 days. (4) Section 4(b) of the new Act authorizes the Commissioner to require as a condition of registration a statement as a salesman that the applicant is not engaged in the business of dealing in securities as evidence of knowledge of the securities business. (5) The fee for initial registration of dealers in registered securities remains at $50. The initial fee for registration of a limited dealer is set at $100, and the renewal fee for such registration is set at $50. (6) Section 5(c), excepting the sale of securities not involving an underwriting at a public sale of 25 persons (not including sales to persons engaged in the same or similar transactions), provided that such securities are not offered for public sale, is not effective for distribution and (ii) the issuer makes written request to the Commissioner of the sale is exempt and the Commissioner authorizes the sale. (7) The last paragraph of Section 11 adds a new provision declaring it to be unlawful to represent that filing of a registration statement or the registration of any security or the existence of an exemption of any kind is underwritten by the Act or an order of the Commissioner which it is illegal, to issue an order if he deems it necessary to the public interest or for the protection of investors, prohibiting such person from engaging in such action or practice, subject to the right of such person to object. (8) A new provision is added in Section 12 to authorize the Commissioner to take action against any person engaged, is engaged or is about to engage in acts or practices prohibited by the Act or an order of the Commissioner which it is illegal, to issue an order if he deems it necessary to the public interest or for the protection of investors, prohibiting such person from engaging in such action or practice, subject to the right of such person to object. (9) The new Section 26-1318 of the Idaho Blue Sky Law was amended effective March 15, 1957, to provide that the law shall apply to companies engaged in "development or production of gas or oil." IOWA The following amendments to the Iowa Securities Act became effective July 4, 1957: (1) Subdivision (5) of Section 625 was added to allow use of certified mail instead of registered mail for notices of withdrawal of the exemption, accorded the exchange. (2) Section 59, by authorizing the Commissioner to require that copies of process be sent by certified mail to the principal officers of the issuer against which the process or pleadings are served. (3) Section 60, by providing that a security "containing or constituting an offering under this Act" is subject to the Act. (4) Section 68.13 (previously requiring approval by the Commissioner) was amended to provide that a security "containing or constituting an offering under this Act" is subject to the Act. (5) Section 72.32 was amended to provide that the maximum fee for registration of securities by application shall include the $10 examination fee and the maximum fee for registration by notification shall include the Kansas fee. (6) Section 80.32 (providing fees for registration of oil and gas interests) was amended to provide an examination fee of $10 to collect for cost of the examination, $25 to $35; and to provide that the maximum fee of $100 shall include the $10 examination fee. MISSOURI The Missouri Securities Act was amended effective March 11, 1957. Some of the principal amendments were the following: (1) A requirement previously included in Section 409.140, that every registered dealer who intends to offer any security of any issue, registered or to be registered, shall file the information shall be of "such nature and information shall be of such nature and detail as to enable the Commissioner to determine whether the registration is in the public interest or for the protection of investors. (2) A definition of "investment advisor" was inserted in Sections 409.130, which includes in Sections 409.136 to require notification of registration of investment advisors. (3) Section 409.090 (excluding securities issues and fully listed on stock exchanges) was amended to require notification of the Commissioner and the transfer agent for any non-exempt transaction by a registered broker-dealer pursuant to Section 9.090 to extend the exemption to any securities approved for listing upon notice of issuance and to extend the exemption to any security of the same issuer which is of the same class. (4) Section 409.090, exempting certain transactions, was amended to provide that: (a) in Subsection 9 (b) the sale by any person of securities of an individual to a non-exempt transaction by a registered broker-dealer pursuant to Section 9.090 to extend the exemption to any securities approved for listing upon notice of issuance and to extend the exemption to any security of the same issuer which is of the same class. (5) Section 409.090 (regarding registration of securities by qualification) was amended to include a provision of a balance sheet as of a date not more than 120 days prior to the date of filing, instead of 90 days prior to such date as previously provided and (b) to make the filing of certain documents discretionary with the Commissioner. (6) To provide in Section 409.100 that an application for registration by qualification must be accompanied by a consent to service of process only where the application is made for registration and the issuer is not domiciled in the state (the Section previously required a consent to service of process with an application for registration by qualification filed by the issuer or a registered dealer if the issuer was not domiciled in the state). MONTANA The Montana Blue Sky Law was amended effective March 8, 1957, as follows: (1) Section 66-2002 was amended to include in the definition of security "oil, gas, or other mineral rights, or any instrumentality of any interest therein, pre-organization certificate or subscription." (2) Section 66-3003, exempting securities listed on specified stock exchanges, was amended to provide that an application for registration be approved for listing upon notice of issuance or upon notice of sale in evidence and evidence of satisfactory distribution; (b) to authorize...
Report of IBA State Legislation Committee

extension of the exemption to security listings or approved trading upon any other stock exchange as to which there may be in effect a written designation by the investment commissioner stating that it is in the public interest that securities listed or approved for listing upon such other exchange be exempt and (e) to extend the exemption to securities equal in rank to or securities so listed.

(2) Subsection 10 of Section 66-2003, amended to include corporations where the holders do not exceed 50 in number, was added and new subsections (10) and (11) were added to exempt, under subsection (10), transactions pursuant to offers to not more than 10 persons during any period of 12 consecutive months if the seller reasonably believes that all buyers are purchasing for investment and, under subsection (11), for sales to persons purchasing securities in exchange for stock by those who signed articles of incorporation as bona fide investors, provided said articles of incorporation are not signed by more than 15 and no part of such securities can be offered for sale unless a sum of $25 in capital stock is taken for the purpose of public distribution.

(3) Sections 66-2003 and 66-2005, amended by adding at the end thereof a new provision that any person violating any of the provisions of this Act shall be subject to any fine that may be imposed pursuant to a finding of guilt, if the "in any application to the commissioner, or any proceeding before him, or in any examination, audit, or investigation made by him or his authority, knowingly makes any false statement or representation or, who, with knowledge of its falsity, lies or causes to be lied to the commissioner, or any person or agency, concerning the capital stock or the property which it then holds or proposes to acquire, or concerning its financial condition or other affairs, or concerning the financial condition or other affairs of any other person, or in connection with any transaction or transaction involving any offer to sell or buy securities, or any sale or purchase or subscription to, or by, any securities, including any securities exempted under Section 66-2003, directly or indirectly, knowing or having reason to believe that such securities are sold, or that such statements as made are reasonable to believe that such securities are bought or sold, or are made, not misleading, or engages in any transaction, procures, or course of business which operates or would operate as a fraud or deceit." The amendment also raises the minimum fine for conviction from $200 to $500.

(7) Section 66-2003, providing penalties for false entries of state¬ments, was amended to provide for any person or agency, or any person or agency, concerning the capital stock or the property which it then holds or proposes to acquire, or concerning its financial condition or other affairs, or concerning the financial condition or other affairs of any other person, or in connection with any transaction or transaction involving any offer to sell or buy securities, or any sale or purchase or subscription to, or by, any securities, including any securities exempted under Section 66-2003, directly or indirectly, knowing or having reason to believe that such securities are sold, or that such statements as made are reasonable to believe that such securities are bought or sold, or are made, not misleading, or engages in any transaction, procures, or course of business which operates or would operate as a fraud or deceit." The amendment also raises the minimum fine for conviction from $200 to $500.

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of on the aggregate amount above $500,000 (up to a maximum fee of $500).

(4) Section 39.180 was amended (a) to raise the fee for renewal of registration of securities from $10 to $25 for all securities and (b) to declare special provisions for a $25 fee for investment contracts involving a contract offering and an exemption of co-operation from payment of a renewal fee.

(5) Section 39.200, authorizing registration for resale of securities which has been issued and is outstanding in the hands of the public, was amended to clarify that securities may be registered for resale "by the owner thereof" as well as by registered dealers.

TENNESSEE

The Tennessee Securities Act was amended effective March 1, 1957, as follows:

(1) Section 48-1614 was amended to provide that the effective date of registration of securities shall be (a) for securities registered under the Federal Securities Act of 1933, "if a notice of intent to sell in a preliminary form and a prospectus in preliminary form shall have been filed with the Commissioner at least 10 days prior thereto." the Commissioner may, upon written notice to the person filing such notice, order the registration to be suspended for the period of time the Commissioner deems necessary. The Commissioner may, upon written notice to the person filing such notice, order the registration to be suspended for the period of time the Commissioner deems necessary.

(2) The Commissioner may, upon written notice to the person filing such notice, order the registration to be suspended for the period of time the Commissioner deems necessary.

(3) Section 48-1615, providing for the registration of securities, was amended to provide that the registration fee for securities registered under the Federal Securities Act of 1933 shall be $10 for the first registration, $5 for each additional registration, and $25 for an additional registration of securities which were previously registered.

(4) Section 189.07 (exempt transactions) was amended by adding a new subsection (2) to exempt interests in participating employee savings or profit-sharing plans, if information required by the Securities Department has been filed with it and the Department has advised the issuer that the proposed issuance constitutes an exempt transaction.

(5) Subdivision (1) of Section 189.08 (authorizing registration of certain revenue bonds by notification) was amended to provide that registration for resale shall be in the same manner as that required for securities issued in connection with the Wisconsin Securities Act.

The following amendments to the Wisconsin Securities Act became effective July 18, 1957:

(1) Section 189.15 (previously reciprocal registration) was amended to provide that the registration of all securities expired in five years was amended to provide that the registration of securities of an investment company registered under the Investment Company Act of 1940 (other than a close-end investment company or any person issuing periodic payment plans or face-amount certificates) will expire two years from the date of registration.

(2) Section 189.25 (regarding fees) was amended to provide a new method of computing the filing fee for securities of investment companies.

(3) The following amendments to the Wisconsin Securities Act became effective on July 26, 1957:

(a) Subdivision (1) of Section 189.06 (exempting securities issued or guaranteed by any foreign government) was amended to exempt securities issued or guaranteed by any foreign government.

(b) Subdivision (1) of Section 189.07 (previously exemption by an issuer of a limited number of persons where no compensation was paid for the sale and the total organization and personal expenses did not exceed 3% of the aggregate sale price of the securities or $250, whichever was greater) was amended to exempt securities issued or guaranteed by any foreign government.

(4) Subdivision (1) of Section 189.06 (exempting securities issued or guaranteed by any foreign government) was amended to exempt securities issued or guaranteed by any foreign government.
The Commercial and Financial Chronicle | Thursday, December 19, 1937

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WISCONSIN

Subdivision (1) of Section 501.25 of the Wisconsin Legal Investment Law for Insurance Companies was amended effective June 15, 1937, by inserting a new subsection to authorize investment in certain securities which provided the assets of such mutual funds and insurance or in specified classes of securities.

Continued from page 35

Report of IBA Canadian Committee

WISCONSIN

The uranium mines in a very special position. A near-term expansion of profitable operations can be safely predicted for this industry, whereas the long-term future is more uncertain. The government purchase contracts expire in 1962 or 1963 and will possibly be followed by a free market for uranium ore. The huge mineral reserves of uranium mines can, however, provide for several decades of significant production with good chances of profitable operations.

According to estimates, production of the Canadian Forest Industry should nearly double by 1960. The lumber industry suffered in 1937 from the slowdown of demand in its domestic and, especially, its export markets. Despite the success of the export of pulpwood and paper produced in the first nine months of 1937 remained practically unchanged from the previous year, the mills operated at a lower rate. Profits of the industry are lower due to the increased premium of the Canadian dollar and to higher wages and freight rates.

The heavy expansion programs of many pulp and paper producers will result in a capacity 10% or more in excess of possible sales for 1938 and 1939. It may be expected that demand will catch up with output in the early '30s but the outlook for the longer term is generally one of growth.

In the fields of heavy as well as light industry Canada is at a serious disadvantage because of the relatively small extent of her domestic market and the absence of any sizable tariff protection. However, the degree of Canadian self-sufficiency in steel has been increasing and in 1936 Canadian supplies supplied 62.3% of the domestic consumption. This ratio will have further improved by 1939 when it is expected that 14 to 16 million tons of steel will be consumed in the country at against 8 million in 1936. However, at the present time the industry is operating below capacity.

Near-term recovery will depend on the general level of business, whereas the over-all trend is toward further expansion over the next 15 years.

The above projections are based not only on expected growth of domestic consumption but in a large measure on stronger foreign demand. In particular the increase of the production of natural gas oil and motor oil to a considerable part linked with the growing demand in the United States if such demand is also expected to absorb larger quantities of non-ferrous metals, although overseas customers may also increase their share. Foreign trade, in particular with the United States, will therefore con-
time to be an extremely important determinant of the growth and prosperity of the Canadian economy.

Sensitivity in Export Area

In these circumstances it is not surprising that Canadian public opinion is very sensitive to measures which concern the country's exports.

Your surplus wheat disposal program, for instance, has a considerable influence on the difficulties experienced by Canadian wheat sales overseas.

The possibility of increased U.S. tariffs for lead and zinc presents a new, direct threat to Canadian exports to your country and is bound to aggravate the disequilibrium of our balance of trade which in 1956 reached a surplus of imports from the U.S. over exports to your country amounting to $1,173 million.

There is not the slightest doubt that the growth of commercial intercourse, and not its decrease, will benefit both our countries, whose economies complement each other in so many sectors.

It is not possible to estimate the total requirements for capital investment in Canada over the next 25 years. For the oil and gas industry alone these may be of the order of $23 billion during the period. Undoubtedly, as in the past, foreign markets, and in particular the American market, will supply an important part of this huge investment capital, although it is expected that the savings of a larger and more prosperous Canadian population will constitute an increasingly higher percentage of the equity financing.

Under the impact of the high level of capital investments and of personal expenditure on consumer goods and services, the Canadian economy continued to expand in the last 12 months. The rate of progress was, however, slower than in 1956. Gross National Product at annual rates for the first half of the current year was 4½% higher than in the corresponding period of 1956, but, compared with the whole of 1956, the progress was less than 3%.

Slower Capital Spending

It would not be surprising if capital expenditures in 1956 should show some decline from the exceptionally high figures attained in 1958 and 1959. The overall buildup of production, apparent in some industries, e.g., forest products and metals, will undoubtedly slow down expansion plans. In many fields, however, the capital expenditures will continue on a very high level and in particular the natural gas, hydro-electric and uranium mining industries will continue to invest heavily in new facilities. The construction of the St. Lawrence Seaway, due to be opened for navigation in 1959, and many other public works should also require higher expenditures.

Thus, the near-term outlook for our economy depends more than ever on the sustained level of consumer spending. So far this year personal incomes for goods and services are higher than in any previous year.

In spite of the generally high level of economic activity, corporate expenditures are this year more than 4% lower than in 1956. Many Canadian industries experience a cost squeeze, under the impact of higher costs, in particular those engaged in building up new capacity. The construction of the new General Motors-St. Jerome plant will clearly be of the highest priority on the Canadian dollar.

The heavy inflow of foreign capital continued in the current year and again outweighed the adverse balance of the current account for the short time until the exchange for the Canadian dollar was at a record high but later it returned to the levels prevailing earlier in the year.

Nineteen-fifty-eight promises to be less favorable than the current year. The problems which face us are more or less similar in both our countries; a probable decrease in capital expenditure which during recent years sustained the economic boom; the fear that consumer spending will drop; and, finally, difficulties caused by the stringency of credit which has reached a degree unknown during the last 25 years.

As far as Canada is concerned, the course of events will be strongly influenced by the economic situation in the United States, which is also one of the great trading partners, first of all the U.S., but also Great Britain and the other Commonwealth countries.

However, the difficulties which await us should not be exaggerated. They will be conquered all the more easily, if the countries of the free world continue their close collaboration, not only on the political but also on the economic plan.

Respectfully submitted,

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in World War II were proud to serve under the supreme command of that great man who is today our President of the United States. Canadian forces served side by side with the United States forces in Korea under a Supreme United Nations Commander who was an American. Canadian forces are today standing on guard side by side with the forces of the United States in Europe under the supreme command of the NATO Commander-in-Chief who is an American. Recently the new Canadian Government and the United States Administration took a major step in the consolidation of the air defences of this continent in the creation of a Joint Air Command, with an American in command and a distinguished Canadian Air Marshal as his deputy. This most significant decision is indicative of our confidence in the American nation and our recognition of our interdependence.

In the same spirit we hail the joint statement issued in Washington in October by President Eisenhower and Prime Minister Macmillan. We welcome it as a recognition of the interdependence of the free nations. In the kind of world in which we live no one country, however strong, can now stand alone. We salute the growing understanding evidenced between the United States and the United Kingdom. The Free West has had reason to feel insecure in the face of misunderstanding in past years. The growing proof of renewed solidarity augurs well for freedom. It will not be easy to achieve or maintain scientific superiority without a mingling of effort and understanding on the part of the United States, the United Kingdom, Canada and other faithful allies.

Trade

(a) General

We Canadians are a trading people. In absolute volume we are the fourth trading nation in the world, ranking only after the United States, the United Kingdom, Canada and other faithful allies.

(b) United States

Of that $10 billion of annual external trade, no less than $7 billion or two-thirds is done with one nation, the United States. To a disquieting degree Canada has placed her trading eggs in one basket. For years 73% of Canada's imports from the world have come from the United States while 60% of our exports have gone to the United States. It is with our largest customer, the United Kingdom, that we sell approximately 14% of our total external trade. From her we are purchasing approximately 20% of our imports. The nature of the United States trade is such that the Canadian economy has to a dangerous degree been made vulnerable to surges in the external trade of the United States.

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U. S. Investment in Canada

I turn now to a subject upon which a certain degree of misunderstanding appears to have existed in the United States. It concerns the attitude of the Canadian Government with respect to foreign investment in Canada.

Canada is currently the world’s largest importer of capital. Canada needs capital to develop its resources. Capital from abroad has not been able to see and grasp the glowing opportunities offered for investment in the development of Canada’s resources and has been entering Canada by way of the drain on the country. The United States has been the principal contributor, but Great Britain, Western Europe, and other countries have also been active. All foreign investment in Canada from abroad exceeds $15 billion. Nearly $12 billion of this total is now in the United States. Approximately $3 billion is in New York City, $2 billion in California, and $1 billion in other countries, chiefly Western Europe.

We welcome the Investment of capital from abroad. We recognize the importance of Canadian resources and industries which have been developed by way of the drain on the country. The United States Administration is engaged in a most important task of rehabilitating the economy of the country.

We have not been able to understand the severe reaction of Canadians to the American capital. We have not been able to appreciate the Canadian attitude. We have been dealing with a problem which has never before been met in any country, and a very difficult problem in which we have not been able to see for ourselves the Canadian point of view.

I think it is important that we should try to understand the Canadian view of the matter. It is not enough just to say that we are sorry about it. We must try to understand it and to work out a solution to the problem.

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Report of IBA Industrial Securities Committee

offerings. Convertible debentures are as previously noted also not only an important device for raising equity capital. This report is primarily concerned with two of these methods—common stock rights offerings and cash offerings, but before considering each of these in detail it might be wise to comment briefly on the others.

Although preferred stock is a form of equity, it is certainly not the same thing as common stock. In the first place, the present policy of paying dividends at a fixed rate is much greater in both legal and actual sense. Since the preferred dividend is not deductible for tax purposes, the cost of preferred stock is high relative to the cost of debt. It would seem that preferred stock has some of the disadvantages of debt (for example, claims ahead of common stock holders) without the advantage of the deductibility of interest for tax purposes. Preferred stock, although similar in common stock, does not give the same protection for the investor as debt. On the other hand, certain corporate investors, who are attracted by the 10% tax free nature of dividends to corporate holders, provide a limited market for preferred shares. It is not surprising that preferred stock, which is relatively unattractive to both issues and investors, has been unimportant in the recent financing of industrial enterprises.

As pointed out earlier, a significant portion of the financing with convertible securities is done with the hope of obtaining equity capital today at tomorrow's higher prices. This technique has been the subject of exhaustive research and goes beyond the scope of this report, but the birth and phenomenal growth of the use of the subordinated convertible debenture, together with other forms of convertibles, makes it impossible to ignore this factor of growing importance in the area of equity financing.

“Rights” Offering

Description: A rights offering usually takes the form of an offering of new shares of common stock pro rata to the present group of common stockholders. This method results from the desire of management to give its stockholders an opportunity to preserve their proportional voting interest and their proportional interest in the equity. In a number of jurisdictions, there is a legal requirement that the pre-emptive right, under which existing stockholders are entitled to this opportunity of maintaining their proportional interest in the corporation whenever new shares are issued for cash.

This objective is accomplished by offering each present stockholder the privilege of purchasing his proportional share of the new issues at a price somewhat below current market quotations. This privilege of purchasing the new stock is issued to the stockholders of record on a certain date and can be exercised at any time during a prescribed period. The offer is made by issuing to the holder transferable warrants which represent one right for each share of stock owned and by requiring a certain definite number of rights plus a cash payment (subscription price) for the purchase of each new share.

If the stockholder does not choose to exercise the rights himself, he can sell them to someone else. As the subscription price remains below the current market value of the outstanding shares, the rights will have a value, based on the size of the discount and the number of rights necessary to subscribe to one new share.

Effect on Stockholder’s Investment: When the rights are represented from the shares—the “ex” date in trading parlance—the market value of the outstanding shares will decline, theoretically, by an amount equal to the value of the right. This is a mechanical adjustment made for the convenience of trading in the stock and rights during the subscription period.

The stockholder is not penalized by exercising his rights, provided the company’s expansion program is well conceived. If he exercises his rights, he increases his investment in proportion to his ownership in the company’s equity and voting privileges. On the other hand, if the shareholder chooses not to subscribe, he may sell his rights. By doing this, he, in effect, obtains current market value for the shares to which he is entitled to subscribe, since the market value of his rights will represent the difference between the current market value of the shares and the subscription price. His original investment then represents a smaller percentage interest in a larger and stronger company, and should presumably be worth more than if the expansion had not been undertaken.

In essence, then, the rights offering is simply a method of obtaining equity capital which allows the present owners a first opportunity to participate, but provides a secondary method of shifting from these owners to the open market for amounts not supplied by the stockholders. The capital thus actually comes from the original owners and the open market. The relative amounts depending on how much the present stockholders wish to increase their investments.

Lay Off: Until recently the investment banker could only wait out the subscription period and hope the market would remain strong enough to facilitate subscriptions for a large portion of the shares. In that case, it was a simple matter to sell the few shares remaining. In the late 1940’s a new device was devised to enable the investment bankers to purchase rights on the open market; and utilize their selling organizations to sell stock during the rights period. This technique, which has become known as the “lay off" procedure, has proved of benefit to stockholders, investment bankers and issuing corporations. By furnishing a more orderly market for rights during the subscription period, the lay-off procedure serves to reduce the selling pressure on the stock in the market and thus benefits all stockholders, those who subscribe as well as those who choose to sell their rights. For the investment banker, the lay-off procedure provides a means of reducing his risk. From the corporation’s standpoint, the lay-off procedure reduces the chances for an unsuc-
ceaseless offering and also lowers underwriting costs.

Regulations of the Securities and Exchange Commission prevent the investment bankers to purchase rights, through various transactions, only at prices which are equal to or lower than the current market bid by others or last sale, the so-called weakness. This prohibits them from bidding up the price, although in a week market they are able to enter the market and cushion the drop in price.

A wide variety in the amount of stock laid off is evident in the data in Exhibit II of the Appendix. Underwriters of several issues used no lay off at all, while some used them in a limited way, and a few used them extensively. (Nine issues, or 31% of the total, involved lay offs greater than 25% of the total shares offered.)

The volume of lay off is influenced to a great extent by the number of large holders of common stock who do not elect to subscribe to new shares, and hence must sell their rights sometimes during the subscription period. The essence of the success of any lay off is the selling commission, which is paid from the so-called “take-up” fee. This commission normally is several times the regular Stock Exchange subscription commission, and therefore is a strong inducement to influential investment firms to sell shares to their clients. The managing underwriter keeps the “book of orders” entered with him by other underwriters and dealers, and the manager is always in a position to know what the lay off demand is at any one time. The manager usually waits until he knows he can lay off stock successfully—i.e., that, until the orders on his book exceed the number of shares proposed to be laid off against the purchase of rights.

The main objection to large lay off lies in the effect on the market. In a few cases the issue pays the underwriters a set standby fee for all their services, but in most cases the issue pays the underwriters, in addition to a lesser standby fee, a take-up fee for each share unsubscribed or subscribed for by the underwriters and sold through lay off. The amount of the charge for such unsubscribed or laid off shares usually is equal to or larger than the standby fee, as such a fee usually includes an attractive selling commission; therefore, the number of shares laid off by the bankers can be an important factor in determining the size of the total fee which must be paid by the issuer. Where only a single fee is charged the corporation by the investment bankers, it should be noted that

Continued on page 74.
This single fee is larger than the standby fee on a two-fee issue and reflects an estimated provision for selling effort which may be required.

Terms of a Rights Offering:

There are a number of factors which the corporate issuing stock must consider in setting up the terms of a rights offering. The problem focuses on these factors: (1) amount of money to be raised, (2) number of old shares necessary to be sold, (3) discount of the subscription price from the market price, and (4) the theoretical rights value desired.

It is evident that none of these factors can be determined absolutely and independently. As a matter of fact, a definite decision on any two of the four factors automatically determines all four. Because of these interrelationship, the terms of an offering cannot be determined without considering each of the several factors listed above. Some of the considerations involved are as follows:

1. Amount of Money to Be Raised—As indicated previously, management determines the amount of funds it needs on a basis of sales estimates, capital budgeting, and other forecasting techniques. The portion of these funds to be raised as equity capital is based on consideration of cost and capital structure and is what is feasible in the market. The desired amount is usually a relatively clear figure in the mind of the issuer.

Once the approximate total amount to be raised has been determined, the number of dollars to be sought from the holder of each outstanding share is also fixed. It may be sought in the form of an infinitive number of combinations of different subscription prices and ratios of old and new stock. It may be specified as a given number of cents per dollar of each existing share. It is paid on a per share basis and depends on the total amount to be raised and the number of shares outstanding.

2. Discount of the Subscription Price From the Market—The size of the discount is decided by several factors. Many corporations may want the discount as an inducement without creating undue risk of the market dropping below the subscription price. In theory, the issuer should have no objection to a large discount, since it increases the value of the shareholders' rights by an amount equivalent to the reduction in the average market value of their shares. In practice, however, the price determined by the market may not be the same as the theoretical price due to the "pressure" of the selling effort.

Another significant reason to minimize the discount is the desire to maintain the same dividend rate and similar earnings shares.

Book value is generally of no practical consideration in the determination of the subscription price. However, most managers are generally reluctant to sell common shares at a price below the book value of their outstanding shares.

3. Ratio of New Shares to Old—This ratio is an indication of the relative magnitudes of the existing common stock capitalization and the new issue.

4. Value of the Rights—The major concern of management is that it has a value throughout the subscription period which will appear attractive enough to stockholders to induce them to subscribe. If the rights do not decline to a nominal value, the stockholders may lose interest and decide that it is not necessary and will probably exercise their rights or sell them to others.

Cash Offering:

Description: The cash offering (cash offering, public offering) is a less complicated method of offering and involves fewer risks. Instead of making the offer to the stockholders first, the original offer is made to the general public. The stock is usually offered by the issuing corporation through a group of investment bankers who buy the issue outright and distribute it to the general investing public. Under this arrangement the issuers are assured of obtaining their capital quickly and the investment bankers earn the spread between the public offering price and the amount paid to the underwriters. The price entailed in purchasing the issue and the sales effort required to sell the issue.

Determination of Price: The price which the share will be offered on the market can be determined in two different ways: (1) a fixed price, or (2) in unusual cases, a formula price. Under the fixed price method, the banker and the issuer negotiate the proposed offering price, usually prior to the effective date. The formula price determines upper and lower limits on the proposed public offering price, based on current market quotations. A typical formula price might set as a top limit the last sale or the last offer, whichever is higher; the lower limit might be a certain amount below the last sale or the last offer, whichever is lower, and within these limits the price is determined by the banker and the investment banker after the issue becomes effective and just prior to the offering. The size of the difference between the lower possible offering price and the current market price varies from issue to issue, but it is usually a small figure.

When a stock is actively traded on the exchanges, some corporations prefer the formula plan. It gives them flexibility in setting the offering price, as well as in the matter of timing, since this method allows the parties a certain amount of leeway within a prescribed period to select the most advantageous time for the offer. Since the formula plan is based on market quotations, any issuer which does not have an active, accurately reported market usually will wish to use the fixed price method.

Since the market is such an important factor in the determination of the offering price under the formula plan, the Securities and Exchange Commission has instituted restrictive rules governing...
an attempt by the underwriters to stabilize the price through market transactions.

Distribution Organization: To share the risk and to accomplish the distribution of the issue, the managing investment banker organizes a syndicate of underwriting bankers, and sometimes even another group of selling dealers are employed to assist in the distribution of the shares. The number of underwriters and dealers may be very large, ranging from 57 to 270 in the issues recorded in the Appendix. The underwriting group as a whole is organized in a manner which tends to preserve the strength and coverage of the different types and locations of potential investors. The syndicate of this kind, motivated by a selling commodities, may become involved in the underwriting of the stock, it is called developing a large demand, which is a fundamental requirement for the success of an issue. The stock does not enter the market until after a period of time as in the rights offering. On the other hand, in the cash offering the entire issue is placed on the market on a given day and aggressive selling is necessary to develop enough demand to place the issue without delay.

Compensation of the Investment Bankers: The compensation of the investment bankers is the main problem in the underwriting of securities. The compensation is generally compensated for the risk incurred in underwriting the stock. It is important to note that the investment bankers are paid on a percentage basis for the amount of stock sold. The compensation is usually determined by the investment banker and the issuer of the stock.

Included in the Spread:

(1) Underwriting Compensation: This portion is paid to all the members of the underwriting group in compensation for assuming the financial risk of the offering and expenses of the underwriters in connection with the issue, i.e., legal, advertising, etc.

(2) Selling Compensation: "Cessioned"—This portion is paid to the underwriters and dealers which sell the new shares of stock.

A breakdown of each of the spreads and the size of spread relative to the offering price is given in Exhibit II of the Appendix.

Conclusion: The decision between cash or rights offerings has been a subject of debate in the financing of corporations. In some cases the rights offering seems to be more advisable and in others the circumstances seem more suited to the cash offering.

In a great many cases there is no problem, since stockholders may have pre-emptive rights either by statute or under the company's charter. In such instances the corporation has no choice in selecting the method of common stock financing.

When the pre-emptive right does not preclude public cash offering, a decision must be made on the basis of a number of factors. A basic consideration, as previously mentioned, is the desire of management to offer stockholders an opportunity to maintain their proportional voting rights and interest in the equity. Another important consideration is the practical limitation of the cash offering, where the percentage increase of the new shares or the dollar size of the offering may make such a cash offering difficult if not impossible to effect at a reasonable cost. Factors such as the relative size of the various stockholders' holdings, the number and type of institutions owning the stock, and other factors of distinctive stockholder situations also vary in their effect on the different methods of selling stock. Where stock is largely held by a small group, it has often proved more convenient to raise equity funds through a cash offering to the public.

Relative underwriting costs, the mechanical simplicity of a cash offering and attitudes of different issuers and investment bankers are also factors.

On the other hand, the rights offering and the cash offering are two very different methods of obtaining the necessary money for the corporation and the underwriter's participation in the distribution of the investment banker's organization. The techniques and problems are very different.

Despite these rather obvious differences, there may be a fundamental similarity in the source of the funds, depending on the amount of stock offered, by the original stockholders of the corporation and by the amount of number of original stockholders who subscribe to a rights issue is small, most of the funds must come from outsiders. In a cash offering, these outsiders are the people who buy rights; in a cash offering, the outsiders are the customers of the underwriting investment bankers and dealers. To the extent that shares are left off by the investment bankers, the new stockholders will be the same, since the investment banker sells to the same sort of people whether he gets the stock in a lay off or from a direct purchase.

If the amount of the lay off is large, it can be argued that although the technique is very different, the funds come from basically the same source.

Respectfully submitted,

INDUSTRIAL SECURITIES COMMITTEE
Edward Glassmayer, Chairman
Blyth & Co., Inc., New York
P. F. Fox, & Co., New York
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Report of IBA Public Utility Securities Committee

theic to the need for higher rates when and if these become necessary. In part, in part to the greater cost of money. However, many commissions expressed the opinion that as yet the situation had not become acute since securities sold with high interest and dividend rates were averaged in with a much larger volume sold at lower rates.

**Rates of Return**

It is reassuring that already some regulatory bodies have allowed higher rates of return. Considerable attention was attracted in the summer by a rate cut order issued by the Florida Commission against the Florida Power & Light Co. and headline readers expressed considerable concern. When all the facts were assembled and the incident closed in the year investors should have been reassured rather than otherwise as the Commission adopted a higher rate of return for the company in question than it had allowed in previous proceedings and the Commission Chairman publicly stated that earnings would be permitted to go modestly above the return set without pressure for a new rate case.

The New York Commission recently granted the New York Telephone & Telegraph Co. a higher rate of return and one of the most encouraging developments has been that the California Commission in a series of decisions has given several companies under its jurisdiction higher returns than they have been earning. This latter development is of particular significance to the investing public because the California Commission has been traditionally regarded as one unrelentingly conservative. The change of atmosphere has been heartening. Another encouraging development of the year was a decision by the Iowa Supreme Court affirming "fair value" as the basis for rate making in that state against original cost for which one of the municipalities had been contending.

Unfavorable Developments

Not all developments, however, have been favorable and our Committee has continued to be cognizant of responsibilities situations where the interests of the investor are obviously being prejudiced. We gave special attention to the return of the Maine Public Utilities Commission that grant a rate increase to Central Maine Power Co. In Maine we have not only made representations to the commissions and to the Governor of the state but we re-leased copies of our material to the press in Maine where it received considerable attention. The reactions which followed encouraged us to feel that the Federal Power Commission is obviously adopting an unafraid attitude, something can be gained by presenting the position of the investor to the press and we hope that this procedure might be followed in other cases.

The Committee made representations to the proper subcommittee of both the United States Senate and House of Representatives in connection with the proposals to authorize the Tennessee Valley Authority to sell revenue bonds to obtain capital for the expansion of its system which we urged that rather than contemplate further expansion of TVA, by whatever method financed, it would be more constructive to seek means by which additional power requirements of the area could be met by one or more investor-owned companies which may taxes to the Federal Government.

We wrote to the Chairman of the SEC and the Chairman of the FCC urging them to give favorable consideration to revising utility company rules for approval of limited non-callable provisions in their bonds to facilitate the addition of new favorable rates.

Of the largest projects of the year was the circulation of the important utility companies of the country's published report on the use of gas bonds which may be used subscription rights in connection with whom we urged that dealers be paid a compensation for handling such rights.

We are pleased to report that some companies which have not made a practice of paying compensation in the past have indicated willingness to study the matter before the time of their next offering.

Respectfully submitted,

PUBLIC UTILITY SECURITIES COMMITTEE

HAROLD H. YOUNG, Chairman

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Year-End

End 5 mos.

AUG. 31, 1956

AUG. 31, 1955

AUG. 31, 1954

DEC. 31, 1953

DEC. 31, 1952

Source: Public Utility Data Service, Edison Electric Institute.

Year-End

End 5 mos.

ELECTRIC UTILITY INDUSTRY

End 5 mos.

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End 5 mos.
savings bonds. Over the past five years, this demand debt has shrunk to less than $15 billion. This year $4 billion has been or will be paid off. During 1968 the amount outstanding stands to be reduced by $13 billion as various issues mature. Although the redemption of this demand debt added to the already difficult problems of the Treasury, the progressive shrinkage of this debt means that financial problems related to it should be less bothersome in the future. Your Committee is strongly of the opinion that the continuing substitution of marketable debt for demand debt is building a stronger base for sound debt management.

Treasury Needs in 1958
Looking ahead to 1968 the Treasury has maturities of more than $90 billion coming due, excluding regular bills and tax anticipation issues. In addition to refinancings, cash offerings can be expected to finance seasonal needs, attitudinal and redemption of savings bonds. Even though some progress in the area of debt extension was made in 1967, the average maturity of the debt is under four years, and the short-term debt is still large.

Indications of a downturn of business, the reduction in the discount rate, and the lower estimates of business borrowing requirements for 1968, may make it easier for the Treasury to carry on its financing operations for the year ahead. It is to be hoped that these operations will continue to be directed toward improving the structure of the public debt.

Urgent Balance Debt Structure
A survey of the difficulties which the Treasury faced this year, and as it struggled with the financing of heavy maturities and cash requirements under almost uniformly adverse conditions, would serve as a pointed argument for the need for a balanced debt structure. The advantages to the Treasury, and hence to the nation as a whole, are tangible and vital. Your Committee hopes to see these requirements solved in a manner consistent with good debt management, fiscal and monetary policies and an additional base for further inflation.

Respectfully submitted,

The GOVERNMENTAL SECURITIES COMMITTEE

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With Morton Seidel

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Frederick
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Two With W. R. Staats

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Frederick
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South Spring Street, members of the New York and Pacific Coast
Stock Exchanges. Both were formerly with Marache, Doffeny 
& Company.

J. Logan Co. adds

(Special to The Financial Chronicle)

PASADENA, Calif.—Norbert B.
Blank has been added to the staff of J. Logan & Co., 721 East Union
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Report of IBA Federal Taxation Committee

revenues resulting from the country's growth are channeled into tax reduction, rather than, as in recent years, entirely into a increased expenditure. Federal revenues have recently been increasing at an annual average rate of between $3 and $4 billion a year. A substantial part of this increase should in effect be made available to taxpayers. To do so would strengthen and expand our economy and thus improve our ability to bear the increasingly heavy burdens that seem likely to be laid upon us.

Averaging Should Be Permitted

A basic unfairness in the present steeply progressive personal income tax structure is that, due to the man earning of arithmetic, a man earning a given amount of income in even installments over a period of years pays less tax than another man who earns the same total amount of income in irregular amounts over the same period. This, of course, penalizes the small businessmen who necessarily doesn't receive the same income every year. Therefore, the income tax law should permit averaging or shifting of income into a more convenient period—say five years.

Increased Dividend Credit

The Revenue Bill of 1964 introduced an innovation which is a considerable improvement in our tax structure in that it provided for a slight reduction in the double taxation of corporate dividends by allowing dividends a tax credit of 4% of dividends received. We would like to see further progress along this line, where the credit is 20%—equal to the lowest tax rate— as it is in Canada.

The Capital Gains Tax

Turning now to our area of primary interest—the capital gains tax—the first point to be made is that because of its peculiar nature it can be stated with considerable confidence that a substantial reduction in the rate of the tax would result in an actual increase in the amount of revenues which the Treasury would collect from it. The reason for this is that almost without exception liability for the tax is created voluntarily by the taxpayer—liability for the tax occurs only when the holder of a capital asset—such as real estate or securities—decides to sell it at a price higher than the price he paid for it. If he wishes to, the holder can refrain from selling until he dies, and his will void potential liability for the tax.

We would be very much interested in hearing if the author of this latter principle is that the capital gains tax isn't actually a tax on capital gains, it is a tax on property in which a gain exists and is sold, and it is a transfer tax levied at an extraordinarily high rate. For example, a man selling stock which he bought in any year between 1940 and 1949 would be required to sell it at recent prices, would owe 16% of not less than 16% of the price at which the stock has been selling recent years. In effect this would cost him 16% of the entire tax on his gains. If you look at Standard Oil of N. J. bought in the 1940's can avoid this tremendous sacrifice merely by sitting tight and doing nothing. The immobility of the tax has therefore, secured locked up for an indefinite period a large slice of the property in the United States—several billion dollars. This is surely an unhealthy situation for an economy that, to be sure, is under no other such condition in the world situation and by its inherent workings, the economy will need increasing amounts of venture capital.

Therefore, we would like to see a very substantial cut in the rate of the capital gains tax, with eventual elimination. Parenthetically, other capitalist countries, who do not have any capital gains tax; these countries who do not have a capital gains tax would impose an entirely unnecessary limitation on their economic growth.

The Holding Period Should Be Shortened

In addition to a reduction in the tax rate, we would like to see a shortening of the holding period. We now have, for example, taxpayers in brackets above the lowest will almost invariably prefer to retain any assets in which a gain exists until the tax liability is payable, thereby eliminating. When a gain is in sight, the certainty of reduced taxation if six months raising a holder is allowed to escape or his awareness of the uncertainty of future price gains, which is the case, the holding period might not be as long as short.  

Loss Provisions Should Be Clarified

Another modification in present law would be effected if the provisions in the present tax structure, which allows only $1,000 per year of losses to be used to offset income from ordinary income. The reason for this limitation is, of course, that taxpayers will thus be forced to arrange their affairs so that they tax liability is payable. This restriction, when a gain is in sight, the certainty of reduced taxation if six months raising a holder is allowed to escape or his awareness of the uncertainty of future price gains, which is the case, the holding period might not be as long as short.

Further Reform Proposals

We have dealt so far in this report only with modifications to the present tax structure. There are two proposals which would permit further modifications. First, we would propose that the tax be effective from the "locking-up" effect of the capital gains tax, a very substantial reduction in the tax rate. The first of these proposals is called the "pre-existing" capital gains tax. It merely would extend to all types of property the tax on the net gain awarded to owners of owners—occupied during the years before the selling person who sells his house and has to pay the capital gains tax to buying a new house for the same amount of property, it have the effect of allowing all kinds of sale to take place which are now impossible because of the tremendous capital gains tax involved. There seems reason to believe the "full reinvestment" scheme, and strongly in view of the almost entire elimination of all capital gains tax, but merely represent the effect on property prices of the post-World War inflation.

The second proposal is a little more controversial. It will require limitation be placed upon the point of time at which these restrictions can be taken from him by the tax. To make clear the nature of the point of this proposal, if last June two men, each holding Standard Oil of N. J. then selling at 69, decided that it was too high, and that, for example, mineral revenue would be a more productive form of endeavor. One of them bought his stock in 1940 at $19 a share. Thus, his tax position in the event of a sale of stock would be that he would have already on profit of $10 per share and a tax liability of nearly $15 per share, or a tax equal to more than 21% of his capital gains. It can be concluded with some positive likeness that this holder of Standard Oil of N. J. Stock. The other holder bought his stock at $20 in 1935. In the event of selling would have a profit of only $10 a share and would impose a liability of nearly $6 a share, or $2.50 per share, or 35% of his capital gain. In this case, tax liability would not seem to be a total deterrence to a sale. If a percentage limitation on any capital gain in relation to capital at, say, $30 a share, linked to $20 a share, would sell two would be collected and of course, a double a doubled amount of venure capital would be available. It would therefore be possible that the economic damage of the capital gain tax and the tax liability to capital would, for example, may be so massive that the maximum capital gain is 50% of the gain or 4% of the amount invested in a sale, which ever was less.

Tax Reform Still Possible

Recently there has been some sentiment that because of the new business climate associated with the European recovery bill by Russian satellite successes, there seems to be a need for new tax policy. In connection with this it is significant that Representative Jere Cooper, Chairman of the House Committee on Ways and Means, has scheduled general tax revision hearings to begin Jan. 7. William R. Boeing, a Boeing Co. board member, has said that the hearings will be a source of interest looking toward revision of our internal revenue laws in order to obtain "A revenue system which is fair, equitable, in impact between simi...."

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California City Chronicle... Thursday, December 19, 1957


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SAN DIEGO, Calif.—Andrew B. Bowick, vice-president of the Union Bank of San Diego, has been added to the staff of Revel Miller & Co., 633 South Spring Street, member of the Pacific Coast Stock Exchange.

With L. A. Caunter
(Special in Text Presented, Charities)
CLEVELAND, Ohio—Darvin A. Darnell is now affiliated with L. A. Caunter & Co., Park Building.

The Commercial and Financial Chronicle... Thursday, December 19, 1937
It is anticipated that the requirements of the various gasoline distribution systems and transportation lines will grow very rapidly, and the combined demand may well reach as much as a billion feet daily by 1960. While known Western Canadian reserves are more than sufficient to support a demand of this size, many more wells will have to be drilled to permit appropriate daily production.

It is difficult to over-estimate the effect natural gas will have on the nation's economy. In addition to its many energy applications, natural gas will undoubtedly find a steady rising use in many chemically based and affiliated industries.

It is still too early to predict, without many reservations, the effect on the oil and gas producing industry. The combination of increased cost of logging and increased costs of personnel have been publicized.

The proposed amendments, five in number, which deal essentially with making the pipeline reservation allowance and "write offs" of non-productive properties, are designed to provide additional internal capital for the expanding needs of the pipeline industry. The Canadian companies on equal footing with foreign companies in developing Canada's petroleum resources. The proposals are expected to receive the most sympathetic study yet afforded by a Canadian Government.

A further clue as to new government policies may possibly be contained in an address given by Prime Minister Diefenbaker on Sept. 8 at Dartmouth College, Hanover, New Hampshire, in which he stated that the question is being asked whether a country can "have a meaningful independent existence in a situation where non-residents own an important part of the country's basic resources and industry, and are, therefore, in a position to make important decisions affecting the operation and development of the country's economy."

The Prime Minister then emphasized that Canada now welcomes investment but Canadians are asking that United States companies investing in Canada incorporate as Canadian companies and make equity stock available to Canadians.

III Offshore Exploration and Development

A decade has now passed since the first commercial oil well was drilled and completed in the tidelands off the coast of Louisiana. In this period, operators may possibly have appeared on the scene and acquired a combined total of 37,4 billion acres of leases off the coast of Louisiana. This represents approximately 40% of the total area lying off the coasts of a point on the West Coast where the water depth reaches 120 feet, or about 1/10th of the area out to a water depth of 600 feet. The more recent companies have invested a combined total of close to $1 billion in this offshore region by April, 1957. A total of 1,940 wells have been drilled with only 562 dry holes resulting. With the drilling of these wells, the industry had "proven, probable and possible" reserves of about 1/2 billion barrels of oil and 10 trillion cubic feet of gas. At first glance the total 8.1 billion acre accumulations did appear to have brought rich returns; however, by dividing the estimated total investment of the oil companies in the offshore area by the total number of wells drilled to-date, we find that the average cost per well is approximately $875,000. This compares with an average cost onshore of $125,000 per well, seven times as much. The American Petroleum Institute has stated that out of 59 oil companies, only five have added to reserves approximately nine times the hydrocarbon added by each offshore well. Since there is considerable evidence that current well costs are running substantially under the $750,000 figure, the economies are further improved.

Another factor which will add materially to investment return will be the development of adequate transportation facilities to move the oil and gas to market. As of Aug. 1, there were 18 subsea gas fields in the Gulf. Of these 50 and other fields, only a very small number have been sufficiently developed to warrant the construction of pipelines for the transportation of the oil and gas. As more development takes place, however, pipelines will be built.

Transcontinental Gas Pipe Line Corporation has recently received FPC approval to build a 29.3 mile line, and Marine Gathering Company has a 25-mile schedule for completion in September. This will be a 12-inch line, with a capacity of 45,000 barrels per day. The average 5-year production to-date reflects only a modest amount of development work. A considerable amount of additional drilling will be required before the industry will be able to boost offshore gas production to a rate, of course, consistent with that onshore.

Record High Growth

To the end of April, 1957, the industry's total production offshore totaled 12.7 billion barrels of oil, 76.7 billions of cubic feet of gas and 1.3 trillion ft³ of liquid. The 30 companies have invested a combined total of close to $1 billion in this offshore region by April, 1957. A total of 1,940 wells have been drilled with only 562 dry holes resulting. With the drilling of these wells, the industry had "proven, probable and possible" reserves of about 1/2 billion barrels of oil and 10 trillion cubic feet of gas. At first glance the total 8.1 billion acre accumulations did appear to have brought rich returns; however, by dividing the estimated total investment of the oil companies in the offshore area by the total number of wells drilled to-date, we find that the average cost per well is approximately $875,000. This compares with an average cost onshore of $125,000 per well, seven times as much. The American Petroleum Institute has stated that out of 59 oil companies, only five have added to reserves approximately nine times the hydrocarbon added by each offshore well. Since there is considerable evidence that current well costs are running substantially under the $750,000 figure, the economies are further improved.

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should be taken also of the Saturn

Case, in which a group of producers

be free from F.P.C. jurisdiction by adop-
tion of the Supreme Court to reconsider its
decision in the Phillips case. It is to be

sought to avoid being struck down by the

Forrest case. In the light of the pending

of legislation, F.P.C. action, no matter
what the number or size of the cases

of its jurisdiction over substantially all natural gas

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The gross spread between the cost of crude and wholesale value of refined products is narrower through most of 1957 under the weight of excessive inventories than it has been for some years. The price spread, which was quite favorable in January, was greatly increased if the gross spread. There is very little in the way of accumulating inventories and there is a great deal of deterioration in each strength.

Inventories of refined products in recent months have increased with a marked decrease in the level of activity. Since early 1954, the inventory of gasoline has increased from 123 to a high of 175. However, the increase has not been uniform. Only the strike during the summer of 1956. The 1957 increase is not as great a rate to a current level.

While the decline is quite small, it represents no increase. This is especially important to the petroleum industry, because the problems and difficulties of other segments of this industry are geared to a market growing at a rate of only 7% over the year. The anticipated rate of gain is not so well known as demand for the year. This number is no exception.

The demand for gasoline has been quite small, but the demand has been quite well met. The last factor is the increasing availability of gasoline. The last factor is the increasing availability of gasoline. The last factor is the increasing availability of gasoline. The last factor is the increasing availability of gasoline. The last factor is the increasing availability of gasoline.

In past years the annual increase in petroleum demand has been heavily counted upon to tighten the available demand. However, the increase in demand has been revised downwards. The outlook for 1958 is not expected to rise above the 1957 level. Consumers are likely to become more cautious in a period of business uncertainty. The demand has been revised downwards. The outlook for 1958 is not expected to rise above the 1957 level. Consumers are likely to become more cautious in a period of business uncertainty.
Railroad Securities

Northern Pacific Railway Co.

Northern Pacific Railway has been able to keep operating expenses under tight control, received increased "other income" from its oil and lumber operations.

For the first 10 months of this year, Northern Pacific reported net income of $17,724,638, equivalent to $3.57 a share on 4,978,596 shares outstanding as compared with a total of $17,390,546 or $3.50 a share on 4,959,835 shares outstanding at the end of the like 1956 period. Net operating income for the period aggregated $1,012,626 as compared with $1,556,832 a year ago. Other income for the 10 months amounted to $17,323,508 against $11,654,144 in the 1956 period.

It is estimated that for the full year 1957, net income likely will equal or exceed the $42.21 a share reported in the year 1956, despite a drop in traffic in the final months of this year. In reality Northern Pacific consists of two companies. One a land company with revenues from mineral rights, the other owning the railroad.

The railroad's land interest in the Williston Basin (fee and rights) covers some 3,000,000 acres of oil and gas, and on all 200,000 of this, some 150,000 acres of oil and gas fields outside this basin. This year's production is expected to be substantially greater as might be noted from the larger sources of income this year. Income from oil and gas sources has shown a constant increase by year since 1951 and this trend is expected to continue.

It is anticipated that other income will continue to be augmented by sale of timber rights and rental of lands. It only has been in recent years that Northern Pacific has concentrated on the development of its timber holdings, which are vast, and a program instituted to work these properties in a modern manner, looking for conservation and reforestation. This should provide a source of income for some time to come.

To increase operating efficiency, NP gradually is increasing its diesel-fueled equipment, replacing the last of its steam power units. This last executive section. By the end of 1959, the road expects to be completely dieselized. In addition, modernization of yards also is underway and these factors should reduce a burden of transportation expenses.

The entry of 1957 are served by a first lien on practically all railroad properties and receivables. The latter includes almost all of the railroad's tangible, as well as the more or less intangible. This servitude, a second lien on income, is securing the prior lien on 46. Because of the feature of these issues, it is believed by Northern Pacific that it is not impossible, to separate the "other income", producing properties from railroad operations.

Chicago Exch. Firms Elect New Officers

CHICAGO, Ill.—At the annual meeting of the members of the Chicago Association of Stock Exchange Firms, Guenther M. Philp, secretary and treasurer of the Board of Governors, was elected president of the Association for the coming year. Mr. Philp succeeds John G. Whiting, the former president, who has served during the past two years.

Mr. Philp is also Chairman of the Board of the Chicago Clearing Corporation and Chairman of the Practise and Procedure Committee of the National Association of Securities Dealers, District 1. He is a director of the Chicago Clearing Corporation.

Gordon Bent of Bacon, Whipple & Co., was elected Vice-Chairman; John L. Bacon, Jr., Vice-President; William J. Chapman & Co., Treasurer.


New York Stock Exchange Week—Firm Changes

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


Landon Palmer Cabell will withdraw from partnership in Brach, Cabell & Co., Dec. 31.

Daniel Cowin and Irving G. Kaufman will retire from partnership in Cowin & Co., Dec. 31.

Asa N. Schwartz will withdraw from partnership in Unger, Leifer & Co., Dec. 31.

Purrell to Admit

Purrell & Co., 50 Broadway, New York City, will be admitted to the New York Stock Exchange, Jan. 1, will admit William C. Graham, Jr., to partnership.

R. E. Palmer Director

Robert E. Palmer, partner in the New York firm of Reynolds & Co., Inc., has been elected to the board of directors of Williams Brothers Company, Tulsa, pipeline constructors.

Continued from first page

The Investment Bankers Association of America Holds 46th Annual Convention

He has been a trustee of the Municipal Advisory Council of Dallas, since it was organized several years ago, serving as Chairman of the Board of Trustees in 1955. Club and society memberships include: Dallas Country Club, Dallas Athletic Club, Dallas Club, Northwood Country Club, City Club and Board Club of Dallas.

Mr. Jackson is married to the former Sally C. Harrington. They reside in Dallas.

The New President's Inaugural Address

The text of Mr. Jackson's inaugural address follows:

The pride I feel in being elected to the office of President of our Association is tempered by the sense of responsibility that goes with the office.

Bob Craft's report on the activities of the Association during the past year demonstrates that we are indeed indebted to avoidance of our efforts. We have been the lead in the Association in the past two years, and professional to the limits of our physical capacity —in order to finance the greatest educational revolution in history. We believe that we are proud of our efforts in order to meet the extraordinary capital requirements of our country's rapidly expanding industries.

Monetary policies adopted to check inflation have increased our understanding risk. At the same time, they have been the result of growing confidence and to make security ownership more accessible to all. The Association consistently has supported and approved these anti-inflationary policies —so long as they were required.

Rearcession Fears

Quite suddenly the emphasis has been shifted from reflight to inflation to avoidance of a business recession. Plant and equipment programs for 1958 are expected to be trimmed below the

To serve well, markets must be available. The Ohio Company creates and maintains such markets through its exceptionally wide distribution of securities in Ohio. Thorough distribution makes good markets.
level of 1927, because some industries are temporarily overbuilt. Consumer expenditures also may be curtailed by declining personal incomes as the rate of industrial activity falls. But there is no prospect of any net reduction of Government expenditures, so that the retrenchment following the Korean War, which intensified the recessions of 1953. On the contrary, it appears that our defense expenditures will increase because of the emphasis on the missile-satellite program, and the need to keep abreast of advancements in military technology. At the same time, the new Federal highway program will be getting under way.

Estimates by the Census Bureau indicate an acceleration in the rate of our population growth which will average more than 3 million persons annually for the next 20 years — producing un¬precedented concentrations of sub¬urban and urban populations. This prospect promises a continued high rate of housing construction and investment in municipal facilities such as water, sanitation, schools, hospitals, and roads.

Private industry will carry on with plant construction already in progress. New products are being developed and marketed, especially — the need for new equipment continues in a strong growth trend.

Period of Consolidation

For the coming year I see a period of consolidation. When, all management, including our own, strives for day-to-day efficiency which has long been neglected because of the pressure of more immediate problems, we have been prepared to handle. In a broader sense, scientific, political, and social changes are developing so rapidly that this is a time for reappraisal of our objectives and policies. There is good reason for confidence that we cannot afford to be snugly complacent about the position of our investment banking industry. The job of financing the future will tax our capital resources and our ingenuity. Our national imagination has soared to new heights, but there remains the mundane problem of how to pay for the things we now want.

While we often wonder where progress will come from, I believe there will be no lack of savings — corporate and personal — to capitalize the continued expansion of our productive capacity, if the active incentives to save are not provided. These incentives include station money and fiscal policies, restraint in Government competition for investible funds, and the division of revenues between the labor-market and savings and capital functions. We are peculiarly qualified by the nature of our industry to lead in our communities in speaking out for policies which will encourage the formation of savings.

Let us begin our contribution to national well-being by holding ourselves to high standards of conduct in our business relationships with borrowers, lenders, and equity investors. In relation to the undertaking risks, we assume, times we may feel that we are not adequately compensated for our efforts in the economy; but that is — in part — is a result of the growth in the capital strength of our industry and the competition it stimulates.

Future Plans

Our plans for the future of the investment banking firm— at least should include continued emphasis on the training of younger men in our business and providing incentive for them. As evidence of my own feeling regarding this, I would like to report the continued field of endeavor of our Association. I have carefully chosen several talented young men to serve on important committees of the Association.

During the coming year I shall depend on each of you to be in furthering the purposes of this Association. I am confident that — with the assistance of the five able Vice-Presidents, the Board of Governors, the various committees of our Association, and our very fine and competent staff in Wash¬ington — we can meet the challenge of our national responsibility.

Speakers at the Convention

At the time the Convention was newly elected President William C. Jackson, President and Chief Executive Office, Southwest Company, Dallas, Tex., retiring President W. H. Craft, President of the Chase International Investment Corporation; Horace Donaldson, U.S. Commissioner of Finance; Richard S. Beyers, Jr., President, Reynolds Metals Co.; John H. Stambaugh, Special Consultant to President Eisenhower and Vice-Chancellor of Vanderbilt University; Chairman of the Securities and Exchange Commission, and George S. Trumble, Jr., Vice-President, Engineering, The Continental.

In the following are given in this issue starting on page 22 with exception of President Jackson's address which may be found on the adjoining page.

Education Committee Reports

On Year's Activities

The Annual Report of the Edu¬cation Committee, headed by W. Carroll Mead, of Mead, Miller & Co., Baltimore, reviewed the great variety of educational and public relations activities conducted by members and groups and also the projects and services of the Education Committee. The following highlights some of the major activities and, in addition, presents brief comments on various projects.

Institute of Investment Banking

The Institute of Investment Banking, sponsored by the Education Committee in cooperation with the Wharton School, University of Pennsylvania, again operated its summer sessions with 260 registrants. In addition, there were more than 40 applicants who could not be accommodated for lack of facilities. The program was again highly successful and comments by registrants were uniformly favorable and in most instances enthusiastic.

Seminars drawn from our own industry from other financial groups, business gen¬eral, government, and the uni¬versities, participated in the program. The speakers — present and past presidents, vice-presi¬dents, national committee chair¬men, and group officers — were manifesting an interest in the Institute through participation in the program.

Since inauguration, this execu¬tive development program has been conducted without cost to the Association. A reserve representing the excess of receipts over expenses was created and, in recent years, the net pro¬ceeds from the Institute have been added to income. In 1957, slightly more than $5,600 was realized.

Home-Study Program

The correspondence course in investment banking offered by the Education Committee in cooperation with the Home-Study Department, the University of Chi¬cago, had received enrollment of 275 registrants during the past year. Since the course was made available seven years ago, more than three hundred member or¬ganizations have enrolled person¬nel for the program. As of July 1, the fee was increased from $45 to $60 as a general upward revision of Home-Study Department fees. Attention is again called to the fact that satis¬factory completion of the IBA correspondence course is accepted by the New York Stock Exchange in partial satisfaction of the re¬quired educational requirements.

Opportunity, U. S. A.

The official IBA motion picture, Opportunity, U. S. A., continued to serve the industry effectively. Through our distributing agency, 175 prints are available for audi¬ence screening, and 15 prints for use by TV stations. The film continues to maintain its circulation momentum.

Despite the age of Opportunity, U. S. A. (five years) 27 ABC-TV affiliates used Opportunity, U. S. A., on "Enterprise," a summer replacement show.

Activities of Member Organizations and Groups

Educational and public relations programs of member groups are highly valued, including recruiting, training, public information, and promotional activities are being steadily being expanded in diversity and scope. There have been many noteworthy projects including, among others:

First of Educational TV — Follow¬ing the lead of the Central States Group with its "Ticker" program, Continued on page 88

25th Anniversary

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46th Annual Convention

Inaugurated in 1956, other Groups are taking advantage of educational TV channels in the following cities: Denver, St. Louis, Pittsburgh, and Minneapolis-St. Paul. In Philadelphia, as part of the Invest-In-America program a 14-week sustaining series was telecast over a commercial TV station and also over the radio.

Forum on the Money Market—Acting upon the suggestion made by President Craft, the New England Group sponsored a seminar on the money market with particular emphasis on the work of the Treasury and the Federal Reserve.

Your Money at Work—Forums practically every IBA member in Philadelphia engaged in securities retailing supported a week-long forum and exhibit at the Wanamaker store.

Publicity—Both member companies and the Group are increasingly recognizing the value of publicity and are supplying articles and news stories about their activities to the press. Professional public relations agencies are being employed by some members and Groups.

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Comprehensive Group conferences, the IBA municipal research programs, and Invest-In-America have all been excellent news sources. The annual Convention has traditionally enjoyed an excellent press with some 20 to 30 financial editors and writers in attendance.

Fundamentals of Investment Banking

The official IBA textbook, Fundamentals of Investment Banking, continues in use as a standard college text as well as one of the basic volumes for both the home-study and classroom courses offered by IBA. It is a source of income to the Association through semi-annual royalty payments. A Portuguese edition of the book was published this year under the sponsorship of four financial houses, in Brazil.

Manual on Securities

The Manual on Securities Salesmanship is now in its seventh printing. Many members place frequent quantity orders for the booklet. It, too, is a source of income to the Association.

How to Achieve Success in Investment Banking

Reprints of the address, How to Achieve Success in Investment Banking, by C. W. Butler, have been made available to members and have been distributed to the junior investment associations. Many members have used large quantities of the reprints.

Memorandum on IBA Organization and Activity

A brief memorandum, Investment Bankers Association of America—Nature; Purpose; Organization; and Major Activities, has been prepared. Copies may be obtained from the IBA Washington Office.

Convention Addresses and Committee Reports

At the 1955 Annual Convention as a part of the Accent-on-Youth program, a new service was made available to members through the use of request cards, delegates at the convention may have convention addresses and committee reports mailed direct from Hollywood. Many have utilized the service in their respective organizations.

Forum on American Securities Business

The conference on The American Securities Business was sponsored by the Industrial Council of Rensselaer Polytechnic Institute, and received the Fordham Foundation George Washington Honor Medal award in February of this year. Participation in this forum was one of the major activities of the IBA Education Committee in 1956.

Junior Investment Associations

Early in 1957 the young men in the securities business in Philadelphia and the surrounding area formed the Junior Investment Association of Philadelphia. There are now junior investment associations following their example in San Francisco, Chicago, Toronto, New York, and Montreal, in addition to Philadelphia. These associations facilitate the assimilation of young men into the business, strengthen their bonds with the investment community, and broaden their acquaintanceships. They provide educational programs and social activities for their members and contribute materially to the public relations efforts of the securities business.

Joint Committee on Education

—An Introduction for Young Citizens

The Joint Committee on Education Association—along with IBA, ASEF, NAIC, NASD, and NYSE (IAB is an associate member)—is continuing its support of the Joint Committee on Education representing the American securities business. The Joint Committee is conducting two major projects: the annual Forum on Finance, and Research Into Material Collected in Connection with the Investment Banker Anti-Trust Suit.

Forum on Finance/The seventh annual Forum on Finance offered by the Joint Committee was conducted June 17 through July 3 with 30 registrants in attendance, mostly full professors, department heads, and administrators.

Invest in America—What's Happening

In 1956 the Board of Directors of IBA authorized $3,500 representing the IBA contribution toward a total budget of $34,500 for the William Sulphur Group's Investigating the IBA name appear¬ring, of various factors including, among others, the following:

A growing awareness of the value of favorable publicity at the Group and member level; the steadily expanding scope of IBA activities and projects, nationally, regionally, and by individual members; press conferences scheduled for the IBA President in connection with his visits to the Groups; the better integration of all phases of Association operations with other one roof; more frequent oral and written statements before Congressional committees and other public statements by IBA leaders on questions of general interest on which the investment banker is peculiarly well informed; expansion of the Invest-In-America movement; service of the IBA Governmental Securities Committee as an advisory group to the Treasury in connection with impending Federal financing; and a widening public interest in securities, securities markets, and investing. More New government.

The incoming Governors elected by their respective Groups and who took office at the 1957 Convention are: California Div., Curtis P. Martin of Bingham, Walter & Hurry, Inc., Los Angeles; Charles B. Harkins, Blyth & Co., Inc., San Francisco.

Central States, William H. Dinsmore, Horn¬blower & Weeks, Chicago; Frank L. Reissner, Indianapolis Bond and Share Corp., Indianapolis.


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American Capitalism—An Introduction for Young Citizens

The Council for the Advancement of Secondary Education (jointly by the Association of Secondary School Principals and the National Education Business Bureau) is seeking to encourage and improve education about the American economy in the high schools. The first of two teaching aids planned by the Council, American Capitalism—An Introduction for Young Citizens, has been tested in approximately 100 high schools in 42 states, in classes totaling 5,000 pupils. In the light of this classroom experience and oral reviews by teachers and businessmen, the manuscript has been revised, and is currently being reviewed. The booklet should be ready for classroom use early in 1958. Our Association along with other organized business groups and many corporations is supporting the project and giving financial aid.

Municipal and Corporate Bonds and Stocks

Trading Markets in Local Securities
Hear! Hear!

"If the missile crisis forces us to spend more in one direction, we must find ways to spend less in other directions. The Communist view that we can be made to destroy ourselves financially and economically stands more clearly before us than ever before. We must not and shall not allow ourselves to be enslaved by our own extravagances.

"We must recognize that we have two fronts to maintain—one military, and the other economic. We must be superior in both.

"We can not afford non-essentials in military programs, non-essentials in foreign aid, or non-essentials in government civilian activities.

"Preliminarily to a broader action, to meet the situation before us we need immediately:

1. To rechart our defense expenditures on the basis of a reevaluation of the relative priority of present and developing methods of warfare;
2. Without impairing our defense, to eliminate obsolete weapons, methods, and techniques, and wasteful practices which exist in many Defense Department activities;
3. To eliminate extravagance in foreign aid, and put more emphasis on military assistance, while reducing economic aid; and

There is more good common sense packed in these sentences than we have seen for a good while past.
Continued from page 6

Inflation: Cause and Prospects

is the upward thrust of wages which is a major cost of production. This comes about because monopolistic unions which cannot be opposed by any countervailing force under the law are able to get pretty nearly what they ask for every time. We have come to a period in our industrial relations where wage increases become automatic. In many industries increases are granted regardless of whether there is a productivity gain sufficient to offset the rise in costs.

It is a distorting fact that even when the index of prices of commodities pay increases mount. Today there are in existence, 1,197 contracts covering more than 4 million workers which call for automatic adjustments of salaries regardless of the state of business or the public demand for goods. The median increase will be 3% an hour under these contracts next year.

Now this spiraling of wages and prices cannot go on forever—unless it is supported by the monetary authorities. When prices get too high, the public backs off and buys less. Some producers are forced to curtail. Unemployment then develops as a result of the high prices. This is the kind of self-adjusting mechanism we used to have. But it has not been working that way in the past few years. Whenever costs and prices were rising too fast to bear, readjustment was called for, then the government steps in with some more inflation of the money supply and the whole process starts up all over again. This is what happened in the recessions of 1949 and 1953. When the readjustment began to take place, rises in prices in general policy was modified, money was made easier, new bank deposits were created (on top of a $7.5 billion tax cut) and interest rates for the fuel for new inflation was introduced. Only recently the Federal Reserve authorities said they had probably gone "too far" with their easy money policy in 1954-5, and therefore the result, was a spurt in "55 and "56.

The question is: What does the Federal Reserve Board do next? It is really on the horns of a dilemma. It must keep its eye on two important trends which prices which indicates whether the buying power of the population is rising or cutting away. Maintaining the stability of the dollar is a primary responsibility of the Federal Reserve Board. (2) It must also watch the trend of the consumer price index, and the necessity for funds to finance that production. But when the Federal Reserve tries to resuscitate the drooping production index it inevitably throws more fuel on the wage-price fire. There is ample evidence that the operation of our present labor policy protecting monopoly unionism makes the effective employment of monetary policies politically impossible. Without a greater restraint in wage demands is exercised by union leaders, or unless Congress changes the laws which give them the power to achieve their aims. Wages costs despite recession, monetary policy cannot achieve its purpose without staggering loss to the nation in unemployment and lower production. The function of the economic machine is to work well, then a part must be made flexible.

What's Wrong With Inflation?

Well, if wage rises can somehow be brought under control and if we can prevent recessions by inflation, what's wrong with inflation? A lot of the answers to that question. Inflation of the money supply finally has its effect on prices while some people are helped by rising prices others are hurt. Every bondholder, every holder of life insurance policies, every savings bank depositor, every recipient of a pension, all these people are hurt by inflation. Consider this simple fact. The over-debt outstanding both public and private (excluding life insurance obligations) was $804 billion at mid-year 1957. The debasement of the currency totaling 3%, which occurred in the past year, means that over $20 billion of savings was wiped out in that short period of time. Just imagine what —loss of purchasing power—means for any nation to engage in a con-sequence of choosing its own policies by a policy of monetary debasement. But there is another reason and a very important one. Inflations do not work forever. The shock to the economic, political, and social fabric of the nation by the inflationary rise in prices and the deflationary effect of such a fall to the maintenance of a free, democratic society.

Contrary to some current theories there is no such thing as a positive inflation. The foremost exponent of the "creeping-inflation" theory is Professor Sumner H. Slichter of Harvard. He is interested in note that when Dr. Slichter at first recommended an inflation of 2 to 3% in the price level each year, he considered it a necessary evil. Since the unemployment was strong enough to force the price level higher, his argument that increased monetary authority would be too dangerous to be meritful to bear. But now, curiously enough, after several years of such advocacy, we find Dr. Slichter implying that inflation may be a good thing. Such sentences as these appear in his writings. "Now the fact that inflation may be a result of the health and vigor of the economy does not alter the fact that it is a great problem. Imagine that—"flation may be a villain in health and vigor of the economy." At another point he says that inflation "is a cost of the country must meet with the increased pressure of debt order to achieve benefits which are not worth the damage wrought by the creeping inflation." Note how the word "benefit" creeps into his thinking with the word inflation which happens nobody can protect himself any longer. The axiome is that—the game has been played out.

Chronic Nature of Currency Debasement

To what extent will people get into this frame of mind once the process of inflation is a chronic disease? Won't people borrow against their savings in order to buy stocks or real estate? Will not business enterprises expand their operating costs by getting rid of dollars and buying what they can get with that money? Unfortunately, the answers to all these questions happen nobody can protect himself any longer. The answer is that everyone is wise to the fact that inflation is a continuing policy and we must not get bogyed but that would put everything that happened heretofore in the shade.

Frankly, I am not very sure about halting the secular inflation. It seems to me we have always been trying to achieve a standard of living that we always fall short of. We have always been trying to achieve a standard of living that we always fall short of.
Federal Reserve Bank of St. Louis

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basic change in the policy which permits or in the present practice and immunities of monopolies is labor unions. Inflation seems on the surface, to be an easy way out of our difficulties and the authorities will probably take the easy way out. The first step will be to make money want plentiful for the commercial banks, and to decrease interest rates. A first move in this direction has already been made by the Federal Reserve Board. The Federal Reserve Board has three powerful weapons which it can use to make an easy money policy. (1) It can lower the rediscount rate. (2) It can lower reserve requirements for commercial banks, and (3) It can buy government obligations. By a combination of these policies we can get an "easy money policy". Now when the present recession was in part due to the monetary restrictions imposed by the Federal Reserve Board, it seems probable that the easing of these restrictions will encourage some increase in demand.

But the question is whether new or in the present state of policy of credit inflation will be sufficient to raise the level to popularly desired levels. When those heights are not achieved, and when the "easy money policy" becomes more intense, then the surest way to avoid a depression is to enable people to engage in more direct inflation. It will create a budgetary deficit which will be spent directly by the government. It is a matter of fact that no one is dedicated to creating a definite level of prosperity regardless of the cost. Successful depressions will have to eventually engage in an "easy money policy" which is inflation inflation through budgetary deficits and government expenditures. The probability is that when such inflation does occur it will eventually have to be much more massive than the present tendency towards inflation. The Board's action in the past ten years has been to start upwards again. The history of rising interest rates of the past 10 years is likely to repeat itself in the future regardless of whether new or a Republican. Probably under the Democrats the inflationary pace will be much lower and a depression inflation will start upwards again. It is probable that if we are going to have inflation the trend of interest rates will be pushed upwards, as it has been in the past, and as it has in every inflationary country in the world. Inflation continues, it is going to cause many distortions of the exchange of goods. For instance it will continue to cause the overstatement of profits by corporations. Profits being reported today in dollars worth only one-third of the value of 10 years ago, are to a great extent phantom profits. A good part of inflation should be attributed to the depreciation of worn out plant and equipment not to legitimate profit. Some machines cannot be replaced between two and three times their price of 10 years ago. The money recovered in the depreciation account for 10-year-old machines barely covers the cost. It has been reliably estimated that 20 per cent of the profit account totals over $40 billion in the past 10 years and currently it is running at the rate of about $8 billion. Today corporations are paying taxes on profits which do not exist, and they will continue to pay taxes on profits if inflation proceeds.

Prosperity Without Inflation

Many people who dislike inflation ask the question — Is the alternative to inflation large-scale unemployment? Must we go from the frying pan of inflation into the fire? The answer to this question is because of the vast inflationary propaganda and the fallacious ideas that have been spread to people in this country. It is easy to say that we cannot have prosperity in this country without inflation. It is untrue to say that we cannot have prosperity without inflation. The economic history of this country would disprove both of these propositions. In the 1920's, before inflation took hold, there was much unemployment and credit stagnation and employment in this country. This occurred despite a fantastic increase in labor income. There are many other such instances which prove that we have solid prosperity with inflation. If inflationary propaganda and the fears of inflation were removed, a stagnation would be caused by the "busts" that bring misery in their wake.

If you want to see a practical example of this, look to Europe. What is the most prosperous country in Europe? What country rose from rubble and ashes and in 10 years of inflation came to a stage of miraculous progress because we, the leading citizen? It is the Federal Republic of West Germany. This phenomenal recovery was no miracle. It was due to the fact that Germany was led by men who understood the basic principle of private capitalism and who turned their face irreversibly away from government control. Ludwig Erhard, Minister of Economic Affairs of West Germany, is not under pressure from American authorities to follow the American course in 1947 and inflate their currency. While Germany was pursuing the anti-inflation, private capitalism, role. France and England were going down the road of pseudo-socialism and inflation. The result today is easy to see. Here is living evidence that the best road for a country to take is the anti-inflation road. The result is clear, the countries of Europe, like France and England, are in the midst of an inflationary and industrial progress. It will be the final blow for a dynamic society like ours. So the alternative to maintaining dollar stability is not the a happy, zooming, inflationary era where everybody is well off, but rather an era of price controls and wage controls which mean the loss of both economic and political freedom. I suggest, that you think this up as a central fact when you weight the future of inflation in this country.

The substance of what I have been saying is this: that inflation seems an easy path out of trouble, it is in reality a dark road that leads to economic, social and political troubles. We need not take that road if we have some fortitude and intelligent leadership. We can have prosperity and maintain the stability of the currency.

Boston Invest. Club

ELECTS NEW OFFICERS

BOSTON...At the Annual Meeting of the Boston Investment Club, held Wednesday, Dec. 11, 1957, at the Harvard Club of Bos¬ton, the following officers were elected to serve during 1958:

President: Lowell A. Warren, Jr., Dominon Securities Corp.
Vice-President: Dixon B. White, Hornblower & Weeks
Treasurer: Joseph B. Hurley, Jr., Harris, Upham & Company
Secretary: Richard E. Murray, May & Gann, Inc.
Publicity Chairman: Neil S. Atkinson, Eaton & Howard, Inc.

To Be Leavitt Partner

Lewis B. Bernstain on Jan. 1 will become a partner in Leavitt & Co., 40 Wall Street, New York. Bernstain is a member of the New York Stock Exchange, and will continue to handle general brokerage business of the firm. He is also a member of the New York Futures Exchange and has been a partner in the New York Mercantile Exchange since 1939.

In some respects the nomination of Mr. Bernstain is a return to the concept of "insider" as a phrase which was once popular in the New York stock market. As a bear, Mr. Bernstain was a pioneer in the development of the market in the 1920's, when the stock market was virtual panic and the "insider" was a logical creature of the market. In the present market, Mr. Bernstain is characterized as a "bear," but his nomination to the partnership is a recognition of the fact that he is a "bear" of the market and that his nomination is a tribute to his knowledge of the market.

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NEW YORK
Securities Salesman’s Corner

BY JOHN DUTTON

Some People Have to Be Told

There are people who will follow your suggestions whether they are wise or foolish, and there are some who think they know all the answers—and there are some investors who want you to tell them the facts of life and, unless you do so, you will never do business with them. Unless you can control your accounts you are never going to do a satisfactory job for your customers. It is to your own advantage that they understand this. When you come across a situation like the one I am going to relate to you this week it is a cut and dried procedure that leads to success. I’ve tried the other way and it failed. Some of these people make the best clients after YOU HAVE SOLD THEM ON YOU.

The Busy Doctor

About a year ago I met a very successful Doctor in Washington who, along with another of his friends with whom I had done some business in the past. We had a very pleasant interview but nothing developed and for a while I kept this man on the mailing list and then cut him off. Much to my surprise, a few weeks ago from his wife I received a call for my time. She said that at last the Doctor had decided to buy some tax exempt bonds and she wanted me to once again call to see them both in his office at a specific time after his office hours. I was to come prepared and bring along whatever literature I thought they should read. I made the appointment and followed through.

To any experienced salesman this is 92 a routine. You handle the inquiry in the same way. I made an appointment to see the Doctor on his time. But I was beginning to wonder if I was going to be able to help him do the investment job that you should accomplish. Can you and I make a difference in this matter? Will we be able to provide him with a worthwhile account—but if you are going to talk to this type of person keep the conversation light. They will not be interested in a heavy talk. They will ride well—and you won’t be able to handle him any other way.

Louis G. Mudge With Chas. E. Quincy Co.

Louis G. Mudge, formerly deputy director of marketing for the International Bank for Reconstruction and Development, has become associated with Chas. E. Quincy & Co., 25 Broad Street, New York City, members of the New York Stock Exchange and American Stock Exchange.

Prior to his association with the International Bank, Mr. Mudge was assistant director of the First Boston Corp.

Continued from page 6

The Business Outlook

by the government sector of the economy may be increased in 1958.

Business spending accounts for the remaining 15% of the output of the commercial sector. Business for plant and equipment rose steadily in the postwar years, but now is leveling off and will decline in 1958. The second purpose for which business spends is for inventories. The value of inventories has been rising for 28 consecutive months. However, the rate of inventory accumulation in 1957 slowed almost to a stop, and is substantially compared to 1946.

With this in mind, let us examine briefly ten specific areas of the economy.

Construction and Housing Starts

One of the reasons he had made the trip to Washington was too unqualified to make the trip. Doctor didn’t tell him this but put it this way. “Doctor, you are busy and have too much to do every day practicing medicine and you have little time to spare for the preparation for your work. Although you certainly have been busy with your practice, there is one thing I can do for you. And, in my opinion, it is important that you give your time and attention to this matter. That is an investment you can make to help you to do your job better.”

Control the Account

Unless you can handle accounts like this one, you are not going to have a successful book. Therefore, I am going to give you all the time I can do this. I am sorry, I am not going to be able to help you do the investment job that you should accomplish. Can you and I make a difference in this matter? Will we be able to provide him with a worthwhile account—but if you are going to talk to this type of person keep the conversation light. They will not be interested in a heavy talk. They will ride well—and you won’t be able to handle him any other way.

American cars that may be sold in 1957. If there should be any tendency unwisely to extend ma-

(3) Business spending for plant and equipment will amount to about $38 billion this year compared to $35 billion in 1956 and $28 billion in 1955. The recent McGraw Hill surveys estimate these expenditures will decline by 7% in 1958. The biggest declines in capital spending will be in the manufacturing, railroad and mining industries.

The principal reason manufacturers give for reducing these expenditures is an expected increase in capacity. In 1955, manufacturing operations were at 92% of capacity; in 1956, 95%; and in 1957, 97%. These figures suggest that business will be reluctant to increase productive capacity.

Investments

(1) Construction expenditures this year are rising and now are over 2½ times above the 1956 total. This expansion has been the result largely of increased expenditures by public utilities and the persistent increase in state and municipal projects including highways, sewer and water facilities.

In 1955, the recent government report estimates that construction expenditures in 1956 may be 5% above the current spending level. However, with some down turn in business, construction spending this year is probably held around the estimated $47 billion to be spent in 1957.

Residential construction, on the other hand has been a little behind 1956, with the number of housing starts in October running at about 12 million units. The dollar volume of new residential construction is declining as much as the number of starts. Housing starts in 1956, in the third quarter, were over three hundred million, three hundred thousand housing starts in 1955 and one million, ninety-three thousand starts in 1955 as compared to a probable upper bound of 250,000 ones for 1957. This year may be the first year since 1946 that housing starts have been below one million. If capital expenditures for the year 1956, some additional mortgage money maybe available for housing but the number of starts in 1955 may be about the same or possibly slightly above, compared to 1957.

The Automobile Industry

(2) The automobile industry as a whole is of great importance to the country. Thus far the sales of passenger cars and trucks have been constructive and the effect of the price increase. The year 1956 will be a very good one for sales, if sales can be held at the approximately the six million

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ther before there is a sustained upturn.

Employment

(4) Although employment in October was slightly lower than in September was not as great as usual. Unemployment did not show the usual seasonal decline in October. The percentage of the civilian labor force unemployed stood at 4.6% (seasonally adjusted) which is higher than in any month of 1957 or 1956. Manufactured employment has declined in nine of the first ten months of 1957, and in October there was a reduction in the workweek from 40 to 39.5 hours, which compares to 40.7 hours in 1956. With a continuing slow decline in productivity and moderate rise in unemployment may occur in the months immediately ahead, with a consequent decline in consumer income.

Corporate Profits

(7) The reports on corporate profits after taxes are not yet available for the third quarter. It is anticipated that they will be considerably above the third quarter of 1956 when profits were adversely affected by a steel strike and the early automobile model changeover. It is not probable that third quarter profits in 1957 will be up from the second quarter. Corporate profits after taxes were $21 billion in 1955 and $17.5 billion in 1956. For the first six months of 1957 they are continuing to increase at an annual rate of about $21 billion. Although business has spent tens of billions of dollars on plant in recent years, profits have not increased proportionately. In the first half of 1958, this problem promises to be no less difficult.

Defense Expenditures

(8) Recent international developments seem likely to result in some increase in defense expenditures. The entire defense program will require some time before its full impact is felt on the economy. But even a decision to increase defense expenditures significantly is likely to affect public and Congressional emphasis on a balanced budget in 1957, which would be a buoyant influence in the economy. It is present, it seems probable that for the months immediately ahead, the increase in defense expenditures costs will be large. However, with an expansion in private spending and lower defense expenditures seem certain to follow, perhaps within a year. Moreover, current defense measures start increasing they almost invariably grow easier and costs are usually then tightened. A clearer picture of the effect of increased defense expenditures must await the new budget and tax program and the debate in the Congress.

Bank Loans

(9) If we assume that business in the first six months of 1958 may continue at the pace of 1957, we may also assume that the volume of bank loans will show a downward trend. The recent action of the Federal Reserve System in reducing the discount rate implies that the

System will also take those steps, perhaps in the open market, which will make the money market less tight. To the extent bank loans decline in the months ahead, the need for action by the Federal Reserve to ease the money market may be lessened.

The International Situation

(10) In analyzing the business outlook we ought not overlook the possible impact of foreign developments on American business sentiment and the economy. Consider briefly only two areas, the Middle East and France.

The current situation in the Middle East is fraught with considerable danger. Almost two-thirds of the world's oil reserves are in the Middle East. Oil from the Middle East is a large part of the industrial equipment and all the military equipment of Western Europe.

The Syrian army is now in control of areas that appear to look to Soviet Russia for guidance. All of the operating oil pipelines that supply Western Europe run through Syria. Egypt now controls the Suez Canal. Through which a large part of the oil for Western Europe is also transported. If Syria and Egypt should finally come completely under Soviet domination, it would present a serious problem to the West. If we were faced with the possible economic collapse of Western Europe, our defense needs nearest to the Soviets, we would be confronted with the necessity for making some hard decisions.

France is facing an extremely difficult period. She has had 23 governments since 1945. She has had inflation. She has rebellion in Africa. Her budget is unbalanced. Her gold reserves, except for about 500 million of special reserves, are practically exhausted. Unless she can borrow more money, she is likely to face economic austerity, she may resort to the printing press for money. In view of the magnitude of these problems, a failure to control leaders who appear to be pursuing policies in all of Western Europe.

Summary

The probable business outlook for the months immediately ahead may be summarized as follows:

(1) Total construction expenditures may decline about $47 billion for 1957. (2) Housing starts—about the same as 1957, or up slightly. (3) Automobiles—if sales come near to equalling 1957, it will be a good year. (4) Business spending for plant and equipment—down about 7%. (5) Inventories—further efforts will be made to reduce the rate of inventory accumulation. (6) Industrial production—a further decline is likely before there is a sustained upturn. (7) Labor—some increase in unemployment. (8) Corporate profits—a decline of perhaps 5 to 10% in corporate profits. (9) Defense expenditures—increased research will lead ultimately to larger expenditures, but lower loans—an easing in demand.

Elkins Morris Stokes
To Admit Two


G. C. Haas & Company
To Admit Partners

G. C. Haas & Co., 65 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Mills M. Fries and Edgar T. Mead, Jr. to general partnership and use H. Levine to limited partnership, Mr. Fries is Manager of the firm's Research Department.

Hallgarten & Co. to Admit Four Partners

On Jan. 1 Hallgarten & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, will admit Edward S. Form, David S. Gottesman, Fredrick M. Peyser, Jr., and Calvin M. Cross to partnership.

Form Tower Secs.

(Special to The Financial Chronicle)

DENVER, Colo.—Tower Securities Corporation has been formed with offices in the Boston Building to engage in a securities business. Officers are Norman Feldman, President; Robert Feldman, Vice-President; and Harry Feldman, Secretary.

Counselors Management

LOS ANGELES, Calif.—Counselors Management Company is engaging in a securities business from offices at 606 South Hill Street. Partners are Stephen Titus and George C. Good. Both were formerly with Witterbush & Co.

Creary-Ross Opens

HOUSTON, Tex.—Creary-Ross & Associates has been formed with offices at 1400 Jefferson Street to engage in a securities business. Partners are Wm. W. Creary, Charles D. Ross and Ted A. Molino.

Form Le Vesque Assoc.

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Le Vesque and Associates has been formed with offices at 321 South Beverly Drive to engage in a securities business. Partners are Roland V. Grace, general partner, and William B. Matthews, Anthony Toth, Wesley A. Provus and Charles M., limited partners.

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Economic Outlook Implications For Interest Rates and Deposits

Continued from page 10

how much the demand for homes may improve.

As everyone knows, the combi-
nation of fixed contract rates on FHA and VA loans and a tight money policy have restricted the flow of money into home mort-
gages. The steady decline in new mortgage lending during the past year and a half was confined largely to Government guaranteed and insured loans, reflecting the high cost of housing to VA and FHA inspection. Conven-
tional loans have remained at a high level and for the first eight months of 1957 were at the high-
cut level since 1953. Further recov-
ery in housing starts and in the volume of mortgage financing is obviously tied up with FHA and Federal Reserve policies.

How the demand for housing will be affected depends upon the trend in personal income, upon housing costs, and housing credit terms. There is undoubtedly a big latent demand for housing, but it will not be activated unless home buyers view the future with con-
sidence and can obtain credit on an earlier payment basis than now prevailing. Although restrictions on the supply of credit are usually given as the chief reason for the past two years' decline in residen-
tial building, it is also true that effective housing outlays were dampened by consumer resistance to debt, and by the burden of debts already contracted by potential home buyers. Construc-
tion costs have risen steadily to new highs.

Governmenal Outlays

Government outlays are another potential source of in-
creased economic demand.

No one doubts that State and local government outlays will con-
tribute their steady postwar rise because of critical needs for schools, roads, sewers, hospitals and other public facilities. Pur-
chases of goods and services by State and local governments have risen during the past year by $1 billion, or by 19%, and this rate of growth will continue. However, there is less certainty about the course of Federal Government outlays although each day brings new evidence of an expanding Federal budget.

The Midyear Budget Review published last October, is already outdated by economic conditions and by changes in government's defense programs. A budget surplus of $1.5 billion for fiscal 1958 ($0.7 billion and net cash income) was predicated on a high level of business activity and increasing national income. Somewhat lower receipts and higher expenditures that estimated could eliminate the surplus.

The Midyear Budget Review left unchanged the anticipated spending for the Department of Defense of $30 billion, but the Ad-
ministration has already conceded that this target budget cannot be met. The Budget for fiscal 1958 is still in the making but, according to reports from Washington, the Administra-
tion is proposing to in-
crease expenditures on the pro-
duction of missiles and related items by $2 billion and to increase appropriations for mutual security by $1.1 billion. Time will tell in what other areas of the Budget will grow. Since it may be doubted that each of the remaining categories will prove successful, a deficit in fiscal 1959 appears high-
ly probable.

A rising trend in Federal expen-
ditures lessens the possibility of a tax cut. Of course, if the economy were to experience a pronounced downturn, a reduction in Federal taxes could be anti-
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Sure.

Since the mere prospect of in-
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Demand for Funds

The over-all demand for credit during coming months will prob-
ably exceed the Federal Reserve policies, and the increase in the supply of funds available to

The Outlook for Interest Rates

The interest rate declines of recent weeks will continue their down-
turn in business and with it an easing of monetary policy. Interest rates are bound to fall. Clearly the turning point in interest rates following a three-year rise has already been reached. How far and how rapidly rates will fall is another question. The answers depend upon the extent to which some economic, deflationary influences, with their capacity and steepness, are giving way to others.

Our most recent experience was the 1953-54 recession when rates fell from a period of about one year, with short-term rates declining much more sharply than long-term rates. We doubt that short-term rates will again show a sharper decline than long-term rates, and will probably be fairly close to their September 1954 levels by the end of 1957. The Federal Reserve will probably continue to ease credit through open market operations, and we would not expect to see interest rates reach the September 1954 level again.

A rising trend in Federal expenditures lessens the possibility of a tax cut. Of course, if the economy were to experience a pronounced downturn, a reduction in Federal taxes could be anticipated as an economic policy measure. Since the mere prospect of increased Federal expenditures has some effect upon the planning in investment and defense related industries, the publication of the new estimates in January thus have an important bearing upon future business conditions. Some observers feel that regardless of the proposed Budget, total expenditures will rise substantially and that their direct and indirect effects will go far to offset incipient declines in demands in the private economy.

Demand for Funds
The over-all demand for credit during coming months will probably exceed the Federal Reserve policies, and the increase in the supply of funds available to
self add anything to the supply of money. It took for it granted that a lower discount rate meant lower money supply. Yet the device seems to retain its magical properties—though it is an article of things to be judged by the way prevailing markets responded to the news.

The Federal Reserve's voluble fluctuation in moving toward an easier money policy was the face of inflation in its belief in the necessity of ridding the business and the community of the inevitability of inflation. Indeed, the President of the Federal Reserve discount rate, Governor Robertson has stated that he believes the country is still whether the Federal Reserve Board is entirely satisfied that the inflationary pressure has been broken, it is not likely that monetary policy will become automatic. The Board is in the interest of others. They have repeatedly insisted that they were ready to repeat their mistake of 1933-1934 of giving the government a free hand in handling money. At the present time there is no evidence that the Board regards any present discount as anything but a moderate one. Indeed, the Board would like to see interest rates change will be governed more by recessionary tendencies in the demand for credit than by anticipated actions of the Federal Reserve.

Trend of Savings Bank Deposits

One of the questions which I am expected to answer is what is happening to savings and, naturally, what will be the trend of mutual savings bank deposits. To give the best answer to the latter question, I anticipate that mutual savings deposits will rise in 1938 by $600 million, compared with an estimated $1,700 million rise in 1937. The expected increase in 1936 was $1,000 million. The increase in 1937 was $1,700 million.

The postwar growth in savings deposits is characterized by three phenomena which are probably more rapid annual an average rate of 3%. From 1932-33, the New York Federal Reserve Stock Exchange. On Jan 1 will admit Norman Farquhar to general partnership and Hamilton Robinson to limited partnership in their firm. Mr. Farquhar will make his headquarters in the firm's Washington office.

Bell & Beckwith to Admit E. P. Wolfram

TOLEDO, Ohio—On Jan 1. Edward P. Wolfram, Sr. will be admitted to partnership in Bell & Beckwith, 234 Erie Street, members of the New York Stock Exchange.

Chicago Analysts to Hear

CHICAGO III. — On Thursday Dec. 19 the Investment Analysts Society of Chicago will hold its annual forecast forum and Christmas reception at the Midland hotel.

Speakers at the Forum (in the Adams Room) will be Beryl W. Sprinkel, Harris Trust & Savings Bank, Theus. E. Goldsmith, and Walter K. Guttman, Goodbody & Co. The following speakers will follow on the Forum in the Grand Ballroom. Program is free to all members, $2.50 for non members.

Branch Cabell Co. to Admit E. C. Crist

HARRISBURG, Pa. — On Jan. 1, Edwin G. Crist II will be admitted to partnership in Branch Cabell & Co., members of the New York Stock Exchange. Mr. Crist has been manager of the firm's Hartford, Conn., office, 91 East Main Street.

Arthur O. Garrett Opens Branch in Columbus

COLUMBUS, Ohio—Arthur O. Garrett is engaging in a securities business from offices at 26 West Bay Street.
As We See It

Continued from first page

subject to all the cross currents of pressure from protectionists and advocates of freer trade. The Trade Agreements Act officially had the objective of making life easier for exporters in this country by enabling foreigners to sell more goods here—and in this way assisting in banishing the depression which h a s hung so heavy over our heads in Fair 1934.

Protection of American Industry Promised

Naturally, there were those even then who wished to be told how all this was to be done without injury to domestic industries, some of which had come into existence or been operating with the protection of high tariff rates. The answer was not clear at the time—and is not now—but three Presidents in succession gave emphatic assurance that it could be done and would be done. Now, American industry will be sacrificed, or permitted to suffer serious harm or even be threatened with serious handicap by any tariff rates or other trade terms that are negotiated under the Act of 1934 or arrived from time to time. If these three assurances at face value, one would be obliged to conclude that only imports are to be permitted to increase very greatly would be those of a relatively few products not made in this country or found in this country at all.

The Protection Mechanism

Mechanisms for the protection of American industries were provided and strengthened from time to time as protectionist sentiment grew stronger and as the influence of protectionists in Congress waxed. One of these was the so-called “peril point” provision by which the President and his negotiators were to be informed in advance of the degree in which tariffs might be reduced or other restrictions removed without danger of serious injury to the industries whose products were to be subjects of negotiations.

Another was the so-called “escape clause” under which any industry believing itself injured or in danger of serious injury by any concessions granted could appeal to the United States Tariff Commission to have the facts determined—after which the President could, and at least the protectionists thought, act to relieve the petitioning industry.

Effectiveness of “Peril Point” Doctrine

Almost no information is available about the workings of the “peril point” arrangement. What effect it has had if any upon the ultimate outcome of negotiations with the various naions is a matter of conjecture. The “escape clause” has been used by very few industries, and then quite often relief regarded as inadequate by the complaining industry. The Tariff Commission, like Congress, and for that matter any other semi-judicial body, is manned by men of various backgrounds and pre-conceived ideas. The shifting of personnel through the years seems to have had some effect upon the Commission’s willingness to find for protection, but the fact is, the Commission generally speaking has not been easy to convince that this, that or the other industry was due relief under the terms of the law. And only a small proportion of the favorable findings of the Commission have been followed by Presidential action of the sort petitioners desired.

Growing Optimism to Existing Law

The fact of the matter is in any event that the larger industries have not made it a practice of going to the Commission and asking for relief in this manner. The “escape clause” procedure soon won the reputation of being costly, time consuming and, in the end, not rewarding. There were often other avenues of escape, such as defense requirements, stock piling, purchases, and other ways of getting at least some of what was wanted. But by and large the protectionists and influential elements in American industry feel deeply dissatisfied with present arrangements. They believe, or most of them do, that they are left largely helpless in the hands of officials with definite free trade leanings. Hence, perhaps, growing opposition to any further extension of the existing statute or one like it.

National Policy Obsecure

The trouble with all this is, of course, that we as a nation and Congress as the law making body of the nation, have never been able to make up our minds whether we really want to encourage a larger volume of free international trade or not. Of course, it is absurd to suppose that much could be done in this direction without stepping on the toes of some producers or would-be producers in this country. We have large industries which have built themselves up behind tariff walls. Some of them, perhaps most of them, could survive with considerably less protection. It might well require very considerable and possibly quite expensive adjustments. A number of smaller industries would doubtless find the going hard. Theoretically all the resources, labor and other, thus brought into disuse could find other and probably better uses, but this is a doctrine not popular with those whose ox is being gored.

Congress’ Dilemma

This is the dilemma by which Congress has always been faced when it began to talk over the matter of remaking tariff schedules. It is a situation made to order for the development of lobbies and the pulling of all sorts of wires. The net result has usually been in recent times, in any event, that little or nothing could be done directly by Congress about excessive protectionism. It was this mess that Congress at the behest of the New Dealers, saw fit to try and set right in 1934, and it is this mess that has tried and time again to run away from as the 1934 Act came up for renewal. What it will do this time, the future will have to disclose. The trend of the legislation since 1934 has been to tighten more and more the provisions which were designed to limit the reduction in our trade restrictions.

Meanwhile, conditions such as transistion and world conditions and the development of labor monopoly at home have reduced the ranks of free traders while price changes have done as much to reduce the burden of tariff rates as have legislatures or administration. About the only certainty is that we shall continue to have our tariff problem with us regardless of what is done this year.

C. M. Loeb to Admit

Gloe, Forgan Partners

C. M. Loeb, Rheidies & Co., Glore, Forgan & Co., 42 Wall Street, New York City, members of the New York Stock Exchange, Exchange, on Jan. 1 will admit on Jan. 1 will a d m i t Dan P. John L. Loeb, Jr. to limited partnership.

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The Outlook for the 1953 Market

In the precipitous fall of 100 points since July, the stock market has discounted a recession in business and a decline in the earnings of business corporations. The Federal Reserve Board and other government agencies have been doing little except to watch the situation. The building of the new Federal Reserve Bank in St. Louis, the construction of the new Skyscraper in Chicago, and the expansion of the Masonic Building in Kansas City have been going on steadily throughout the year. The construction of the new Central Terminal in New York City has been completed and is in operation. The building of the new United Nations Building in New York City has been completed and is in operation. The building of the new United States Capitol in Washington, D.C., has been completed and is in operation. The building of the new United States Supreme Court in Washington, D.C., has been completed and is in operation. The building of the new United States Library of Congress in Washington, D.C., has been completed and is in operation. The building of the new United States National Museum in Washington, D.C., has been completed and is in operation. The building of the new United States National Archives in Washington, D.C., has been completed and is in operation. The building of the new United States National Park Service in Washington, D.C., has been completed and is in operation. The building of the new United States National Library in Washington, D.C., has been completed and is in operation.

Recession Discounted Marketwise

This is a time when one should not lose sight of the long view because of temporarily upsetting short-term news, such as layoffs, declines in profits, disquieting statements. The big broad view of America's future, the microcosm, says to me that 1958 will be a good year to accumulate stocks carefully. We may not go through the old 1906-57 high next year but this should not deter us to the long run. In fact, it would be unreasonable to expect a testing of the old lows. If this happens to coincide with unexceptional or disheartening developments abroad, these lows might be broken.

Growth of Life Companies

The life insurance stocks qualified for a buy rating based on a number of factors. Among those stocks have been in a minor bear market for the past two or three months.

Market No. One-Way Street

The stock market already reflects this thinking. It will not be a one-way street in 1958, nor will it be in 1957. The market has been and is in a state of adjustment optimism and pessimism. and in 1958 I believe the days of cutback, the days of pessimism. Just as last year we were able to discount a recession or depression, so investors will in 1958 strive to discount a rise in business—and possible increase in interest earnings. Also, the buyer in 1958 just as, at the top of the boom and at certain other stages of certain recoveries has favored the seller in 1957. Not only will the investor begin to discount the coming rise in business—due to revival of capital goods industries and renewed consumer spending, but certainly they will be spurred on by the foreign situation, and labor's wage demands in 1958.

There used to be a powerful incentive to invest at certain stages of the cycle—the knowledge that cash and bonds would be more valuable or increase in value. No longer is this the case, with our wage-push past its peak. However, more; in fact, cash will become worth less. Therefore, the dangers of holding cash have increased, as investors during the past quarter century have learned to their sorrow. It is a nice trick to step from high grade common stocks into cash and back again but one must be

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Investment Department

In addition to the building of the new Federal Reserve Bank in St. Louis, the construction of the new Skyscraper in Chicago, and the expansion of the Masonic Building in Kansas City, the construction of the new Central Terminal in New York City has been completed and is in operation. The building of the new United Nations Building in New York City has been completed and is in operation. The building of the new United States Capitol in Washington, D.C., has been completed and is in operation. The building of the new United States Supreme Court in Washington, D.C., has been completed and is in operation. The building of the new United States Library of Congress in Washington, D.C., has been completed and is in operation. The building of the new United States National Museum in Washington, D.C., has been completed and is in operation. The building of the new United States National Archives in Washington, D.C., has been completed and is in operation. The building of the new United States National Park Service in Washington, D.C., has been completed and is in operation. The building of the new United States National Library in Washington, D.C., has been completed and is in operation.
Continued from first page

U. S. Economic Stability Key To Free World Security

to be an alarmist, but I know you want me to state my reasons with respect to the conditions confronting us. We have been engaged in the most colossal struggle in world history. I do not use this term in the usual extraneous manner.

Facing the facts, we realize the people of the United States are in a deadly and unresting conflict with the Russian Golliat. The struggle is for the very survival of civilization.

We are in it now, and have been since World War II. But, in recent months, the tension has worsened.

We are in a truly earth shaking battle of the giants. And we are attacked on many fronts—military, psychological, economic, fiscal stability, and ideological, if not human, survival.

We cannot have military supremacy, our form of free government, or our way of life, without fiscal and economic stability. In our system, freedom, democracy and competitive enterprise are the sources of our strength. Defeat on any of these battlegrounds would be disastrous.

In its totalitarian system, Russia's destiny is tied to missiles and battlefield missiles and the absence of our strength must be regained. A world leader can never afford to be second best. Our present position is the result of a manner as well as our own survival and the free people of the world.

A week ago the Senate Armed Services Subcommittee completed its first series of hearings on the areas of deficiencies. Under the able leadership of Senator Lyndon Johnson, the hearings have been political, constructive and objective.

The Committee has already developed a vivid and shocking picture. But by this purpose we are taking no part in the war, as it might be the means to things which must be done to provide the best security possible in this troubing world.

General James A. Doolittle, one of the most respected military authorities in the United States before the Armed Services Committee, testifies that Russia surpasses this country in tremendous fields, notably in the important elements of weaponry, notably in planes, rockets, missiles and satellites. He said Russia is working longer hours than we are for military supremacy.

General Doolittle predicted the U. S. government will have to pay a far higher price in diplomatic concessions and more, possibly, in the underpayment of propaganda advantage of the spats we will not be the least of their

The enemy's weaknesses are the result of a policy of a few, if any, areas of the country's economy.

But we can not forget that our defenses have been set up on the index for 1939; we have had a record since World War II of cutting the national debt by 50% in a century; our federal debt is near a peak, and taxes are near their all time high.

Deficit financing during the past 23 years has increased the federal debt by $250 billion to a total of $747 billion and, paralyzing the economy, is set to increase 10% this year. We must not be discouraged.

Our interest on our $275 billion debt is costing us nearly $8 billion a year. This is a serious waste. The debt is largely in short term securities which are highly subject to increased cost if the current rate of paid to the Treasury is $11 billion, or more than 15% of federal revenue.

Certainly, neither our total governmental expenditures nor our tax burden can be increased without weakening our economic position, endangered or dangerously stimulating debt costs. It will be of interest to know the total tax take from the American taxpayer in the past year:

Total Tax Picture

The Federal government collects $70.6 billion in taxes for governmental purposes. In addition, a total of $12.1 billion is collected for Social Security taxes and unemployment programs. Tax collection by States total $15 billion, and $1 billion is received from the federal government. Russia's dispose of domestic-civilian problems by decrees, or even the point of extinction, if necessary. Freedom is the source of our

In a cold war, a pattern of propaganda, Russia has a great advantage, as the launching of the Russian satellite illustrated.

In the present situation, we may be sure the Russian leaders will try to use this advantage to our disadvantage as well. We must find ways to spend less in other directions. The government, in an effort to destroy ourselves fiscally and militarily, has spent more money before us than ever before. We must not and shall not allow our security to be compromised by our own extravagances.

We must recognize that we have to spend a far greater sum in military, and the other economic. We cannot afford nonessential in military programs, nonessential in foreign aid, or nonessential in government civilian activities.

It is certain that our military expenditures will be increased in the near future, and the money will be spent for purposes better served in other fields. How shall we meet the requirement? Shall we resort to nonessential expenditures? Shall we increase the deficit, and set off another war in the future? Or, shall we increase taxes? Or, shall we wipe out the nonessential and reduce our military and all down the line of government.

For "sound economy in government," I say, there can be no security without fiscal stability in the United States.

It sounded directly, I believe we can remain unchallenged militarily. At the very least, lack of security in missile missiles, rockets, and satellites will mean the end of the country's economy.

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We are in it now, and have been since World War II. But, in recent months, the tension has worsened.

We are in a truly earth shaking battle of the giants. And we are attacked on many fronts—military, psychological, economic, fiscal stability, and ideological, if not human, survival.

We cannot have military supremacy, our form of free government, or our way of life, without fiscal and economic stability. In our system, freedom, democracy and competitive enterprise are the sources of our strength. Defeat on any of these battlegrounds would be disastrous.

In its totalitarian system, Russia's destiny is tied to missiles and battlefield missiles and the absence of our strength must be regained. A world leader can never afford to be second best. Our present position is the result of a manner as well as our own survival and the free people of the world.

A week ago the Senate Armed Services Subcommittee completed its first series of hearings on the areas of deficiencies. Under the able leadership of Senator Lyndon Johnson, the hearings have been political, constructive and objective.

The Committee has already developed a vivid and shocking picture. But by this purpose we are taking no part in the war, as it might be the means to things which must be done to provide the best security possible in this troubing world.

General James A. Doolittle, one of the most respected military authorities in the United States before the Armed Services Committee, testifies that Russia surpasses this country in tremendous fields, notably in the important elements of weaponry, notably in planes, rockets, missiles and satellites. He said Russia is working longer hours than we are for military supremacy.

General Doolittle predicted the U. S. government will have to pay a far higher price in diplomatic concessions and more, possibly, in the underpayment of propaganda advantage of the spats we will not be the least of their

The enemy's weaknesses are the result of a policy of a few, if any, areas of the country's economy.

But we can not forget that our defenses have been set up on the index for 1939; we have had a record since World War II of cutting the national debt by 50% in a century; our federal debt is near a peak, and taxes are near their all time high.

Deficit financing during the past 23 years has increased the federal debt by $250 billion to a total of $747 billion and, paralyzing the economy, is set to increase 10% this year. We must not be discouraged.

Our interest on our $275 billion debt is costing us nearly $8 billion a year. This is a serious waste. The debt is largely in short term securities which are highly subject to increased cost if the current rate of paid to the Treasury is $11 billion, or more than 15% of federal revenue.

Certainly, neither our total governmental expenditures nor our tax burden can be increased without weakening our economic position, endangered or dangerously stimulating debt costs. It will be of interest to know the total tax take from the American taxpayer in the past year:

Total Tax Picture

The Federal government collects $70.6 billion in taxes for governmental purposes. In addition, a total of $12.1 billion is collected for Social Security taxes and unemployment programs. Tax collection by States total $15 billion, and $1 billion is received from the federal government. Russia's dispose of domestic-civilian problems by decrees, or even the point of extinction, if necessary. Freedom is the source of our

In a cold war, a pattern of propaganda, Russia has a great advantage, as the launching of the Russian satellite illustrated.

In the present situation, we may be sure the Russian leaders will try to use this advantage to our disadvantage as well. We must find ways to spend less in other directions. The government, in an effort to destroy ourselves fiscally and militar...
programs totaled $1.8 billion. In 1936 these programs, still including roads, numbered 78 and the cost was more than $50 million.

It was fortunate that Congress, last session, defeated the proposal to grant federal aid to public school construction. It would have opened wide a new form of Federal finance, and the risk for spending that should be financed by state and local governments.

There are more than 850 expenditure accounts within the Federal budget for strictly domestic programs and activities. I know reduction cases can and should be made in every one of them.

I like and applaud the action recently taken by the Governor of Connecticut, who announced he would reduce all Connecticut State expenditures by 10%, except fixed charges.

Since World War II we have spent approximately $40 billion in foreign economic aid and $20 billion in military aid to foreign governments. The situation confronting us is just as serious for the nations that are participating in these programs as it is for the states above.

They, too, must make some sacrifice.

When we talk about expenditures for stockpile and defense production, we are talking of programs whose budget has been increased fivefold in these programs have been exploded.

In the four years since the Korean War ended in the summer of 1953, we have increased by $20 billion in these programs. We should look more searchingly at the need for them, and at the wise we are buying in this program. In all of the recent inquiry into the activities of the military departments, no responsible official of the Government has suggested that sufficient funds have been made available by Congress.

Actually there is probably more waste in the current wartime structure than in any other area of the Federal Government. The military, itself, must be in a position where it can no longer tolerate Federal extravagance now.

You have only to read the "U. S. News and World Report," one of the weeklies, and you will find how many magazines, to be reminded of one of these. It has a chart showing 90 listings of operating units, official and boards and commissions of the United States, which is little authority in the space the field.

Under such conditions, when we are lagging behind in this range of vital defense, and under the President said in Oklahoma, could "sacrifice" this budget without a balanced budget. My long record supporting funds for necessary and efficient defense speaks for itself.

Of course I have always supported a balanced budget, but as the President did in his campaigns of 1932 and 1936, I do not worship a balanced budget as the expenditure of an essential military program, but I am preaching a budget balanced by limitation of nonessential expenditures.

The White House and the Budget Bureau at the moment are struggling with next year’s Federal budget. They need the assistance of the President in January. They need all the assistance one can give in an effort to get expenditures under control.

With unexpended balances in old appropriations still totaling approximately $70 billion, limiting nonessential expenditures in order that we may finance the needs within the statutory debt ceiling is an extremely difficult task.

The Congress could make a great contribution in this effort if it would write a limitation on expenditures from both old and new money into every item of the appropriation bills enacted in the current session.

This is one of the principal provisions in the so-called single appropriation bill which I have previously urged which has already been passed by the Senate one time and is in the House.

Deficit financing and increased taxes on short, should be used only as a means of last resort, ever increasing military expenditures. But address maintenance of personal military, and efficient and alert performance in the armed services and foreign aid, plus limitation of domestic-civilian expenditures to necessary amounts in proper areas.

In my judgment this requires a soul-searching inventory of our strength and weakness; on honest appraisal of what is essential and what is nonessential; and perhaps a wholesale new pattern of policy and this should not be limited to research, development and production of military equipment.

I am not indulging in partisan, political discussion here. I am not talking in terms of some political purgery or in some future election. I am talking in terms of what we need now—with tools at hand.

We need immediately to put first things first.

We need quick recovery of acknowledged superiority in development of new weapons and propulsion, else our superiority in our military establishments — on the one hand, the part of both those in uniforms and civilians. And we need quick recovery of our prestige among our allies and the position of strength required as a deterrent to war.

We need to fortify our fiscal solvency which is the life blood of the free world. And we need to fortify the economy upon which we depend for production capacity.

In the Senate Finance Committee, which considers legislation on taxes and Federal taxation and veterans, and public assistance and social security, renewal of the Reciprocal Trade Agreements Act will be one of the most controversial proposals before us.

This legislation will probably be accomplished by the equally controversial provisions for the General Agreement on Tariffs and Trade, and the Organization for Trade Cooperation.

In conclusion, preliminary to broader action, to meet the situation before us we need immediately:

1. To rechart our defense expenditures on the basis of a re-evaluation of the relative priority of present and developing methods of warfare.

2. Without impairing our defense, to eliminate obsolete and waste and wasteful practices which exist in many Defense Department activities.

3. To eliminate extravagance on expenditures, and put more emphasis on military assistance, while reducing economic aid; and,

4. To pay off and take partial liquidation dollar out of domestic-civilian programs.

Our military danger is great, no doubt; but further to impair our fiscal strength, and to put confidence in our government, we must be balancing.

The new issue being offered through John T. Knox, fiscal agent, and a nationwide selling group of recognized dealers in securities.

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Continued from page 5

Observations...

Another "Hot Potato"

Another instance of the stock option to management concern, where there is much current discussion, both within and outside the annual meeting. Here again, the aim should be obje ctivity on both sides with the shareholder being fair about the matter, and above all, not to show him himself against jealousy over liberal treatment in this area. Not to say, of course, that there are not many abuses available and actual to stock options. A principle I would like to give is that the shareholder should be able to seek to be more constructive via regular distribution of a direct interest in stock itself along with cash salary, instead of the stock option. This gives an effective and continuing incentive to work for his company, and very effectively making his interest in stock coincide with that of those of the board of shareholders. By actually owning stock it is less likely he will be treated as a mere employee who will not conflict with those of the public stockholder.

Director Reform

There are some solutions of constructively improving the director system. Cumulative voting should be introduced. The election of the board might then be made more meaningful—namely, (1) managers who are experienced in the management of large concerns, and who are stockholders in substantial amounts; (2) Intelligent business firms, perhaps directing the affairs of others and appraising their results, who would serve to protect the interests of the non-director stockholder. Without this latter category of outside director is paid or not is not vital. But if remuneration is given, the vehicle of the company's stock is constructively improved.

Above all, the stockholder must put the "kick" as far as possible, on directors and management to have them fulfill the obligations of trusteeship.

Your Proxy Responsibility

Do you use your direct voice in your company? Do your stockholder, use your opportunity to vote through the instrument of the proxy, etc., which is the one way in which you can help to start a continuing check and participation in the affairs of your company.

Every company must hold an annual meeting, although the SEC has no legal requirement necessitating the solicitation of proxies for it. SEC supervision of proxy solicitation, pending the possible passage of the Fullbright Bill, is limited to companies which are exchange-listed. To all intents and purposes, any real majority of companies in which your own stock, you will receive a solicitation for a proxy, that is for your use. In addition to the usual questions which a management put up for you to vote on such as the discharge of the election of auditors, etc., the right is provided for any independent shareholder to make proposals of his own. This may be done via an explanatory statement of your words. To my way of thinking this right of independent shareholder to submit a proposal to the meeting, is an extremely important one. I agree with you in the event of liberalization of the present provisions which I have testified before the Fullbright Committee, and now have several proposals before the Senate Committee and the Securities and Exchange Commission.

A very important abuse in the management-shareholder relationship is the habitual tendency of management at all large, and also more objective outsiders who you would think would know better, in cases of abuses brought up by stockholders, no matter how justified the complaint may be, or how obvious the abuse, so often the attitude is taken "if you don't like it sell your stock." Now this "brush-off" is instilled as well as wholly out of order; and in addition manifests a complete misconception of the essential status of the shareholder who is a part owner of a business, in the obligations and rights of that status. To tell him to get out if he is the same as to tell a citizen of the United States, if he doesn't like the way his government is running, to go off to another country.

As a final word as to you, the shareholder's best constructive and overall action—behave and think as a business owner, thus conscientiously discharging your duties and obligations to your capital.

Stock Split

Now for a few pertinent words about the current stock pop and stock split predication (accentuated during bull markets) for the stock split, the index of the stock split, the stock split. What is the basic difference in the determination of the stock split? When is a split a dividend? Here a conversion is made by our formula laid down by the New York Stock Exchange. Where the amount of a split equals or is greater than 24%, it is a split. Please realize that in the recent stock split craze manifested in the great number of splits in the last couple of years, constitutes a major "bull" market folish. Wall Street's recent psychological aberrations in elementary arithmetic, on splits, again, the same around during the market frenzy of the 1929's—marking the wildest.

The Commercial and Financial Chronicle . . . Thursday, December 19, 1957
Public Utility Securities

BY OWEN ELY

Southwestern Public Service Company

Southwestern Public Service supplies electricity and some natural gas and water to a population of 795,000 people in areas of Texas and Oklahoma Panhandle, Texas South Plains and New Mexico Pecos Valley. Amarillo and Lubbock in Texas, and Roswell in New Mexico, are the principal cities served.

The region is primarily agricultural (cattle grain sorghum, cotton, and alfalfa), has substantial natural resources—all land and natural gas, potash, etc.—and has experienced strong industrial growth. Industry is largely connected with oil and gas, potash, carbon black, food processing, and chemicals. Phillips Petroleum, the largest company served, is expanding rapidly in the production of synthetic rubber.

The company has enjoyed very rapid growth. Population in the region has increased about 7% in each of the last seven years. In the decade ending with the fiscal year 1957, kWh sales increased 26%, revenues 253%, and balance for common stockholders is up 25%.

Activity in the area is still at a high level, and precipitation is now following some years of very dry weather. New building permits in 1957 were 42% over 1956, and recently have been showing a growth of 22%—despite a decrease in Dallas. Expansion is planned by International Minerals, Frontier Chemical, Celanese, Shamrock Oil & Gas, Phillips (which is building a large chemical plant) and four or five other companies. Kilowatt sales increased about 11% in 1957, primarily in the commercial and industrial sector. In the past year, sales to residential customers gained about 15%. Revenues are expected to be up about 11% in fiscal 1958. The heat pump is now being actively promoted, but was only one in the area in 1956, there were 59 in 1957 and there will be a substantial increase in 1958.

The company, after completion of the large generating station known as Plant "X" (275,500 kw) found itself with excess capacity. Capability of all plants as of Aug. 31, 1960, was 993,140 kw, or a peak load of 360,000, an excess of 29%.

The company has increased its operating efficiency in recent years, a very large portion of its equipment being comparatively new. The operating ratio (electric in fiscal 1957 was 55.5%, compared with 60.6% in 1956. Employees are now down to 5,339, and fuel cost of gas has doubled in the past decade but with improved generating efficiency the cost per kw is up only 10%. Moreover, the company has fuel clauses in all its industrial and commercial schedules.

The rate of return earned on estimated rate base (slightly above original cost) was 5.7% in 1957 and should approximate 6% in the company's ordinary and preferred stock in any tier of three or four years and re-paper bonds to retire them by 1961; and according to the company does not expect to ask for rate increases. A recent rate case, in which the company brought forth evidence that would result in a substantial cutback in the rate schedule, was permitted to continue.

The company has a strong financial position. In fiscal 1955, the balance sheet showed a capitalization of $577 million, a debt service coverage of 6.6, and a net worth of $143 million. For the year ended Aug. 31, 1957, the company earned $2.87 a share of $9.6 million, and paid $2.60 of the $5.6 million in dividends.

The company was able to realize its budgeted earnings estimate of $1.90 for the fiscal year ended Aug. 31, 1957, in the first new fiscal year after its merger with the Public Service Company of Missouri, which had a budget by 7 cents, but lost 1.96 cents per share in the last fiscal year.

In the first quarter of the new fiscal year, kw, output ran about the same as in the previous year and shares earned $1.83 and $1.93 for fiscal 1958. However, in recent weeks, kw, output has taken a sharp upward spurt with Dec. 2 showing a gain of nearly 14% over last year's kw, output. This may affect the outlook for rate making.

The price-earnings ratio is 15.4 based on earnings of $1.78 for the 12 months ended Oct. 31, 1960, which was $0.85.

With Wilson, Johnson

(Special to The Financial Chronicle)

SAN FRANCISCO, Cal.—Hugh Keenan has become connected with Wilson, Johnson, Higgins & Co., members of the Pacific Coast Stock Exchange.

Diversified—that's the word that best describes the 45,000 square miles we serve electrically.

With one-sixth of the nation's irrigated farmland, one-eighth of the known oil reserves, 95% of the nation's potash production, and 50% of the carbon black output, there's an economic balance that keeps growth going up.
A Time for Vision

realism by the time-tested means of experience. As all of you can recall, this same sound approach to economic matters carried over into the affairs of business and government. "You don't get something for nothing," Jane said, but now we are impressed by it. This meant business operation in the 20th Century. It had to stay competitive and remain solvent, and that no government could return to the people the full amount of what it took from them in the first place.

Grin Fairy Tales
From those days of basing economic actions on realistic facts, however, we seem to have emerged into an era of fantasy. It is an era of economic tables that could well give our future a very grim outlook. In fact, I believe we could appropriately label these modern fantasies the "grin" fairy tales of the Twentieth Century. There is, for instance, a fable being told frequently today that promises a higher standard of living equal or higher pay, with no men being unemployed. Yet another story that is extant these days concerns the two villains—Josh and the Grin—whose wages prices is said to be the same, so no increase is needed that currently grips the nation.

Prices, or more specifically, "surprising," is another way of words of those who are spinning fantastic tales. They are being harangued as the culprit behind the steady rise in the cost of living. The fact that prices are a reflection of costs, as the steel industry pointed out recently in Washington, appears to have no bearing at all on the matter. No consideration is given to the incontrovertible fact that hourly employment costs per hour rose from an annual rate of more than 5% compounded annually, from 1940 through 1956. This was three times the increase in the product output per year. workers compounded annually over the same period of time, and that output reflects the installation of new and improved machinery. Obviously, when our employment costs and similar costs for our suppliers are increasing faster than the rate of productive output of something has to give. However, all we heard in Washington was the accusation that our rate of profit was too high, and this is about the most fantastic story that has come out in a long, long time. The fact of the matter is that in 1940, when the present cycle of inflation began, U. S. Steel made a profit of $2.3 billion and a half cents per dollar of sales, and this was a little below the average rate of profit that we had earned in all the previous years of the last quarter of the century, since 1940, and despite peak years of production, we have only equalled that figure. The only thing we have come close was in 1850 when it reached an even nine cents.

What I am trying to say, I know, to most every industrial concern in this nation. The National Association of Manufacturers has completed a study, based upon government, and Federal Reserve Board statistics, which illustrates this fact. Taking the period from 1860 to 1950, essentially since the war period, the Association discovered some interesting facts about our nation's manufacturing industry. In a first place, it was found that when rates are taken as a common measuring stick, compensation of employees showed an increase of 23% during those eight years; corporate taxes rose by some 32%; yet the price of manufactured goods was raised a mere 10%. Accordingly, some, who have to give, it is usual, it was profits—the profit per unit of output, after taxes, declined 25%.

It was also found that since 1945, a period in which total volume output increased some 40% and dollar sales rose an astonishing 45%, manufacturing profits, as a percent of sales, again took a back seat. They dropped from almost 5% in 1945 to just a little more than 3% in 1956—and this last figure was less than half the margin on sales in 1929.

I think you will agree that any illusion which makes us think that profits being excessive is, indeed, a "grin" fairy tale. Even disregarding profits, of course, is the fact that those who condemn business profits, are frequently the individuals who call upon industry to employ more people and provide jobs and products for a growing population.

Keep Our Feet on the Ground
Just a couple of months ago, it was advocated that American industry overbuild its hopes in the illusion of helping foreign nations build stronger economies. Industry is being asked upon the interests of our hope in adapting nuclear energy and electronic discovery to productive processes. We hear it said, also, that industry will be required to play an important role in financing scientific research to lift mankind into the century of space travel. But it seems obvious that we must first keep our feet on the ground, if we are to assume these gigantic tasks and responsibilities. Our progress to succeed must not be impaired by a tax-cost squeeze on the profits which represent the means of maintaining sufficient strength to do the jobs asked of us.

Somehow, we must get across to the American people that our natural laws of economics cannot be repealed by popular opinion, represented by government, that we shall never achieve the impossible task a few years ago, for nothing." And particularly, it is time that business management took control to convince everyone, once and for all, that business profits are made, and the just the money left over after costs are subtracted from sales income.

Perhaps we could begin by prevailing certainty that our system is not a "price system," as some refer to it, but rather, "profit and loss system." It is profits and losses, as you and I are so well aware, that direct this re-direct our business planning to conform to the changing will of the people, and the use of capital attracted by profits, that make available all the tools of production, the more effective use of energy sources and the various means by which the wages of today can be paid and be given greater purchasing value in the marketplace.

It is the profits realized by business and industry that create jobs, build efficient productive capacity, undertake research and development of new products, and keep our entire economy travelling along at an ever-higher rate of speed. I cannot imagine a world more imperious, than the job of placing these facts before every citizen of this land. It is the only way we are going to return economy reasoning to a sound basis, and it is the means by which we can help the American people challenge the baseless assertions of those who insist upon substituting figurative statistics for economic facts.

Cites Western Germany
I spent a few weeks abroad this past summer, and one of the countries I visited was West Germany. This half of Germany began its recovery from the ravages of war and post-war malnutrition just a little more than a decade ago. To a nation that had been completely destroyed, and to a people that were demoralized would at best be a miracle, it has occurred. Yet the leaders of West Germany understand that great change of rebuilding that once great nation. In stark contrast to the state-planned economic measures of East Germany, they have recognized the need to re-establish freedom to pay in only one direction—a free economy.

Securing Western Germany has one of the strongest economies in all of Europe, and in a devastated state just ten years ago, are now the busiest in the world. It is second only to our own nation in the production of automobiles. Those who are crowded with commercial traffic and a pleasure-seeking German nation, it is clear that shops and businesses are thriving.

"The lesson of Germany's experience," as the First National City Bank Monthly Letter pointed out recently, is that sound old-fashioned policies still work. The West Germany case is not being invested in iron ore mines, automobile plants, and steel mills in the rest of the world, and I am told the German government took control to control, everyone, once and for all, that business profits are made, and just the money left over after costs are subtracted from sales income.

Perhaps we could begin by prevailing certainty that our system is not a "price system," as some refer to it, but rather, "profit and loss system." It is profits and losses, as you and I are so well aware, that direct this re-direct our business planning to conform to the changing will of the people, and the use of capital attracted by profits, that make available all the tools of production, the more effective use of energy sources and the various means by which the wages of today can be paid and be given greater purchasing value in the marketplace.
The Government market is being pushed around a bit, but this is being looked upon as a normal development when consideration is given to the fact that the rise in quotations has been very sharp and over a very short period of time. Nonetheless, the market for Government securities is still bullish, in the opinion of most money market specialists, because they expect money rates to go lower. This will be brought about either by import cuts in market operations or by a decrease in reserve requirements. The deterioration in the business picture indicated by important and favorable money market action is indicated in the near future.

The Treasury bill market is still showing plenty of demand in spite of the slight increase in the offering of this obligation. Reports continue to indicate that the deposit banks are building up holdings of the most liquid Government securities.

Market in Consolidation Phase

"The money market is still making hay and although there has been adjustments in the bond market, there is no question about the market's favorable side. The mistake, or the opportunity for the market in question is on the part of the Government securities, and the backing away of quotations from the top levels made in the recent sharp upturn has not lessened the buying of these obligations.

As a matter of fact, the profit-taking and selling which has been going on into the market from time to time has been very readily absorbed. The only thing is that the quotations of bonds is to be expected at intervals, because it is very seldom that prices go straight because there is always the trader and the dealer who is inclined to sell out his positions in order to realize gains and acquire stocks which have been established.

\[\text{Tax Loss Selling Active}\]

The fast moving operators have been disturbed by the lack of ease in the money market and, when market conditions tightened a bit more last week, there was profit taking in the Government market. Also, there has been some outright selling by institutions, since the level of prices was high enough so that they could take tax losses. Previously the quotations were so low that tax loss selling was pretty much out of the picture as far as some institutions were concerned.

The market adjustment has not been as swift as it was and it was reported that shorter-term issues are still being swooped into the longest maturities. Also, the more favorable prices which can be obtained during a period of adjustment has hastened the move into the most distasteful Government securities.

\[\text{Business Trend Favor Government Market}\]

The deterioration of the business picture continues and in some cases the downtrend has been very sharp. These data seem to prove that the inflationary trend is over, and the economy is in a recession, the duration of which is subject to considerable predictability and much discussion. The fact that the business pattern is on the defensive is not an unfavorable factor as far as the Government is concerned. There will be ease in money and credit conditions which can be brought about in many ways with the leaned demand for money and credit of the important ones.

\[\text{Underwriter in Connection of the Central Banks can help to improve money market. Federal can give the money market considerable aid by doing nothing at all, such as not selling Treasury bills to offset the return flow of currency and the borrowings of foreign loans which usually takes place after the turn of the year. An- other factor which can be effective help can be given to the market is through a reduction in reserve requirements of the member banks of the system.}\]

\[\text{Cut in Reserve Requirements}\]

\[\text{Matter of Time}\]

There is some question in the minds of certain operators how long the new changes in money market are going to last. It is impossible for this group does not look for changes in reserve requirements until after the turn of the year. As against this, there are those who believe that reserve requirements could be changed at any time. They believe that the weakened economy needs the stimulus of lower reserve requirements.

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Associates in the offering are: The Pennsylvania Railroad, Union Securities & Co.; and Stroud & Co. Inc.

With Shearson, Hammill (Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert C. Flaherty and Harold L. Passig are now affiliated with Shearson, Hammill & Co., 220 South Grand Avenue. Mr. Passig was previously with G. Brashares & Co.

Allied Secs. Co. Opens

Sol Abramowitz is engaging in a securities business from offices at 109 West 46th Street, New York City, under the firm name of Allied Securities Co.
Specific Labor Proposals of Eisenhower Administration

Taft-Hartley Act which we consider appropriate and timely.

Secondary Boycotts—The President will not recommend legislation to prevent secondary boycotts. The President is concerned that such legislation would be unwise and that the secondary activities are legitimate strikes. There are, however, other secondary boycott activities which are definitely contrary to the public interest and as undesirable as the secondary activities now prohibited by the Taft-Hartley Act. We will propose, therefore, that any secondary boycotts instituted by a union now covered by the Act would be prohibited if it coerces an employer directly, or induces individual employees, in the course of their employment, to refuse to perform their duties in order to coerce an employer to cease doing business with others. This proposal would apply to coercion of all employers, including those not now under the Act's definition of "employer," such as railroads and municipalities.

The Administration will also recommend that it be made an unfair labor practice for a labor organization to coerce, or attempt to coerce, an employer to recognize or bargain with it as the bargaining representative of its employees where:

1. The employer has recognized in accordance with law another labor organization as the bargaining representative of its employees and has executed a collective bargaining agreement, and a question of representation may not appropriately be decided under the Taft-Hartley Act; or

2. Where within the last preceding 12 months the NLRB has determined in a proceeding under section 10 of the Act that the employees do not wish to be represented by the labor organization.

Continued from page 9

Gearing Economic Policy to the Crisis Before Us

Eisenhower's proposals would save more, preparing for the time when inflationary spiral takes a new home or a new car. Accumulation of demand for consumer durables would have to be rationed.

Although recent surveys indicate that industrial spending for plant and equipment in 1958 will be about $2 billion above in 1957, it will still be an impressive figure of $32 billion. Given this constant demand for capital equipment in certain industries, such as the utilities and auto" "automotive," there is still need for more new schools and public buildings. The building of new highways that will go on. Expenditures for military purposes will increase.

The effect of increased military spending on the economy will depend largely on the state of the budget—whether it is balanced, or not. If the budget is unbalanced to any significant degree, the economy will most likely have a resumption of inflation.

Our economy has so many built-in safeguards against recession that it is inclined to have an inflation bias, and a large increase in military spending could be expected to produce some curtailment if it involves deficit financing. It is quite possible that effective measures could be taken against inflation, such as financial ballistics missiles, defense aga4 instability by launching long-range missiles. But such measures of interception techniques, and low-cost defense, would serve only to retard development and space expenditure. Therefore, the national government would be obligated to spend more billions than anyone now imagines. Although the increase in military expenditure from $22 billion in 1957 to $40 billion in 1958 might be the years go by. At first such expenditures would tend to affect only the economy, but it would spread as expenditures are stepped up.

Bold Plans Needed

We need bold plans to meet the double crisis of the threat of inflation and the threat of a new depression as an economic recession. Nothing but bold plans ever were effective action. We must take action against the double threat.

The fact that the rate of economic expansion has slowed down does not mean that our economic machinery is no longer efficient. It simply means that some parts of the economy have been moving ahead too fast and that they must pause a little for the others to catch up. We were fearful of deindustrialization in 1934, and again in 1954. In both instances, we were able to take effective measures to restore a better balance of economic activity.

Even if the Gross National Product in the fourth quarter of 1957 is materially above the $42 billion rate of the third quarter, the total for the year will be about $43 billion. This will be the highest year in our history. $2 billion above 1956. After allowing for the price increases which took place during the year, the "producer" goods and services is still substantially above 1956. In my opinion, total produc" "product,"ion of goods and services will be even higher in 1958. We are optimistic about the prospects for the coming year if we take intelligent, aggressive steps of policy to meet the current crisis. I believe that we have more power, if we will but use it, to stop an economic recession than any time in the past 30 years.

We may expect some sagging in durable goods activity during the next few months, but that is no reason for gloom or loss of confidence.

Now is the time for businessmen to show their strength, to take any re-" "resistance," stance and to meet competition with increased emphasis on selling, advertising and sound merchandising of quality products. As businessmen, we can serve our country better than in the cause of temporary adverse con" "commit,"vances. I am sure that the next decade will bring us tremendous opportunities for economic service to a growing country.

J o i n s R e s e r v e I n v . Co ., P a r t n e r in C o n s o l i d a t e d B a n k s

Municipal Bonds
Bank and Insurance Company Stocks
Mutual Investment Funds
Public Utility, Railroad and Industrial Bonds—Preferred Stocks—Common Stocks

Mercantile Bank Building
Dallas, 1 Texas

Rauscher Pierce & Co., Inc., Member
New York Stock Exchange
Midwest Stock Exchange
American Stock Exchange (Associate)

U n d e r w r i t e r s . D e a l e r s
Brokers Distributors

With L. A. Caunter (Special to The Financial Chronicle)

CINCINNATI, Ohio—William O'Brien has become connected with E. P. Davis & Co., Dixie Terminal Building.

With Bosworth, Sullivan (Special to The Financial Chronicle)

DENVER, Colo.—David M. Pollock and Walter A. Bosworth, Sullivan & Co., Park Building.

Walker, Austin & Waggener Investment Securities

S A V I N G  T H E  U N I T E D  S T A T E S

With Curtis Merkel Co.

With Curtis Merkel Co., Partner in Consolidated Banks

ST. PETERSBURG, Fla.—R. D. Michaelis is with Curtis Merkel & Co., Inc., 601 First Avenue, North.

Joins Paynter & Co. Staff

FT. MORGAN, Colo.—Clay T. Whitcomb has become affiliated with Paynter & Co., 114 East Kiowa Avenue.

With A. M. Kidder Co. (Special to The Financial Chronicle)

FT. LAUDERDALE, Fla.—Edgar C. Conard has been added to the staff of A. M. Kidder & Co., Inc, 207 East Las Olas Boulevard.

Join A. M. Kidder & Co. Staff

MIAMI, Fla.—Kenneth A. Wood and Robert H. Davis II are with A. M. Kidder & Co., Inc, 139 East Flagler Street.

A. M. Kidder & Co. Adds

ST. PETERSBURG, Fla.—Al- bert L. Dyson has been added to the staff of A. M. Kidder & Co., Inc, 406 Beach Drive, North.

With Curtis Merkel Co.

ST. PETERSBURG, Fla.—Curtis Merkel & Co., Inc., 601 First Avenue, North.
IBA GROUP CHAIRMEN

MISSISSIPPI VALLEY
Elvin K. Pepper

SOUTHWESTERN
Paulus E. Burke

TEXAS
Earl G. Frieldy

Changing Pressures on the Canadian Dollar

Bank of Nova Scotia analysts are current trends affecting the market for the Canadian dollar and the Canadian balance of payments.

The current leveling-off in the Canadian economy is bound to have important effects in the balance of payments and in the exchange market for the Canadian dollar, says the current Monthly Review of The Bank of Nova Scotia, which discusses the movements in the exchange rate during the past few years.

One area which will be affected by recent developments is that of merchandise imports. When the investment boom was gathering strength in 1955 and 1956, the volume of Canada's imports rose much more rapidly than domestic production. In large part this was because the expanding capital program required machinery and construction materials of kinds or in quantities not readily available in Canada. Now that economic conditions are easing, there is a fair chance that imports may again be more heavily affected. There may also be similar reduction in the need for freight and shipping and for such business services as insurance fees.

The big question, however, is whether the Canadian dollar (which would tend to sustain the exchange rate) will proceed as rapidly or go as far as the various factors working in the opposite direction. Against the new, the more possible downturn in exports, the more for lower interest and dividend payments (because of the heavy foreign investment of the past few years) and, most important of all, the likely contraction in the overall inflow of capital.

In the past seven years, favorable export markets and the associated high rate of investment and capital inflows led to more than offset greatly increased import requirements, producing for most of the period a strong exchange rate. In an atmosphere of easing export markets and slackening capital investment, the exchange rate might be weaker. The factors involved, however, are complex, capital movements in particular being sensitive to changes in business conditions, investor confidence and in official economic policies.

Exports Slowing Down

During 1957, the Review goes on to say, the total flow of Canadian exports has been slowing down, and markets for many products have become more uncertain than at any time since 1954. Overseas shipments of grains have fallen sharply and there has been a gradual softening in both U.S. and overseas demand for most of this country's basic wood and mineral exports. In spite of a scheduled further rise in exports of uranium, it is difficult to foresee for the coming months anything better than a level rate of total export income. There may, indeed, be some decline.

Turning more directly again to the exchange market, the Review points out that since the autumn of 1956 the exchange rate on the Canadian dollar has once again been held up or down in response to market forces. This freedom of movement is subject to certain restrictions. Exchange Fund operations aimed at resisting what are considered to be speculative short-run fluctuations but giving way gradually in the face of persistent trends.

The decision to return to such a free rate system was influenced by a record-breaking extent by the difficulties which had been experienced between 1946 and 1950 with a fixed rate.

Free Rate Kept Costs Down

With regard to recent criticism of the free exchange rate system, the Review says there is no denying that an appreciable rise in the foreign exchange value of the Canadian dollar does cut into the earnings of any producer whose prices must be competitive with prices abroad. But it is equally clear that in an inflationary environment the absence of a rising exchange rate would have meant higher costs than those actually experienced.

It has, in fact, been open to the monetary authorities all along to seek to encourage a lower exchange rate, but this would have involved a less restrictive credit policy and, undoubtedly, higher prices. Now that the general economic situation is gradually changing, it is possible that the new balance of forces in the exchange market may in themselves be leading to a lower rate. Whether or not the Canadian authorities give an added push to such a development will depend on the degree of easing they consider appropriate in the Canadian economy and whether they wish to move more rapidly than the United States in this direction.

The Review goes on to say that the difficulties in determining appropriate monetary and fiscal policies would not be removed by the return to a fixed rate system. In certain circumstances, indeed, they might be considerably increased. The fact is that in a period of accelerating growth and of great optimism among foreign investors about Canada's prospects the free rate system has for the most part worked well. Changes in the rate have been relatively small and these changes have facilitated adjustments in the balance of trade.

Ralph Madoff Opens

HFIMSTEAD, N. Y. — Ralph Madoff is conducting a securities business from offices at 9 Centre Street.

Daniel Mook Opens

Daniel Mook is engaging in a securities business from offices at 36th and 3 West 30th Street, New York City.

Forms Sec. Planning

Dorothy Gluck is engaging in a securities business from offices at 9 Centre Street, New York City.

LETTER TO THE EDITOR:

Reader Suggests Changing Role Of the Rediscount Rate

Perceiving numerous difficulties in arriving at proper rediscount rate, Reader Shull suggests the Federal Reserve permanently fix its discount rate at 3%, lend member banks sufficient amounts to meet reasonable business needs, and allow banks to purchase such securities as to their lending rate.

Editor, Commercial and Financial Chronicle:

We currently read in the press a great deal about what the Federal Reserve has done, or may do, with the discount rate --- whether it will be held at its present 4%, or again be raised or lowered, as the case may be, to some other level.

And with the doubt and uncertainty which must leave in the minds of bankers directly in contact with the public, it would seem that they are considerably handicapped in trying to determine the proper rates to accord their customers depending on them for loans.

One gets the impression that the FED has its finger on the pulse of the entire business of the country and can at any time say just what the needs of business are and how it should function; but it does not seem reasonable to assume that any one individual — regardless of his capacity as a wizard of finance — can possibily comprehend the financial needs of a nation's industry as a whole, or, for that matter, even a small segment of it. Why, even large corporations get together a flock of their officers to discuss policy, and try to decide what moves to make to further the best interests of their particular corporation, and even then they occasionally make mistakes in gauging what the future has in store for them. How much less, therefore, can the FED be relied upon to say what will be in the best interests of industry as a whole.

As a layman, it would seem to me that it would make for greater helpfulness to business if the Federal Reserve would set its discount rate at 3%, and maintain that rate through thick and thin; and then loan the member banks sufficient amounts to meet the reasonable needs and legitimate requirements of their borrowing customers, and let the banks compete among themselves as to rates to be offered these borrowers. In other words, let the old law of supply and demand be keenly operative in this field as well as in the field of business in general.

I cannot see how one individual — the head of the Federal Reserve System — can possibly be so well versed in the financial needs of business involving our 170,000,000 people as to be able to intelligently regulate their activities by raising or lowering the discount rate to commercial bankers — people who in the aggregate possess a lot more financial knowledge. But if I am all wet in these observations, I hope some banker or economist will point out the flaws in my argument.

FREDERICK G. SHULL

2009 Chapel Street, New Haven 11, Conn.

Dec. 5, 1937.

C. Russell Berger

C. Russell Berger passed away Dec. 16 of injuries received when he was struck by a train while returning to his home. Mr. Berger was a securities officer for G. A. Saxton & Co., Inc., New York City, with which he had been associated for thirty years.
The State of Trade and Industry

some rolling time open as early as the first quarter of 1958. One Midwest producer has gone of allocation and is urging all sales offices to recheck long-term delivery commitments, this trade weekly reports.

The automotive industry boosted passenger car output 6.1% last week and is scheduling its 6,000,-

1958 United States unit of the year this week, "Ward's Auto-

notive Reports," declared on Friday last.

"Ward's" observed that the milestone vehicle will stamp 1958 as the industry's third-best year in history. The only other times output has been greater have been in 12-month periods in 1955 when output reached 7,849,132 units, 1956, 6,674,933 units and 1953, 6,134,534 units, but the 1958 volume is scheduled to be ex-

ceeded in the closing days of this year.

The statistical agency counted the past week's production in United States plants at 167,056 cars and trucks compared with 182,044 last week and 182,548 in the same week a year ago.

Car output alone climbed 6.1% over the preceding week, 148,069 from 139,508 units with General Motors Corp. taking the largest bright 54.9% of December assem-

bly thus far. Ford Motor Co. is holding 23.2% market, Corp. 15.8% and American Motors 2.9% in production, taking 9.9%. Saturday overtime con-

tinues to figure into weekly ca-

r and truck assembly, "Ward's" said, particularly in plants of Chevrolet, Ford and International Harvester.

"Ward's" noted that Chevrolet last week attained No. 1 honors for entir-

e in 1957 in the United States produc-

tion of cars and trucks. Chevrolet's record output in the past week swelled its produc-

tion since Jan. 1, 1957.4,297 cars and trucks compared with 1,781,-

Chevrolet this week also will establish its No. 1 position in passenger car assembly. It ac-

cumulated 1,450,076 units through Jan. 1, 1,178,999 units by Ford, but is out-producing Ford by 15,-

000 cars a week, 1,146,597 to 1,131,499, Ford, of course, holds a commanding year-to-date lead in new car sales.

Business spending for new plant and equipment, according to latest esti-

ter of 1958 will decline 5% below outlays for the fourth quarter of this year. This will be the first year-to-year decline since early 1955, a report by the United States De-

partment of Commerce and the Securities and Exchange Commission predicted.

The joint report placed the seasonally-adjusted annual rate of capital investment for the first quarter of next year at $35,500,-

000,000, compared with an estimated rate of $37,500,000,000 for the final quarter of 1957.

The prospective first-quarter rate would be seasonally higher than the $35,000,000,000 total of such spending in 1956, but 5.9% be-

low the 1957 average and well under the $35,900,000,000 annual rate of the similar quarter of 1955.

Plant and equipment spending is considered by many economists to be a key factor in the economic situation. The leveling off of such investment over the past 12 months has cited by economists as one of the main factors in the past six months decline.

Results of the latest survey indicate outlays rose to a record seasonally-adjusted annual rate of nearly $37,800,000,000 in the third quarter of this year, topping the previous estimate of $37,200,000,000.

Fourth quarter spending is expected to be about $37,500,000,000 compared with an earlier estimate of $37,300,000,000. The annual rate for the first half of the year was $37,500,000,000.

Actual private home building for 1957 will fall short of the mil-

lion mark despite a seasonally-adjusted annual rate of just over that total for the new single-

home building, the United States Depart-

ment of Labor indicated.

It pointed out that private hous-

ing starts for the first 11 months of this year continued to be at 10% below the 1956 figure for the like period and the smallest for those months since 1949. Con-

tinuing, it stated that despite seven successive months in which the private home building rate has been near or over a million, the actual building rate would fall short of a million because of lower volume in the first four months of the year.

The indicated 1957 total less than a million is about in line with what government housing officials have expected for the year. They have blamed the ef-

fects of tight credit conditions and high interest rates for the lack of home mortgage money, and have foretold a drop in housing starts.

Steel Output This Week Expected to Drop 67.4% of Ingot Capacity

Steelmakers worked below 70% of capacity last week vs. 75.7% the week before, and operations were down 2.6 points from the previous week, falling to 69% of capacity. This is the lowest rate since 1958 for 1957. For the like week of 1956, the steel-making indexes across the board in metalworking and suggests that steel inventories at users' plants were much higher than any one suspected.

A big plus note is that steel stocks are lower than they were a year ago, the weekly magazine of metalworking added. One year ago, stocks totaled about 20,000,-

000 tons of ingot steel. Operations for 1958 in. But last May, they rose to 22,000,000 tons and now stand at 19,000,000 tons.

General liquidation will con-

tinue for at least the next six months and by late summer, steel stocks may reach about 15,000,000 to 16,000,000 tons "Steel" estimated.

Many steel buyers are trimming their stocks because: their business is down; virtually every steel prod-

uct is readily available for the first time since 1954 and finally, because there will be no indus-

try-wide steel strike in 1958.

A "Steel" survey of 12 buying categories shows inventory li-

quidations going on in autos, applic-

ances, electrical equipment, ma-

terial handling equipment, steel machinery, general machinery, farm equipment, oil country goods, fasteners and stampings.

Turnover, is the worry in steel

warehouses. Most report it is at least 19% slower than a year ago and some say it is as much as 20% lower. Inventories are high. F urth-

er, widespread cutbacks have occurred in defense work, according to a publication said mills re-

port that new orders for finished steel are flowing in steadily, but they are for small lots and on a hand-to-mouth basis.

An absence of active mill and foundry demand continues to force scrap prices lower, though the pace of the decline has slack-

ened noticeably. "Steel's" combine on the prime steelmaking grade last week was another 33
cents to $2.25 a gross ton, a new low since October, 1954, concludes this trade weekly.

The American Iron and Steel Institute announced that the operating rate of steel companies, based on the steel-making capacity for the entire industry, will be an average of 67.4% of the year's production. For the first week of the year, December 16, 1957 equivalent to 1,729,-

947 tons and a week ago the steel operations are expected to continue for eleven consecutive weeks.

The industry's ingot production rate for the week in 1957 is based on annual capacity of 133,459,150 tons as of to Dec. 31, 1956.

For the like week a month ago the rate was 76.8% and produc-

tion was 1,414,098 tons. A year ago the actual weekly production was 1,354,186 tons or 126.3%.

The operating rate is not com-

parable because capacity is higher than capacity in 1956. The per-

centages figure for 1956 are based on an annual capacity of 133,636,-

998 tons as of Jan. 1, 1956.

Electric Output Records Further Gains in Past Week

The amount of electricity energy distributed by the electric light and power industry for the week ended Saturday, Dec. 14, 1957, was estimated at 12,570,000,000 kw. or 2.6% above to the Electric Institute. Output continued its gains of the previous week.

The past week's output rose 83,000,000 kw. or 1.1% above that of the previous week and by...
MUHR INVESTMENT CORP.

101 N. ST. MARY'S ST.
SAN ANTONIO, TEXAS

Branch Office: 2001 Cedar Springs, Dallas, Texas

Corporate and Municipal Securities

DIRECTORS

A. W. Freeland

Vice-President

Underwriters — Distributors — Dealers

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Trade Volume Declined Moderately Both for the Past Week and Like Period of 1956. Rainy weather and transit strikes in some regions curtailed Christmas shopping in the period ended on Wednesday of last week and volume fell moderately under the price index of 20 a year ago in the nation as a whole. The most noticeable year-to-year decrease in sales of furniture, housewares and major appliances. Overall activity remained slightly from the comparable week last

Wednesday, Jan. 1, it was announced by William Rosenwald, Chairman of the board. Mr. Rosenwald also announced that

He then announced that the same time, H. Theodore Freeland will become Executive Vice-

i.e. Loadings Volume

The loading for the week ended Dec. 7, 1957, was 6,16,146 cars or 11.6% above the comparable period in 1956 and 103,500 cars, or 14.4% below the corresponding

loadings in the week in question were 232 a week ago, but the average for the last week was 210 last year.

Small carloads, consisting of 3,500 dipped to 34 in the previous week and were down slightly from 39 in the same week of 1956. Twenty-six of the failed cars involved liabil-

ities in excess of $100,000 as compared with 22 a week ago.

All of the decline during the week was concentrated in retailing where casualties dropped to 114 from 149. In contrast, the manufacturing total edged to 34 from 33, wholesale to 21 from 18, construction to 48 from 41 and commercial service to 25 from 23. In all but retailing, fail-

ures exceeded their 1956 levels. The most noticeable increase from a year ago occurred among wholesalers and manufacturers.

Geographically, failures dipped in all of the cer- tainsly states but the Middle Atlantic States re-

mained highest. The East North Central 42 as against 47 and the South Atlantic 22 as against 23. Contrasting in-

creases appeared in the three other areas, including the Pacific States where the total rose to 70 from 62. More

business failures this year than a year ago, in six of the nine regions with the sharpest upswing from 1956, to

be in the East North Central States.

Wholesale Food Price Index

Last Week Compared with a Year Ago

Coping a 1% Year Period

The higher trend in prices of foodstuffs continued the past week, and the Dun & Bradstreet wholesale food price index for December, at $6.45, represented a new high for the past two and a half years, compared with $6.42 a week earlier and marked a gain of 4.4% above the $6.10 level of the comparable date a year ago.

Moving upward in wholesale food prices during the week were flour, wheat, rye, oats, hams, butter, milk, eggs and steers. The index represents the sum total of the price per pound or number of foodstuffs reported by general use and its chief function is to show the general trend of factory prices at the wholesale level.

Wholesale Commodity Price Index

In Latest Week Broadened Its Gains of Previous Period

The general commodity price level advanced moderately last week, and is now the commodity price index, compiled by Dun & Bradstreet, Inc., rose to 276.48 on Dec. 9, from 270.94 a week earlier, but was noticeably weaker during the week ending Dec. 25, 1957. The index compared with a level of 275.69 a month ago, the 1957 low.

Trading in most grains was close to that of the preceding week. Purchases of wheat were

sluggish with prices unchanged. According to a private estimate, the amount of wheat under Gov-

ernment loan as of Nov. 15 was 173,000,000 bushels, up 20,000,000 bushels from Oct. 15. Both cash and futures

prices of wheat and advanced slightly and transactions were moderate above those of a week earlier.

In the case of feed grains, there were fractional decreases in prices of oats and soybeans, but no changes in corn or barley.

Coffee prices rose somewhat as a result of increased inventories, including those advanced for Brazil and Columbia lighted, and the overall inventories totaled about 1,550,000,000 pounds. There was less active with prices down sharply for Australian and

Tea prices were down sharply for Australian and

The Dow Jones industrial average was down 18 points to a year ago, it was down 17 points from 757.29 114

Mr. Rosenwald announced that

the organization in 1949, and is a former member of the Board of Governors of the Investment Bankers Association of America. He succeed Emmett F. Connery, who will retire as President but continue as a director and consultant.

Mr. Freeland is a director and has been Vice-President in charge of the corporate trading business of the company, which, in addition to its new debt, will continue to supervised.

Mr. Bannard is also a director and is Vice-President in charge of American Securities' sales and research activities and the public utilities department.

Form J. D. Inv. Co.

Now J. I. Ferrell Inv.

FT. COLLINS, Colo.—J. D. In-

vestment Co. is engaging in a securities business from office at 414 West Oak St. G. Wayne

in the firm the name of Ferrell & Ferrell, Center

Bailish is a principal of the firm.

Now J. I. Ferrell Investments.
Bank and Insurance Stocks

By Arthur R. Wallace

This Week—Insurance Stocks

The CONTINENTAL INSURANCE COMPANY

This member of the American Fire Insurance fleet opened its doors in 1835 with $53,300 capital. New York was recovering from two catastrophic fires, those of 1835 and 1845, and insurance was difficult to obtain. The rates charged by fire companies in the city, and after major losses carriers were loath to accept any but the better risks. At about the same time several other insurance companies were organized. In 1853 Niagara Fire Insurance Company, and in 1855 Fidelity Fire Insurance Company of New York, were in business, with those units to be added to the American Fire fleet. Phenix, first having merged with Fidelity Fire Insurance Company, to make a United States company in 1961, the Firemen's mutual insurance has not been underwritten by underwriters who were arising from the perils of the sea. The company was established to engage in fire insurance, primarily to cover the risks of the 1850's, a period when lighting finally escaped from strict property insurance came, and we had the casualty company with its numerous lines. This development is to fulfill the present need for Firemen's com- pany, probably the largest and oldest New York State casualty writer.

There were several other members of the fleet, but consolidations have reduced the number to four; and today Continental Insurance and Fidelity Phenix each own one-half interest in Niagara and Fidelity & Casualty. In process of consummation is an agreement between the company and South Carolina Firemen's insurance company which will give the holders of Firemen's stock 17 shares of Continental for each 20 shares of Firemen's stock.

Among the catastrophic losses that Continental has weathered in its 140 years of existence were the Great Chicago fire of 1871 which destroyed $200 million of property; the 1906 San Francisco fire which destroyed 25,000 structures and cost over $363 million; and the hurricanes of 1856 and 1977.

Excluding the Firemen's merger, capital consisted of 56,000,000 dollars of $3 par value. The merger plan provides for a total of 4,700,000 shares of common Continental insurance and 1,000,000 of the very few multiple-line groups in the business. Continental and its affiliates write practically all forms of coverage, except life. On the basis of premium volume fire accounts for about 28%, extended coverage 9%; auto liability 15%; auto physical damage 9%; property damage 7%; workers' compensation 7%; and workers' compensation 7%

The break-down of these assets gives the following distribution for the past fiscal years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Bonds &amp; Stocks</th>
<th>Real Estate</th>
<th>Losses in Process of Acquisition</th>
<th>Interest Accrued</th>
<th>Cash, and in Banks</th>
<th>Other Assets</th>
<th>Capital</th>
<th>Surplus</th>
<th>Contingencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>$83,000,665</td>
<td>290,670</td>
<td>16,865.75</td>
<td>476,714</td>
<td>7,212,024</td>
<td>9,770,492</td>
<td>25,000,000</td>
<td>304,732,497</td>
<td></td>
</tr>
<tr>
<td>1931</td>
<td>$83,333,163</td>
<td>302,417</td>
<td>16,957.44</td>
<td>478,714</td>
<td>7,212,024</td>
<td>9,770,492</td>
<td>25,000,000</td>
<td>304,732,497</td>
<td></td>
</tr>
</tbody>
</table>

A break-down of these assets gives the following distribution for the past fiscal years:

<table>
<thead>
<tr>
<th>Year</th>
<th>U. S. Gov't Bonds</th>
<th>Other Bonds</th>
<th>Stocks</th>
<th>Stacks</th>
<th>Assets</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>1.9%</td>
<td>19.5%</td>
<td>59.2%</td>
<td>1.5%</td>
<td>39.6%</td>
<td>63.9%</td>
</tr>
<tr>
<td>1931</td>
<td>1.9%</td>
<td>19.3%</td>
<td>59.2%</td>
<td>1.5%</td>
<td>39.6%</td>
<td>63.9%</td>
</tr>
</tbody>
</table>

The trend, as the bull market in stock progressed, was for Continental to do some shifting from equities to fixed income (bonds and preferred stocks in this case). A program of this nature is difficult to handle during a market advance, for the holders of common stocks are large in most cases and not in keeping with the bulk of the market. Like large insurance companies adhere to the better grade securities and are not attracted by common stocks, especially the large public issue. In the latter case, we find Continental adding bonds, undoubtedly of better quality. In a declining market, this shift to bonds had another beneficial effect in terms of market support of the general level against underwriters' losses in the fire-casualty industry, and under this condition fixed income securities constitute a better safeguard than do equities.

Bankers

Trust Company, New York

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INDIA, LIMITED

Bankers to the Government in India; Members, All India Bankers' Association; Member, Bankers' Clearing House, New York; West End (London) Branch; Telegraph Office: 5-28, Adelaide Street, New York; 170 BROADWAY, NEW YORK, N. Y.; 260, FIFTH AVENUE, NEW YORK; 158, WALL STREET, NEW YORK; 221, SAMPSON STREET, LONDON, E.C. 4; 71, BURLINGTON GARDENS, LONDON, W. 1; 11-13 LUDGATE HILL, LONDON, E.C. 4; 102, BOW STREET W.C. 2; 346, RUTLAND PLACE, LONDON, W. 1; 35, MARLBOROUGH STREET, LONDON, W. 1; 11, YORK STREET, LONDON, W. 1; 9, BURLINGTON GARDENS, LONDON, W. 1. 

Laird, Bissell & Shees


Paul L. Boardman was elected Vice-President of the American Fidelity National Bank & Trust Co., Indianapolis, Ind.

Three new Vice-Presidents and a new Assistant were named by the official staff of Harris Trust and Savings Bank,西亚. They were announced by President Kenneth V. Zwicker after the board meeting, Dec. 11. New Vice-Presidents are Robert E. Blackhorn, trust depart¬ ment; Arthur L. Hand, and Henry S. Kahn, banking depart¬ ment.

Milton C. Burkhart, Vice-Presi¬ dent, was transferred from bank¬ ing administration, where he has been for the past nine years, to Cashiers to the general division, where he will have responsibilities for new accounts and customer related matters. Charles C. Looney, for¬ merly assistant vice-president in the general division, becomes operating Vice-President of the banking de¬ partment of the bank's operating committee.

New Assistant Vice-Presidents were named by President Arthur E. Urick from Assistant Vice-President to Trust Company Vice-Presi¬ dent. New Assistant, C. P. Auswalt, from Assistant Auditor to Auditor. New Assistant Vice-Presidents are C. C. H. Boll, and John A. Kuhn, both formerly As¬ sistant Secretaries in the trust de¬ partment.

New Assistant Cashiers are Ed¬ ward H. Smoot, William L. Kaufman and Harvey R. Unis. Vice-Presidents are named by Richard P. Meiers. The new Assistant Accountant, Alvin B. W. Boll, is named Assistant Trust Counsel in the truscr department.

Arthur E. Urick was promoted from Assistant Vice-President to Trust Com¬ pany Vice-President. He was appointed to the position by President Robert Boll. He will be responsible for general service departments and the operations research depart¬ ment.

Chase Manhattan Bank

The First National Bank of Waseca, Minn., was announced by President Kenneth V. Zwickers, after the board meetings, Dec. 11. New Vice-Presidents are Robert E. Blackhorn, trust depart¬ ment; Arthur L. Hand, and Henry S. Kahn, banking depart¬ ment.

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Artu...
Secretary, transferred to trust department.

Luther C. Dilatush was promoted to the position of trust investment trust department of the National Bank & Trust Co., Chicago, Ill.

Robert J. Zimmer, Vice-President of North Shore National Bank, was elected President of the First National Bank, Mitchell, S.D.

Citizens State Bank, Sheboygan, Wis., merged under charter of the bank and new title Citizens Bank of Sheboygan, Wis.

National Bank of Commerce of Lincoln, Neb., reported a capital stock from $1,250,000 to $1,275,000 by a stock dividend and from $750,000 to $800,000 by the sale of new stock effective Dec. 2. (Number of shares outstanding—75,000 shares, par value $20.)

First National Bank & Trust Co., Turlock, elected L. Kondal Senior Vice-President, J. R. Forster, John B. Hiver, Louis Gannam, Ted R. O'Shea and Oneth Nelder were appointed Vice-Presidents.

American Trust Company, Charlotte, N.C., and The Commercial National Bank, Charlotte, N.C., merged into American Trust Company and new title American Trust & Savings Company. The three branches formerly operated by the discontinued bank will be operated by branches by the continuing bank.

Mercantile National Bank, Dallas, Texas, elected T. W. Stull Senior Vice-President, an Executive Vice-President, R. L. Thurm, Assistant Vice-President, David M. Bernard, Horace C. Lennom, Hulon A. Lelienfeld, Webb Pyeatt, formerly Assistant Cashiers, as Assistant Vice-Presidents.

Formal approval by the Comptroller of the Currency, Washington, D.C., recently made effective an increased capitalization of the Republic of the National Bank of Dallas, Tex., by an increase in its capital reserve fund by $200,000, to more than $1,000,000, it was announced jointly by Mr. E. L. Dunbar, President of the Board, Fred F. Florence, Chairman of the Executive Committee, and James W. Aston, President, Previous items relating to the increase were made effective in the Nov. 21 issue of the Chronicle, page 21, and the Nov. 28, page 238.

Colorado National Bank, Denver, Colo., elected Harold Konville President to succeed the late George S. Berger, Jr., Mr. Konville will continue to serve as Chairman, a position he has held since 1935. Merritt B. Geringer, formerly Executive Vice-President, was elected Vice-President.

Kenneth E. Brewster was named Assistant Cashier of the American National Bank of Colorado, Dec. 1, the December meeting of the bank's board of directors. Mr. Brewster has been associated with the bank for the past 17 years.

Stockholders of three Salt Lake City banks met Dec. 11, for the purpose of electing new officers and directors. The meetings were held at Zions Savings Bank and Trust Company, First National Bank and Trust Company, and First National Bank of Salt Lake City. The resultant substitutions included the so-called Zions First National Bank.

In addition, stockholders of First National added four new directors to their former 16-member board of directors and approved establishment of branch offices at the present locations of the merging Zion's Savings and Utah Bancorporation.

After completing action on the merger and related items, the stockholders met to consider the election of directors and officers of the United States Comptroller of the Currency. Final action on the merger will be taken at a special meeting on Dec. 18, 1951 to set the effective date for the merger of the three institutions.

The merger of the three banks became effective after the December meeting of the shareholders of each bank. The combined bank will operate under the name of the First National Bank of Salt Lake City and will have a capitalization of $15,000,000.

J. P. R. Woodworth, General Manager of the Canadian Bank of Commerce, Toronto, Ontario, has been elected a Vice-President and Director of the bank, it was announced on Dec. 12.

Elliott McAllister, Chairman of the Board of The Bank of California, Los Angeles, Calif., on Dec. 10 announced the appointments of Berrien P. Anderson, former Executive Vice-President, as Assistant Vice-President and as Comptroller, and Gordon R. Yeadon, Assistant Trust Officer at the bank's Seattle, Wash. office, as Assistant Trust Officer at the San Francisco Head Office.

Appointed Assistant Cashiers were John M. Vandal of San Francisco, Laurence W. J. Coogan, Oakland, Office and Theodore R. Talger at the Seattle, Wash., Office.

Mr. Anderson has been serving as Assistant Cashier and Loan Officer at the bank's Head Office since his appointment to that post in 1932.

Mr. Yeadon is Personnel Officer and has been with the bank since 1928 and was appointed Assistant Trust Officer in 1935.

The Bank of California, N. A., San Francisco, Calif., has opened a new San Jose office on Dec. 16 at 2nd and San Carlos Streets, in the Boro Block, the second office and the sixth to be opened in the City of San Jose.

Max B. Horn, William E. Reichensch, and Leo E. Smith were elected Vice-Presidents of the California Bank of California.

Frank P. King, President of California Bank, Los Angeles, Calif., has announced the election of John F. Murrel, as Secretary-Treasurer.

Elected Vice-Presidents by the shareholders were Max B. Horn and William E. Reichensp, city division, and Leo E. Smith, head of the bank's Atlantic-Whitney Office.

Mr. Horn is in charge of co-ordinating public relations activities for California Bank's nine Orange County offices. He joined the staff of the bank in 1931, was elected an Assistant Cashier in 1932 and Assistant Vice-President in 1954.

He was formerly associated with the American Trust Company of Los Angeles and has served as Executive Vice-President and Secretary of the Board, President and Executive Vice-President, in the City division at the Head Office since 1937. Until he joined California Bank, he had been associated with Manus, Ford & Company, New York, and held the title of Assistant Vice-President and Controller.

Mr. Smith is a veteran of 17 years service with California Bank and has served as a specialist in real estate lending during his early years in the real estate business. He was stationed at the Atlantic-Whitney Office between 1942 and 1947 when he was elected Assistant Vice-President of the bank.

Bank of Los Angeles, at Westwood, Calif., has elected Ross E. Reynolds, Assistant Vice-President of the bank.

The common capital stock of the National Bank of Washington, Tacoma, Wash., increased its common capital stock from $4,452,675.50 to $5,200,062.50 by a stock dividend effective Dec. 6. (Number of shares outstanding—104,000 shares, par value $50.)

Consolidated Cement Debentures Offered

Public offering of $3,000,000 Consolidated Cement Corporation 5% sinking fund debentures, due Dec. 1, 1951, at 100% and accrued interest from Dec. 1, 1957, is being made today (Dec. 19) by an underwriting firm of H. H. Dilatush, D. R. Baxter and Ira Pollock, 5 Park Place, New York City.

Net proceeds from the sale of the debentures will be used by the company principally to retire a $2,000,000 outstanding term loan made by the subsidiaries toward the expansion of its facilities at Pauling, Ohio, the balance of which are held by two of Merrill Lynch, Pierce, Fenner & Beane.

The debentures are entitled to a sinking fund sufficient to retire, at their principal amount plus accrued interest, $300,000 of debentures on Dec. 1, 1969 through 1971, or approximately 91% of the total amount of debentures, prior to maturity. The debentures also contain an option of the company to retire 5% of the debentures, prior to maturity, at the option of the company to retire 5% of the debentures, prior to maturity, at par plus accrued interest, 1955, is expected to be made to the company's manual payment of $575,000,000, which amount having an interest cost to the company of less than 5% per year.

Consolidated Cement Corporation owns and operates three cememt manufacturing plants in Kansas and California, and owns the licenses and patents under the principal types of portland cements represented over 50% of the company's 1956 and the first nine months of 1957. The production capacity of the company's present facilities at present production and expansion project at the Ohio plant, expected to be completed in the first quarter of 1958 will increase such capacity by 1,200,000 barrels to an aggregate of 6,000,000 barrels of cement.


Halsey, Stuart & Co. Inc. and associates are offering today (Dec. 19) $3,705,000 of Northern Pacific Railroad Company's debentures, due Dec. 15, 1979, at 100% and accrued interest. The certificates will mature on Jan. 9, 1959 to 1979, inclusive, at the option of the company. The certificates will mature on Jan. 9, 1959 to 1979, inclusive, at the option of the company. The certificates are expected to be made available for delivery in 30 days.

Drolia Partner

Julius L. Rendinaro will become a partner in Drolia & Co., 25 South LaSalle Street, New York City members of the New York Stock Exchange, on Jan. 1.

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Securities Now in Registration

★ Agricultural Marketing Association, Inc., Austin, Tex. Feb. 25 filed 90,000 shares of common stock (par one cent) to be offered for subscription by stockholders. Proceeds—For working capital and general corporate purposes. Office—219 N. Lincoln Avenue, Chicago, Ill. Underwriter—None.

★ Alden (Vern E.) Co., Inc., Washington, D. C. Nov. 9, 1965, filed 2,000,000 shares of class B common stock (par $100 per share) to be offered for subscription by stockholders. Proceeds—at $147 per share. Proceeds are to be used in financing expansion program. Underwriter—None.

★ Atlantic City Corporation, New York. Sept. 23 filed 568,200 shares of class A common stock (par one cent) to be offered for subscription by stockholders. Proceeds—For working capital and general corporate purposes. Office—112 N. Montgomery Avenue, Shelby, Ala. Underwriter—None.

Bannerm Corp., New York (12/23). Nov. (letter of notification) 100,000 shares of common stock (par $1) to be offered for subscription by stockholders. Proceeds—For working capital. Office—101 Sawmill River Road, Nutley, N. J. Underwriter—To be furnished by amendment.

★ Columbus Electronics Corp. Nov. 13, filed (letter of notification) 110,000 shares of common stock (par $1) to be offered for subscription by stockholders. Proceeds—For working capital. Office—101 Sawmill River Road, Nutley, N. J. Underwriter—To be furnished by amendment.

★ Colombia (Republic of) and Banco de la Republica (Colombia). Dec. 7, 1965, filed 45,000,000,000 shares of common stock (par $1) to be offered for subscription by stockholders. Proceeds—To be determined by competitive bidding. Probable bidders: PCB, Inc., New York, N. Y.; and Banco de la Republica, Bogota, Colombia. Office—New York, N. Y. Underwriter—None.

★ Columbus & Southern Ohio Electric Co. (1/7) Dec. 16 filed $140,000,000 of first mortgage bonds due 1996, $50,000,000 of second mortgage bonds due 1996, and $18,000,000 of debenture bonds due 1996, to be offered for subscription by stockholders. Proceeds—To be determined by competitive bidding. Probable bidders: PCB, Inc., New York, N. Y.; and The Ohio Company (jointly); Le Higginson Corp., Cleveland, Ohio; and C. C. Lawton & Co., New York, N. Y. Office—New York, N. Y. Underwriter—None.


★ Continental Mining & Oil Corp. Dec. 3, filed (letter of notification) 10,000 shares of common stock (par $10 per share) to be offered for subscription by stockholders. Proceeds—For working capital. Office—1600 Massachusetts Ave., N. W., Washington, D. C. Underwriter—None.


★ Creamery, Inc., Indianapolis. Dec. 24 filed (letter of notification) 100,000 shares of common stock (par one cent) to be offered for subscription by stockholders. Proceeds—For general business purposes. Office—15 W. Washington St., Indianapolis, Ind. Underwriter—None.


★ Dayton Finance, Inc., M. Rainier, Md. (12/24). Nov. 27 filed $50,000,000 of 7% subordinated 10-year debentures due Jan. 1, 1986, to be offered for subscription by stockholders. Proceeds—At par (in denominations of $100 each). Proceeds—To maintain an equipment financing company, to acquire new equipment and to reduce short-term debt. Underwriter—Morgan Guaranty Trust Co. of New York, New York, N. Y.


★ Dupont & Co. Aug. 28 (letter of notification) 25,000 shares of common stock (par $1) to be offered for subscription by stockholders. Proceeds—to maintain an equipment financing company, to acquire new machinery and equipment. Office—530 N. Wheeler St., St. Paul 4, Minn. Underwriter—None.

★ Disc, Inc., Washington, D. C. Oct. 19 filed 400,000 shares of class A common stock (par $1) to be offered for subscription by stockholders. Proceeds—to maintain an equipment financing company, to acquire new machinery and equipment. Underwriter—The First Boston Corporation, New York, N. Y. Proceeds—to be used to maintain an equipment financing company, to acquire new machinery and equipment. Underwriter—None.

★ Dunlap's Motels, Inc., Kansas City, Kan. Oct. 25 filed 500,000 shares of common stock, of which 428,497 shares are to be offered publicly, 29,568 shares are to be retained by management, and 3,035 shares are to be sold to employees. Proceeds—At $1.08 per share. Proceeds—to maintain an equipment financing company, to acquire new machinery and equipment. Underwriter—G. M. Dunlap & Co., Kansas City, Kan. Underwriter—None.
Dow Chemical Co. Nov. 25 filed 84,121 shares of common stock (par $5), issuable upon conversion of the $4,000,000 4% subordinated convertible bonds of June 1, 1956, originally issued by The Dow Chemical Co., the liability of which is guaranteed by Dow Chemical Co., as of Aug. 31, 1957. These debentures are held by three insurance companies.


* Electro Precision Supplies Inc., Philadelphia, Ark. Oct. 8 (letter of notification) 60,000 shares of common stock (par $1) to be offered in exchange for common stock of Bryant Chewing Gum Co. at a rate of four-tenth of an Ex-Cell-O share for each Bryant share. Offer will become effective upon acceptance by holders of not less than 208,000 shares (96%) of all common stock of Bryant outstanding. Underwriter—None.

* Ex-Cell-O Corp., Detroit, Mich. Nov. 25 filed 800,000 additional shares of common stock (par $1) to be offered to subscribers in exchange for common stock of Bryant Chewing Gum Co. Proceeds to be used for working capital. Underwriter—Underwriter—Ex-Cell-O Corp., Detroit, Mich.

* Expanded Shake Products Inc. Nov. 5 filed 16,000 additional shares of common stock (par $1) and $160,000 of 6% redeemable debentures maturing Dec. 15, 1967. Price—Of stock, $2 per share; of debentures, at par. Proceeds—For exploring and developing mineral properties with objective of producing electric power for use by Syracuse Rural Gas & Electric Co. Underwriter—Minor, Mee & Co., Albuquerque, N. M.


First National Life Insurance Co., Phoenix, Ariz. July 29 filed 190,000 shares of common stock (par $4), of which 90,000 shares are to be offered publicly and 16,000 shares to employees pursuant to stock purchase options. Price—To public, $12 per share. Proceeds—for expansion and other corporate purposes. Underwriter—None.

* Fluospar Corp. of America Nov. 12 filed $1,400,000 aggregate market value of common stock (number of shares to be supplied by amendment). Proceeds—to be supplied by amendment. Proceeds—to finance additional exploration work on mining properties and to provide working capital. Office—Portland, Ore.

* Food Fair Properties, Inc. Nov. 15 filed 2,498,116 shares of common stock (par one cent). Proceeds—For the purchase of stock—holders of record December 6, 1957, on the basis of one for each share. Eight thousand shares held in trust. Proceeds were filed on Dec. 20, 1957. Price—$2 per share. Proceeds—to repay bank loans and for real estate operations and financing. Underwriters—Eastman & Co., New York, New York Food Stores, Inc., owner of about 10% of stock, indicated that it intends to exercise its subscription rights.

* Ford Home Leases, Inc. (12/26) Dec. 17 filed 60,000,000 shares in participation in the company's Savings and Stock Investment Program for the purpose of supplying additional working capital. Proceeds from the public offering were $15,000,000.


* General Electric Co. Jan. 14, 1956 filed $2,000,000 of 6% subordinated debentures due Jan. 1, 1968 and 12,500 shares of class A common stock (par $1) to be offered in units of $800, for sale. Price—$8 per unit. Proceeds—to repay $90,000 of notes and for general corporate purposes. Office—McDonough, N. Y. Underwriter—Philipson & Ulis, Ltd.

* Ford Motor Co., Dearborn, Mich. Dec. 17 filed 50,000,000 shares in participation in the company's Savings and Stock Investment Program for the purpose of supplying additional working capital. Proceeds from the public offering were $7,500,000.

* Forest Laboratories, Inc. May 23 (letter of notification) 100,000 shares of common stock (par $1). Price—$1.75 per share. Proceeds—to construct tables—production facilities for manufacture and assembly of controls; for control and for working capital. Underwriter—to be determined by competitive bidding. Probable Underwriter: Lehman Brothers, New York, N. Y.

* General Electric Co. May 23, 1956 filed 112,000,000 shares of class B stock (par $1) for sale. Proceeds—to be used for the acquisition of manufactured products, and for other general corporate purposes. Price—$1. Proceeds—to be used for the acquisition of manufactured products, and for other general corporate purposes. Office—McDonough, N. Y.
Hawaii State Lands & Industries, Inc.


Monticello Associates, Inc.

Feb. 18 (letter of notification) 900,000 shares of common stock (par $250) for options expired on Dec. 27. Underwriter—None.

Home Owners Life Insurance Co.

Nov. 1 filed 5,000 shares of class A stock to be offered for purchase by holders of a total of class B common stock to be offered to stockholders at $56 per share at the rate of two new shares for each share of class A stock. Proceeds—To purchase real estate for construction, office—410 Jule Street, St. Joseph, Mo. Underwriter—None.

Holly Corp.

Dec. 11 (letter of notification) 40,000 shares of common stock (par 20 cents) issued as part payment of purchase of Aloha, Dye & Reitz-Dewig leases from Petrex Corp. at a price of $1 per share. Proceeds—To sell the stockholders. Office—405 Lexington Ave., New York, N. Y. Underwriter—None.

Motel Co. of Roanoke, Inc., Roanoke, Va.

Nov. 18 (letter of notification) 60,000 shares of common stock (par $1) for sale for shareholders' convenience, preferred stock exchange for the common stock of the company. Proceeds—For purchase of land, construction and working capital. Office—175 N. Main St., Roanoke, Va. Underwriter—Virginia & Western Securities Corp., New York.

Motel Club of Italy

Dec. 11 filed 20,000 shares of class A stock and $1,000,000 of preferred stock to be offered for subscription in the United States, preferred stock preferred and secured by holders of at least 5% of the $1,000,000 preferred stock. Proceeds—To construct and operate construction and operation of a chain of motels in Italy. Office—Silver Spring, Md. Underwriter—None.

Municipal Investment Trust Fund, Inc. (N. Y.)

May 8 filed 5,000 units of undivided interest in Municipal Investment Trust Fund, Series A, $1,000 par value. Proceeds—For investment. Sponsor—Irma Haupt & Co., New York.

Nassau Fund, Princeton, N. J.


National Biochemicals, Inc.


National Bowlero, Inc., Cleveland, O.

Dec. 4 filed $800,000 of 5% 10-year preferred stock (par $100) and 150,000 shares of common stock (par $10) to be offered in units of $9,000 of bonds, 900 of preferred stock (no par) and 150,000 shares of common stock (par $10) to be offered for the construction of a shopping center, other corporate purposes. Underwriter—None. William N. Shibilski is President.

National Lithium Corp., New York

Feb. 10 filed $2,500,000 of preferred stock (par $10 per share). Proceeds—$1.25 per share. Proceeds—For acquisition of the Yellowknife Lithium Mine, N. W. T., and for construction of a concentration plant, mining equipment, etc. Underwriter—None. William N. Shibilski is President.

National Mortgage Discount Corp., Waco, Texas

Nov. 27 filed $1,007,000 of preferred stock (par $100 per share). Proceeds—To fund for the purchase of a five-story building in Waco. Underwriter—A. W. Perry & Co., Inc., Birmingham, Ala.

Kooler Air Products, Inc.

Nov. 27 (letter of notification) 150,000 shares of common stock (par 50 cents) for sale at par to the stockholders for preferred stock preferred and secured by holders of at least 5% of the preferred stock. Underwriter—None. Sales to be made through Eugene M. Rouxson, Chicago, Ill., and Thomas T. O'Connor, New York, N. Y.

Green Market Co., Inc., New York

Nov. 12 (letter of notification) 2,500 shares of common stock (no par) being offered for subscription by minority stockholders at a price of $20 per share. Proceeds—To meet cost of construction of a new building. Underwriter—Joe Underwriter—None. George E. Coleman, Jr., is President.


Nov. 13 filed 25,000 shares of preferred stock (par $1). Proceeds—$3 per share. Proceeds—For general corporate purposes. Underwriter—None. Sales to be made through Eugene M. Rouxson, Chicago, Ill., and T. C. Zeman, Vice-President and Treasurer.

Nuclear Science & Engineering Corp.

Oct. 27 filed 80,000 shares of preferred stock (par $25). Proceeds—to be supplied by amendment. Proceeds—To prepay indebtedness to Korden-Kety Corp., to extend line of credit with First Commercial Bank of Chicago, and to invest in a new reactor. Underwriter—Hayden, Stone & Co., New York. Offered temporarily postponed because of market conditions.

Oil & Gas Ventures—First 1958 Fund, Ltd. and Oil & Gas Ventures—Second 1958 Fund, Ltd., Madison, N. J.

Oct. 23, Nov. 13, 28 filed $1,000,000 of participation interests in common as limited partnership interests to be offered in $250,000 units. Proceeds—For acquisition, exploration and development of oil and gas properties. Underwriter—Mineral Projects Co., Ltd., Madison, N. J.

Minerals, Inc., Exeter, N. H.

Nov. 2 filed 25,000 shares of common stock (no par). Proceeds—$1 per share. Proceeds—To refund bank loans and for working capital. Business—Sales of natural black leather, tan, retanned and finished.

Underwriter—None. George E. Coleman, Jr., is President.

Pacific Petroleum Co., Ltd.

Oct. 11 filed $1,803,988 shares of common stock (par $1), $1,000 par value preferred stock (par $100) and 2,000 shares of preferred stock (par $1,000) to be offered for outstanding Merrill Petroleum, Ltd. common stockholders. Proceeds—For Merrill Petroleum, Ltd. Merrill stock; the remaining 15,000 shares are to be issuable upon exercise of presently outstanding options granted to purchase an equal number of shares. Offered through Pacific Petroleum Co., Ltd., Calgary, Alberta, Canada. Underwriter—None.

Pacific Power & Light Co. (1/5)

Dec. 13 filed $15,000,000 first mortgage bonds due 1988, preferred stock and preferred stock for construction program. Underwriter—To be determined by competitive bidding. Proctor holders: Halsey, Stuart & Co.; Eastman Dillen, U.S. & Co. kiss, Peabody & Co. (jointly); Lehman Brothers; Bear, Eglinton & Co., (jointly); Blyth & Co., Inc., and White, Weld & Co. (jointly). Bids should be received up by 6 a.m. (PST) on Jan. 15.

American Tool Co., Houston, Tex.

Oct. 28 filed 163,000 shares of common stock (par $1), face value $2,500,000, of no less than 5,000 shares, Price—To be supplied by amendment. Proceeds—To do business as much as charge trade accounts payable, to buy tools and equipment and for working capital. Underwriter—None.

Pearce-Simpson, Inc., Miami, Fla.

Nov. 7 filed $15,450,000 of common stock (par 50 cents). Proceeds—$1 per share. Proceeds—For capital expenditures, to retire notes and loans outstanding; and for general corporate purposes. Underwriter—Christopher Corp., Miami, Fla.

Peoples Security Investment Co.

Oct. 28 filed 1,000,000 preorganization subscriptions to class B stock (par $100 per share). Proceeds—To issue four class A shares and one class B share, the purchase of common stock to the Peoples Security Foundation for Christian Endeavor Movement; and for other corporate purposes. Underwriter—None. T. J. Patterson, President.

Perrin Basin Pipeline Co.

Nov. 20 filed $26,000 shares of common stock (par $1) to be offered for subscription by common stockholders at $10 per share at the rate of one new share for each two shares held of the company. Proceeds—To be supplied by amendment. Proceeds—To acquire and develop a new pipeline system.
Syntex Corp. (Republic of Panama)

Nov. 17 filed 1,163,739 shares of common stock (par $3). Proceeds—To be offered by optionees of Ogden Corp. on the basis of one new share for each four shares held and to holders of options to purchase four shares of Ogden common stock; unassured shares to be offered to employees. Proceeds—To pay outstanding obligations to Ogden Corp.—None.

Taylor Instrument Companies

Oct. 1 filed 99,185 shares of common stock (par $10) to be offered at $30 per share to stockholders on the basis of one new share for each four shares held. Proceeds—For expansion of working capital and to retire short term bank loans and for working capital and general corporate purposes. Offering—To be underwritten by Underwriter—New York, offering—Indefinitely postponed.

Technical Animations, Inc.

Dec. 9 filed 677,408 shares of common stock, of which 477,408 shares are to be offered at $10 per share to stockholders and the remaining 300,000 shares issued from time to time in exchange for oil and gas properties, of which 477,408 shares and 47,408, respectively, are to be issued as dividends in kind against paid-in capital of the company. Proceeds—For working capital and expansion. Offering—To be underwritten by Underwriter—New York, offering—Indefinitely postponed.

Texan Oil Corp.

May 29 filed 300,000 shares of common stock (par $1), to be offered at $10 per share to stockholders on a basis of one new share for each one held. Proceeds—To be used primarily for working capital, and for general corporate purposes. Offering—To be underwritten by Underwriter—San Antonio, Texas.

Texom Oil Corp., San Antonio, Texas

May 29 filed 300,000 shares of common stock (par $1), to be offered at $10 per share to stockholders on a basis of one new share for each one held. Proceeds—To be used primarily for working capital, and for general corporate purposes. Offering—To be underwritten by Underwriter—San Antonio, Texas.

Underwriter—None.

Technical Animations, Inc.

Dec. 9 filed 677,408 shares of common stock, of which 477,408 shares are to be offered at $10 per share to stockholders and the remaining 300,000 shares issued from time to time in exchange for oil and gas properties, of which 477,408 shares and 47,408, respectively, are to be issued as dividends in kind against paid-in capital of the company. Proceeds—For working capital and expansion. Offering—To be underwritten by Underwriter—New York, offering—Indefinitely postponed.

Trans-America Uranium Mining Corp.

Nov. 6 filed 3,000,000 shares of common stock (par one cent per share), to be offered at $1 per share, offered for working capital and payment of current liabilities. Proceeds—To be used primarily for working capital. Offering—To be underwritten by Underwriter—509 Wrightsover Drive, Lakeville, Minnesota, N. C. Underwriter—Selected Investments, Wilmington, N. C. Underwriter—None.

U-of-Chicago Foundation Inc.

Proceeds—For transportation development program. Proceeds—To be underwritten by Underwriter—Dillon, Read & Co., Inc., New York, offering—Indefinitely postponed.

United States Cigarette Fibers Corp.

Sept. 30 filed 735,000 shares of common stock (par $1), to be offered at $18 per share, offered for working capital and expansion. Proceeds—To be offered by optionees of United States Cigarette Fibers Corp., offering—Underwriter—Morris K. Udwin, New York, offering—Indefinitely postponed.

United States Sulphur Corp.

Oct. 5 filed 1,500,000 shares of common stock (par $1) to be offered at $15 per share to stockholders of record. Proceeds—To be offered for working capital and other corporate purposes. Proceeds—To be offered by optionees of United States Sulphur Corp., offering—Underwriter—None.


Nov. 5 filed 400,000 shares of common stock (par $1), to be offered at $15 per share, offered for working capital and expansion. Proceeds—To be offered by optionees of Universal Drilling Co., Inc., offering—Underwriter—Kohlmeier & Co., New Orleans, La.

uranium Corp. of America, Portland, Ore.

Aug. 12 filed 3,000,000 shares of common stock (par $1), to be offered at $15 per share, offered for working capital and expansion. Proceeds—To be offered by optionees of Uranium Corp. of America, offering—Underwriter—To be named by amendment. Agreement—To be underwritten by Underwriter—Los Angeles, California.

University of South Dakota, Vermillion, S. Dak.

Oct. 12 filed (letter of notification) a maximum of 5,000,000 shares of common stock (par $1), to be offered at $15 per share, offered for working capital and expansion. Proceeds—To be offered by optionees of University of South Dakota, Vermillion, S. Dak., offering—Underwriter—None.
**Prospective Offerings**

- **Alabama Power Co. (1/16)**

- **American Telephone & Telegraph Co. (2/7)**
  - Feb. 5 reported it has filed to register $30,000,000 of its stockholders an issue of approximately $720,000,000 of convertible preferred stock and for the payment of $100 principal amount of debentures for each nine shares held. Application for registration is expected to be mailed on about March 12, 1958. Proceeds—To meet demand for new telephone facilities. Underwriter—None.

- **Appalachian Electric Power Co. (3/3)**
  - Dec. 2, it was reported that this company, a subsidiary of American Gas & Electric Co., plans to issue and sell $55,000,000 of preferred stock and for construction program. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; The First Boston Corp.; Kidder, Peabody & Co.; and Lehmans. Application for registration is expected to be received on June 3.

- **Boston & Ohio Electric Co. (1/23)**
  - Dec. 1, it was reported that it now appears we will be back to market more securities soon after the State of Ohio's plan to repay bank loans and for new construction. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; Kidder, Peabody & Co.; and Lehmans. Bids—Tentatively expected to be received in January.

- **Central Illinois Public Service Co. (2/25)**
  - Jan. 16 it was reported that application for registration of $20,000,000 of first mortgage bonds due 1988. Proceeds—To repay both bank loans and for construction of new plant for generating and distributing electric energy. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Kidder, Peabody & Co.; Blyth & Co.; Morgan, Stanley & Co.; and Goldman, Sachs & Co. (jointly). Bids—Tentatively expected to be received in January.

- **Cincinnati Gas & Electric Co. (5/25)**

- **Columbus & Southern Ohio Electric Co. (5/29)**
  - Dec. 9 it was reported company plans to issue and sell $9,700,000 of common stock. Underwriter—Dillon, Read & Co. Inc. Bids—Expected to be received up to noon (EST) on Feb. 25.

- **Consolidated Edison Co. of New York, Inc. (1/14)**

- **Duquesne Light Co. (1/25)**
  - Jan. 23 it was reported application for registration of $20,000,000 of first mortgage bonds due 1989. Proceeds—To repay bank loans and for construction of new plant for generating and distributing electric energy. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; Kidder, Peabody & Co.; and Lehmans.

- **Empire District Electric Co. (2/20)**
  - Feb. 2, it was reported that company is planning to issue and sell around $15,000,000 of first mortgage bonds due 1989. Proceeds—To repay both bank loans and for construction of new plant for generating and distributing electric energy. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; Kidder, Peabody & Co.; and Lehmans.

- **Georgia Power Co. (3/20)**
  - Feb. 6 it was reported company plans to issue and sell $25,000,000 of first mortgage bonds due 1988. Proceeds—To repay bank loans and for construction of new plant for generating and distributing electric energy. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; Kidder, Peabody & Co.; Blyth & Co.; and Goldman, Sachs & Co. (jointly). Bids—Scheduled to be received Feb. 6.

- **Great Northern Ry. (1/23)**
  - Jan. 23 this company expects to issue $5,700,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; and Salomon Bros. & Hutzler.

- **Gulf, Mobile & Ohio Ry. (3/25)**
  - Mar. 29 it was reported that company plans to sell $8,000,000 of first mortgage bonds due 1988. Proceeds—To repay bank loans and for construction of new plant for generating and distributing electric energy. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; Kidder, Peabody & Co.; and Lehmans.

- **International Harvester Co. (2/18)**
  - Feb. 5 it was reported company plans to issue and sell $7,500,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; Kidder, Peabody & Co.; Blyth & Co.; and Goldman, Sachs & Co. (jointly). Bids—Scheduled to be received Feb. 16.

- **Illinois Central RR. (2/19)**
  - Feb. 18 it was reported this company expects to sell $15,000,000 of first mortgage bonds. Proceeds—To repay bank loans and for construction of new plant for generating and distributing electric energy. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; Kidder, Peabody & Co.; Blyth & Co.; and Goldman, Sachs & Co. (jointly). Bids—To be received on company plans to issue and sell $25,000,000 of first mortgage bonds due 1989 on Jan. 9, for the purchase from it of $4,600,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co.; Morgan, Stanley & Co.; and Salomon Bros. & Hutzler.
equipment trust certificates to an amount sufficient to finance three-fourths of the cost of new equipment. The certificates, mortgaged for the purpose of new equipment, were issued in two series. The first series of certificates to be issued was for $50,000,000 of new equipment. The second series, of $75,000,000, is to be issued at a later date. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Randolph Brothers, Inc.; Salomon Bros. & Hutzler.

Indiana & Michigan Electric Co. (2/13/58)

Nov. 15 it was announced that the company would issue $30,000,000 of 62% debentures. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Harriman, Ripley & Co., Inc.; Eastman Dillon, Union Securities Co. & Bids.—To be received by Jan. 13, 1959.

Ohio Power & Light Co. (1/22)

Dec. 9 it was announced that the company would sell $10,000,000 of debentures. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Lehman Brothers; Lynch, Pierce & Co., Inc. & Beane, Equitable Securities Corp.; Blyth & Co., Bids.—To be received by Feb. 1.

Lifton Industries, Inc. (1/22)

Dec. 13 it was announced that the company would sell $11,500,000 of preferred stock. Underwriter.—To be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co.; White, Weld & Co. & the First Boston Corp. & the Union Securities Corp. & Bids.—To be received on Jan. 22.

Louisiana Power & Light Co. (1/22)

Dec. 16, it was announced by the company that it may borrow $11,500,000 of long-term fixed-rate obligations for construction program. Underwriter.—Smith, Barney & Co.

Milwaukee Gas Co. (1958)

Oct. 29, 1958, the company was authorized to issue $100,000,000 of common stock on a 30-year basis.

Mississippi Power & Light Co. (1/22)

Dec. 4 it was announced company plans to offer $100,000,000 of new common stock to the public. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Kidder, Peabody & Co.; White, Weld & Co. & the First Boston Corp. & the Union Securities Corp. & Bids.—To be received by Jan. 22.

New Orleans Gas & Electric Co. (1/22)

Dec. 4 it was announced company plans to sell $30,000,000 of new mortgage bonds in the Spring of 1958. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Lehman Brothers; Lynch, Pierce & Co., Inc. & Beane, Equitable Securities Corp. & White, Weld & Co. & Kidder, Peabody & Co. & the First Boston Corp. & the Union Securities Corp. & Bids.—To be received by Jan. 13.

Northern Illinois Gas Co. (2/19)

Nov. 12 it was announced company plans to sell $6,000,000 of new mortgage bonds during the Spring of 1958. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Kidder, Peabody & Co.; and Stone & Webster Securities Corp. & Bids.—To be received by Jan. 22.

Nordic & Western Ry. (1/22)

Bids are expected to be received by the company on Jan. 13 for the purchase of this equipment. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler.

Multnomah Canadian Fund, Ltd. (1/23)

Jan. 23, 1959, the company was authorized to apply for SEC permission to issue and sell in the United States its class A certificates. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Lehman Brothers; Lynch, Pierce & Co., Inc. & Beane, Equitable Securities Corp. & White, Weld & Co. & Kidder, Peabody & Co. & the First Boston Corp. & the Union Securities Corp. & Bids.—To be received by Jan. 23.

Riddle Airlines, Inc. (1/21)

Oct. 21 it was announced company plans to register with the SEC an issue of new common stock, the number and the price at which they will be offered not yet determined. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Lehn Bros. & Hutzler.

Royal Dutch (Petroleum) Co. (1/17)

Dec. 18 it was announced company plans to offer to its stockholders a capitalization reduction plan (20 guards) at the rate of one new share for each four existing shares held as of Jan. 17, 1958. This would be sufficient to raise between $6,500 million and $1,000 million (equivalent to $21,000,000 and $200,000,000). Price—To be governed by market conditions prevailing at time of issue. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler.

Shell Transport & Trading Co., Ltd. (2/14)


Southern Sea Power Co. (1/22)

Dec. 5 it was announced company plans to raise in mid-1958 between $5,000,000 and $8,000,000 of new capital, about two-thirds of which will be through bond financing and the balance through common stock financing. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Morgan Stanley & Co.; and Kidder, Peabody & Co. & the First Boston Corp. & the Union Securities Corp. & Bids.—To be received by Dec. 5.

Lehn Bros. & Hutzler.

Northern New England Telephone Co. (2/26)

Dec. 12 it was announced company plans to issue and sell $10,000,000 of common stock early in February, 1958. Proceeds—For working capital and other corporate purposes.

Tuttle Engineering, Inc., Arcadia, Calif.

Nov. 6, Harry Oederkerk, Chairman of the board, announced company plans to issue and sell $5,000,000 of common stock in the near future. Proceeds—For working capital and other corporate purposes.

Union Electric Co. (Mo.)

Nov. 11 it was announced company plans to offer around $1,000,000 additional shares of common stock, first to common stockholders. Underwriter.—To be determined by competitive bidding. Probable bidders: Lehn Bros., Merrill Lynch, Pierce, Fenner & Beane.

Union Telephone Co. (1/20)

Dec. 5 it was announced company plans to issue and sell approximately $35,000,000 of first mortgage bonds. Underwriter.—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Morgan Stanley & Co.; and Kidder, Peabody & Co. & the First Boston Corp. & the Union Securities Corp. & Bids.—To be received by Dec. 5.

Washington Natural Gas Co.

Oct. 18 the directors authorized the sale of $5,000,000 of common stock for construction purposes. Underwriter.—Blyth & Co., Inc., Salomon Bros. & Hutzler.
Mutual Funds

BY ROBERT E. RICH

What's Ahead for the Economy Next Year

In contrast to the first two postwar recessions, which were primarily caused by inventory adjustments, the current third recession appears to be a credit-led slowdown according to the Federal Reserve Board. Similarly, the risk of a prolonged period of economic contraction, especially in Western Europe, is likely to reduce our exports.

It was not for the recent technological and diplomatic successes of the Soviet Union, the current recession might have lasted somewhat longer than it now seems likely. As it is, the down-in-business in the United States is likely to be followed by rising government spending in the second half of 1958. Defense spending may rise about $2 billion annually by that time, and municipal and state spending should again climb by about $2 billion next year.

Thus, the country's overall business trend will probably be down in the first half of 1958, with good prospects for a gradual recovery in the second half of the year.

While the decline in the Federal Reserve Board production index in the first half of 1958 may be limited to perhaps 2 to 4 percent, the index is down to around 136 to 137, corporate profits, due to the big leverage factor, could well decline by an average of 10 to 12 percent, to reduced levels in the near future. Naturally, strong companies in relatively well-situated industries will suffer a lesser showing.

Among industries likely to turn in a superior profit showing next year are the following: Electric utilities, food processors, food chain stores, tire and rubber companies, electrical equipment companies, and the automobile industry, which is likely to be a major upturn in residential building. On the other hand, the industries closely identified with private capital outlays for plant and equipment, namely, construction firms with frequent opportunities, could support a somewhat slow decline during the first phase of the recession above the current recession.

On these assumptions, it is logical to expect a somewhat further easing in the money and capital markets during the first half of 1958, accompanied by a renewed rise in the bond markets. The stock market seems currently fairly well adjusted to these economic prospects, within 5 or 10 percent of its current level. Probably the political and psychological uncertainties in this situation are greater than the economic uncertainties. Russia's Rolling Thunder and the NATIONS' efforts to rid the world of unpleasant news and emotional swings in the stock market wider, but not necessarily the same, than warranted by economic considerations.

Mr. Bing's analysis includes projections for the major components of the Gross National Product, as broken down for the first half of 1958, and compared with his 1957 estimates and 1956 actual figures.

Sales Over $100 Million

In 24th Month

Investor purchases of mutual funds, up to Date, has reached a record $100,000,000 for the 24th consecutive month, according to the National Association of Investment Companies. Reporting Dec. 16 on its 140 open-end member companies, the Association revealed that the purchases by investors in November amounted to $106,309,000, compared with $135,827,000 in October and $113,255,000 in November 1957.

The popularity of plans for the purchase of mutual funds, currently at a high level, is shared in November as investors opened 17,663 new accounts.

Cush, U.S. Government securities and short-term loans, held by the 140 mutual funds totaled $164,039,000 at the end of November, compared with $178,077,000 at the end of October.

Net assets of the Association in April, 1958, accounted for $255,000,000, compared with $230,000,000 in November 1957, or $265,000,000.

Value of shares turned in for redemption dropped in November to $28,010,000, $2,200,000 below the month before. In November 1957, shares valued at $27,300,000 were redeemed.

Elmer J. Pearson

Elmer J. Pearson, partner in Donaldson, Bostock & Renshaw, passed away Dec. 4.

Keystone Sees Economic Upswing in Second Half

The growth potential of the United States, currently in a period of economic slowdown, is far from over, according to the Federal Reserve Board. As long as there is no marked change until mid-1958, when the upward trend is likely to be resumed, the major issues of the first half of 1958 will be to determine whether the present recession will be severe, whether the Federal debt problems, world-wide money market questions, troubles in the Middle East, and the yen at home, and by the psychological effect of the satellite launchings.

Looking ahead over the first quarter of 1958, the key economic issues may consider num merous pertinent questions, the most important of which were not considered before the economic outlook for the period can be determined. For example: What will the businessmen do about plant expansion when new orders flow in? How will labor unions handle wage negotiations? Will consumers support the automobile makers' new models? Will Congress reduce taxes? What will the next Senate, now being over-all decline in business expansion will be about 10%, but total industrial activity is expected to remain unchanged because of balancing factors such as increased government spending, public welfare spending, municipal, state, church and commercial expenditures.

In the matter of wages and labor negotiations, Keystone economists believe that the companies employing more than 5,000 workers will face wage negotiations with their employees. The key contract between the Free World and the United States.

"The first contracts of the Auto-Workers Union (with the manufacturers) are coming up for renewal with the negotiations and the attitudes of the automobile makers on whether or not the economy will be strong enough to take an additional 10% over 1957, the Keystone report states.

"Among the industries and companies which will undergo wage negotiations is the automobile industry. It appears that the 1957-1958 agreements may face a difficult year in 1958, because of the continuing slow growth in the industry."

"The contracts of the Ford Motor Company, the Chrysler Corporation, the General Motors Corporation, and the United Automobile Workers Union (with the manufacturers) are coming up for renewal with the negotiations and the attitudes of the automobile makers on whether or not the economy will be strong enough to take an additional 10% over 1957, the Keystone report states.

"Among the industries and companies which will undergo wage negotiations is the automobile industry. It appears that the 1957-1958 agreements may face a difficult year in 1958, because of the continuing slow growth in the industry."

"The timing of the highs of the individual groups has been spread over the year," the report noted, "with the result that it was more important to recognize the highs of the individual groups, which were being made in the context of the overall general market considerations. This may explain why the -off the highs and bottom prices, and many groups may have completed their realizations and be in a position to turn the stock prices of the group of stocks have reached the bottom levels for the group of stocks have reached the bottom levels.

"With the record of the highs of individual groups varying widely, the individual groups may have been making their moves in a relative manner, with the other groups held back by the general market averages. This may explain why the -off the highs and bottom prices, and many groups may have completed their realizations and be in a position to turn the stock prices have reached the bottom levels for the group of stocks have reached the bottom levels.

"The report brought out that bulk movements of capital, during the period of the study, were few and far between, running all the way from January, 1954, the high of the Banks-Brewers group, to November,
Manhattan Bond Fund Reports

Manhattan Bond Fund, Inc., in its annual report for the year ended Dec. 31, 1957, reported a record profit of $18,553,115, compared with $22,304,078 in the previous year. The profit resulted from a net investment income of $32,104,817 and a net increase in the fair market value of securities held at Dec. 31, 1957, of $4,549,998. The net investment income, after deducting operating expenses, was $27,554,819.

The report noted that the profit was partly due to higher than usual yields on government securities, the sale of certain underdeveloped areas, and the sale of the Manhattan Street Apartments, a project for which the fund had received a special tax exemption. The report stated that the fund's investments were diversified, with a focus on government securities, mortgage-backed securities, and corporate bonds. The fund's portfolio included securities of all maturities and credit ratings, with a large proportion held in the higher-quality categories.

The report also noted that the fund's managers had successfully navigated through the market's fluctuations and had a strong focus on maintaining a stable portfolio. The fund's managers had a track record of maintaining high levels of safety and liquidity, with a focus on preserving capital and not taking on excessive risk. The fund's managers had a long-term investment horizon and believed in the importance of diversification.

The report concluded that the fund had delivered strong performance for its shareholders and was committed to continuing to provide high-quality investment opportunities. The fund's managers were dedicated to providing a stable and secure investment for the future.
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.
The underwriting fraternity, of course, at least that part of it which handles the task of floating new corporate debt, is coming down to the year-end with its work greatly in progress. More so, in fact, than approximated amounts of months ago.

Unsold remains of new emis sions are the exceptions rather than the rule, quite in contrast with the situation which prevailed prior to the Federal Reserve's several reversals of its credit policy. Up to that point, yields were falling and ran close to 5% on some of the best names among corporate borrowers.

Even at those levels it appeared liable to be just a matter of move offerings. There's not an old saying around the Street, "Don't try for the last eight." It applies, of course, primarily to stock traders, or speculators if you will.

But for a time, it certainly appeared as though the "ballroom boys" were in the process of reviving the investment market generally. The Government list undoubtedly was depressed far beyond reason on its long drop from the levels of a few months ago.

This line of reasoning probably explains in some small measure the rising scope of the advance which has been in progress. But that, on the whole, is probably to the advantage of the situation as a whole.

On the other hand, a point could be recognized that with the Federal Reserve committed to a policy of sticking to "checks," the price of new issues, as the slipping economy, any operations of its open-market operations would be primarily on the buying side of governments.

The earnings and dividends on the 1,161,600 shares outstanding have shown annual increases, as shown below.

While the current return of 60c per share is modest, the high intrinsic value plus the excellent possibilities for further increases resulting from mineral activities and growing land values, make Southdown a most attractive investment. Southdown Sugars, Inc., is listed but its trading activity in the Over-the-Counter Market is speculative and suitable for individuals and institutions investing for capital gains.

The stock is speculative and suitable for individuals and institutions investing for capital gains.

<table>
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<tr>
<th>TABLE I</th>
<th>VALUATION SUMMARY</th>
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<td>Hollywood Field</td>
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<td>Crescent Farms Field</td>
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<td>Total Value Per Acre</td>
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<table>
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<th>TABLE II</th>
<th>Year Ended in Dollars</th>
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<tr>
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<td>1955</td>
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To Light Wall Street Annual Christmas Tree

At noon, Friday, Dec. 30, Keith's Funston, President of the New York Stock Exchange, will formally light the Christmas tree of Wall Street in front of the Exchange.

Raymond Diettry Jr., 11-year old chorister who sings with the famed Trinity Church Choir, will assist Mr. Funston with the ceremony. The Choir itself will sing Christmas carols. All the singers -- 28 boys from 9 to 14 years old and 19 men -- will be dressed in black stockings and white supplies.

To Light Wall Street Annual Christmas Tree

The Board of Directors of the Diamond Gardner Corporation, December 12, 1957, declared a quarterly dividend of 45c per share on the Common Stock which will be payable on February 12, 1958, to stockholders of record at the close of business January 14, 1958.

The Board of Directors of the Diamond Gardner Corporation, December 12, 1957, declared a quarterly dividend of $50c per share on the Common Stock which will be payable on February 12, 1958, to stockholders of record at the close of business January 14, 1958.

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"Rough and Tumble Affair"
Representative John W. Bynes, a staunchly working young Republican from Wisconsin, probably summed up the opinion of many members of Congress, the other morning as he drove from his Burtonsville Virginia, to his office on Capitol Hill. "This evening session is shaping up as a mean one," he said. "Frankly, it looks like a rough and tumble affair, let us hope, however, that it will prove to be a constructive session."

The Tax Outlook
As it appears at this time the new session faces the prospect of not providing a tax cut, because of a new emergency. As it has been pointed out here before, a new crisis year after year usually crops up to prevent a tax reduction. However, most businessmen think that the average business-man realize that a tax reduction could be obtained, if a majority of members of Congress made up their minds that a tax cut was necessary for the betterment of the economy of the country. But first the people of the country must demand a reduction.

Meanwhile, it appears that Congress will extend in 1958 for another year the existing corporation income tax and excise tax. There is also the possibility, over the vigorous opposition of Senator Barry F. Byrd of Virginia, that the debt ceiling of the nation will be increased.

ABA Legislative Proposals
There is a series of pending bills of market interest to the bank officers and directors. The banking committees of Congress will be busy with hearings early in the session. Among measures the American Bankers' Association hopes favorably are:

1. Federal insurance rate for Federally insured and guaranteed loans: continue the voluntary participation program, permitting the Veterans Administration to guarantee free and direct loan program to explore; authorize the organization of national investment company, to make loans to businesses and purchase their debentures, bonds or common or preferred stocks, and authorize an objective study of the nation's financial system by a qualified commission.

The approaches session will be marked with legislation and discussion on National defense and foreign policy. However, there will be other important proposals. Domestic issues will have an important place, because in 1958 is an election year. The entire House membership and one-third of the Senate membership comes up for election. Therefore, politics will start early.

A Christmas Message
Bring the candles, light the tree,
There's something Christmas does to me,
It weaves a charm, it casts a spell,
It shares a warmth I cannot tell.
It melts the years with magic art,
It makes me young again in heart;
I long to give where pity pleads,
I think of friends and human needs,
And parade with joy as from afar
I hear a song and see a star.

Thank God whatever else may be—
For all that Christmas does to me.

—REV. DR. ALFRED GRANT WALTON
Plattsmouth Congregational Church, Nebraska

My Christmas message to you this year is best expressed by William Garfield Lighthouse, an old "Chronicle" associate, who wrote to me yesterday:

"The charm of Christmas is in the knowledge it brings that we are not forgotten by our friends."

Truly a sentiment to live with throughout the coming year.

ALEXANDER WILSON
Ass't. to Publisher

Proposals the Association opposes include the liberalization of Federal-supported mortgage insurance programs, the extension of the Small Business Administration; include pension, profit and welfare funds qualified for tax exemption in reports for registration and reporting of welfare and benefit plans; provide federal aid for depressed communities in scattered sections of the nation, and raise the maximum wage.

Small Business Unit to Stay
There appears no threat at the coming session to kill off the Small Business Administration.

As a matter of fact there is a growing conviction in some quarters in Washington that the Small Business Administration may eventually become bigger than the Reconstruction Finance Corporation which Congress killed a few years ago.

Senator J. William Fulbright of Arkansas, Chairman of the Senate Banking and Currency Committee, is planning to introduce an amendment in the new session to broaden the credit of the Small Business Administration. For instance, the economy in some of the agricultural regions of the United States is undergoing a marked recession as a result of the excessive rains at harvest time following drought years.

However, the farmers are unable to pay the interest on money that they have borrowed to pay the implement dealers, and in the hands of banks and other institutions have outstanding. As a result there are many small banks that would like for the farmers to make payments on their notes.

Senator Fulbright and Senator" 

The Natural Gas Industry
The Natural Gas Industry has had another favorable year as far as expected operations are concerned. Records of the Federal Power Commission show that the industry has channeled up many thousands of new customers and that the industry will show substantial revenues.

The Natural Gas Industry embraces the producers, pipeline companies, the vast distribution systems of the members of the National Association of Gas Corporations. There are about 50,000 miles of lines in service and the approximate length is about 155,000 miles of transmission lines in the U. S.

The new Congress may not take any action on the Harris-O'Hara bill which would lift the restrictions on natural gas producers. It is anyone's guess at this time whether Congress might do with the pending measure. The bill was reported out of the House committee and it would be expected any day to reach the floor. It could very well die there.

It is now estimated that the 1,100 gas distribution companies are serving about 30,000,000 customers in the country, that is about 27,000,000 representative residences. This is an increase of the number is increasing nearly 1,000,000 each year. The natural gas distribution companies are big and authorities are confident that the reserves will be added for the future in 1958. The new reserves will include those in the subterranean lands, miles from shore.

This year's Extension to regard the "behind the scene" interpretations from the nation's Capitol is supplemented by a winter coin drop the "Chronicle's" own views.

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