INVESTMENT BANKERS ASSOCIATION CONVENTION ISSUE

In 2 Sections — Section 1

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 188 Number 5804 New York 7, N. Y., Thursday, December 18, 1958 Price 50 Cents a Copy

EDITORIAL

As We See It

Some weeks must elapse before the public learns from the annual messages of the President what the program of the Administration, and presumably of the Republican party, is to be for next year. The timing of these messages is, of course, fixed by law. The Democratic party, destined to be in full control of Congress, may announce its plans at any time. Its leaders, or most of them, have taken advantage of this opportunity, and issued their "State of the Union message" in the form of a policy statement. Of course, no document of this sort is or can be "official" in quite the sense that the President's messages at the beginning of the year are, but a glance at the membership of the "Advisory Council" responsible for this outgiving is enough to convince the skeptical that what it says can not be lightly brushed aside.

In point of fact this body includes the titular head of the Democratic Party, Mr. Stevenson; the National Chairman; ex-President Truman, and many state governors and party chairmen. What these men say may not bind the party; in fact, it does not. Their pronouncement does, however, quite clearly indicate the nature and the scope of the problems which the conservative elements in the party and the Administration will have to face during the year ahead. Mr. Truman has since the pronouncement taken occasion to give full and hearty endorsement to the entire program thus set forth. Mr. Stevenson, one-time self proclaimed apostle of moderation, must be presumed to be in full sympathy with it. Parts of the "platform," if that it may be termed, will without doubt be bitterly fought by southern

Continued on page 90

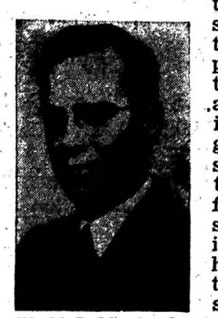
We Must Preserve the Dollar's Integrity

By WILLIAM McC. MARTIN, JR.*

Chairman, Board of Governors, Federal Reserve System

Federal Reserve head astringently declares we must cease printing paper dollars, issuing I.O.U.'s, engaging in non-recessionary deficit financing, and succumbing to the belief that we assist the unemployed by flooding the country with a stream of easy money or by artificially preventing rising interest rates during recovery. Speaking with an added perspective gained from a recent trip abroad, and reiterating important questioning of our fiscal and monetary integrity exemplified in the American dollar, Mr. Martin warns "the battle aganist inflation is at a crucial point," we can afford to pay what we spend, and we must realistically produce more tax revenue or reduce priorities of certain expenditures.

During the past year, we have had both recession and recovery and now, once again, fear of inflation. Despite the best efforts of the Federal Reserve System to explain its objectives and point of view to the general public, questions are again arising as to the basic purposes of monetary authorities. These queries are legitimate, but the answers have been given repeatedly. The Federal Reserve System is designed to regulate the supply of money in order to foster high levels of employment and stable prices. Stability is not an end in itself but a means by which this higher standard of living can be attained and without which a lower standard of living becomes inevitable.



W. McC. Martin, Jr.

From time to time the charge is made that the Federal Reserve is seeking a recession and would like to see a little unemployment. Certainly nothing could be further from the

Continued on page 100

*An address by Mr. Martin before the Executives' Club of Chicago, Chicago, Ill., Dec. 12, 1958.

The Investment Bankers Association of America Holds 47th Annual Convention

Bankers elect William D. Kerr as new President, and ponder problems as impact of inflation trends on government and private financing; business outlook; and our vulnerability in cold war. Addresses by retiring and incoming Presidents; Gen. James M. Gavin; Hon. Edward N. Gadsby; J. Erik Jonsson; Committee Reports, and other Convention developments given herein.

The Investment Bankers Association of America held its 47th Annual Convention at Bal Harbour, Fla., from Nov. 30-Dec. 5. William D. Kerr, Partner, Bacon, Whipple & Co., Chicago, was elected new President. He succeeds William C. (Decker) Jackson, Jr., President, First Southwest Co., Dallas. Association also elected five Vice-Presidents: William M. Adams, Braun, Bosworth & Co., Detroit (2nd term); Warren H. Crowell, Crowell, Weedon & Co., Los Angeles; Edward Glassmeyer, Blyth & Co., Inc., New York; W. Carroll Mead, Mead, Miller & Co., Baltimore (3rd term); and Arthur L. Wadsworth, Dillon, Read & Co., Inc., New York.

William D. Kerr

THE NEW PRESIDENT

Mr. Kerr is a native of Chicago (born July 27, 1904) and the second member of his firm to serve

Continued on page 76

IBA CONVENTION PICTURES—Candid photos taken during the 47th Annual Convention of the Investment Bankers Association of America at Americana Hotel, Bal Harbour, Fla., appear in Section Two of TODAY'S ISSUE.

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 and give their reasons for favoring a particular security.

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

This Week's Forum Participants and Their Selections

Hertz Corporation—Stanley Heller, Partner, Stanley Heller & Co., New York City. (Page 2)

National Pool Equipment Co.—Thomas W. Stewart, of J. H. Hilsman & Co., Inc., Augusta, Ga. (Page 2)

STANLEY HELLER

Stanley Heller & Co., New York City
Members New York Stock Exchange
and American Stock Exchange
New York City

The Hertz Corporation

It is still difficult to choose "The Security I Like Best" for, as stated a year ago, soundly financed and efficiently managed enterprises abound in America. "Such a choice," I then stated, "should be based upon outstanding leadership in one or more fields of private enterprise — upon one revolutionary invention or discovery."

Stanley Heller

Upon this premise, or premises, today I choose **The Hertz Corporation.** America's pre-eminence today in the world of business and finance is based primarily upon the pioneering spirit of those who have, over the years, established themselves as leaders.

Among these is John D. Hertz, who conceived the idea of offering, for rental, passenger automobiles on the DRIV-UR-SELF Plan. When first it was broached, I exclaimed: "What kind of a business is that! A crackpot idea!" Had I had the experience then that I have accumulated since, and had fallen for Hertz's idea, I would now be a millionaire—to use the word loosely—and, of course, "before taxes."

It was some 30 years ago, about the time I established my own firm in the stock brokerage business, that John D. Hertz acquired from the General Motors Company its Yellow Cab manufacturing business. From manufacturing them for others, why not operate fleets of taxicabs yourself—a natural first step. Let somebody else assume the responsibility of manufacturing them, and concentrate upon offering taxicabs for hire? Could be, and, as it turned out, become a highly profitable business.

Then a second step was taken. Taxicabs became ubiquitous. Taxis here, Taxis there (except when you, yourself, wanted one in an emergency or in stormy weather), so let others concentrate on that business, and go into the passenger car rental business, offering an always dependable source of vehicular convenience to private individuals when they want it.

But it was objected that "Everybody these days owns a car himself; so who's left to rent one?" Although the DRIV-UR-SELF car service has established itself as a much sought-after convenience, and highly profitable, the present management has estimated that only 2% of all automobiles on the highways today (including trucks) represent DRIV-UR-SELF passenger automobiles and leased trucks, whereas the prospect, in fewer years than one is apt to imagine, 50% of all motor cars on the country's highways will be rented by the day, or week or month, or on long term leases.

Which brings us to a further development in this rapidly expanding Hertz idea—offering both passenger cars and trucks on long-term leases. So attractive has this leasing idea become that it is now "accepted practice" in many fields of endeavor—Real Estate, Household Appliances, Machine Tools and a wide variety of heavy machinery, and in the trucking field. Sales and other representatives of large and small businesses are finding it much more economical to lease fleets of passenger cars for the use of their executives and salesmen while engaged in corporation business. A more recent extension of this general idea is into the private plane area, and the Hertz management is now embarking upon the business of offering aeroplanes on a temporary rental, or long-term lease basis.

At the beginning of the DRIV-UR-SELF business, it was easier for the Corporation to expand through the establishment of licensees. Franchises were offered to responsible local operators who were entitled to use the Hertz name. Whenever these licensees become firmly established in an area, an offer is made to absorb them directly into the parent enterprise, and within the past few months, two or three licensees down Florida way and another group up Minnesota way have been taken into the parent organization.

To return to long-term leasing: The Hertz Corporation a year ago entered the trucking business in a big way by the acquisition of the vehicle and operating assets of one of the oldest and best known truck leasing companies in New York City with an annual volume of $1½ million. The fleet includes some 600 trucks under long-term contract to a number of outstanding commercial firms in the New York metropolitan area, thus rounding out the service rendered to firms all over the country which have been leasing passenger cars in fleets of five or more units under contracts for one year or longer.

The advantage of the Hertz Service was succinctly expressed in an out-of-town newspaper that happened to fall into my hands. It reads as follows: As low as $79 per month; Full Maintenance; No Capital Investment; Tax Advantages; No Unforeseen Expenses; Simplifies Your Accounting; Drive New Car Model of Your Choice; Equipped to Your Specifications; We Provide Complete Insurance; You Pay for only Gas & Oil.

Another recent development that has fired the popular imagination is the announced association with the American Express Company, leader in world-wide travel and credit facilities. This company has made a substantial capital investment in Hertz stock with options to buy more at prices ranging up to 60⅞.

I think I have given enough of the high lights to acquaint even the most casual reader of this article with the outstanding pioneering achievement of Hertz. I do not intend to bore you with a lot of statistics; but the management is confident that the annual volume of business of the Corporation, estimated at approximately $90,000,000 this year, will expand to $200,000,000 during the next five years.

During the past decade, the ratio of revenues of net after taxes has been between 17 and 18 to 1; and during the past three 15 to 1. During these most recent years a fraction over seven cents out of every dollar of revenue has been saved for the stockholders as divisible profit. How much is Hertz common stock worth on this prospect?

For the outstanding common shares, totalling 2,133,791, I estimate this year, approximately $2.90 will be set aside for net income; next year $3.50 to $3.70; in 1960—$3.60 to $4.; in 1961—$4 to $4.30; in 1962 $5 to $5.75; and in 1963—$5.50 to $6.50. Multiply these estimates by 10, 12 or 15 and you will readily see that the American Express options running up to 60⅞ are likely to prove highly profitable.

A final word: the record of Hertz, as a profit-making vehicle for the investor—it pays a good rate of cash and stock dividends—is soundly financed. Members of its Finance Committee include really top flight investment bankers who, for years, have enjoyed both the admiration and the confidence of the investing public.

My advice to all those who like current income on a potentially rising scale, as well as long-term capital appreciation, is: Look up the statistics as reliably compiled by the well-known statistical services; ask the advice of your banker or broker.

THOMAS W. STEWART

J. H. Hilsman & Co., Inc.,
Atlanta, Ga.

National Pool Equipment Co.

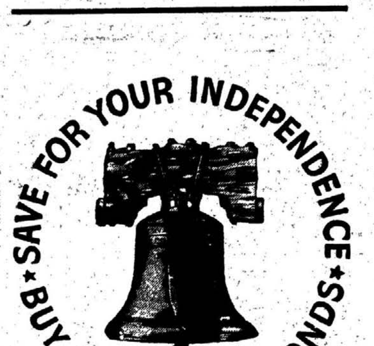
In today's investment market, the shares of most leading companies in the full range of growth industries, including the ever-popular electronics and drug fields, are selling at prices which already fully discount favorable developments for some years to come. It is therefore really exciting to discover, in a new growth industry, that the shares of its leading company are presently available on an entirely realistic and attractive basis.

The industry — the residential and commercial swimming pool equipment industry, whose growth is attested by new and glamorous sparkling azure blue pools being installed in motels, hotels, clubs, municipal playgrounds and patios of homes all over the country. Counting the sales price of all swimming pool equipment, plus local installation labor, together with supplies for operating existing pools, this industry has grown from $50 to $600 million in total annual sales in the past decade.

The company — National Pool Equipment Co., the only publicly owned and widely held company in this industry. National Pool's annual sales have climbed steadily from $453,000 to the current level of $3,000,000 in the past four years, and its earning power is now becoming apparent, with 59 cents net profit per share being reported for the first half of this year. The stock, currently selling at under $4, appears in my opinion to afford an attractive growth speculation.

Prior to World War II, a swimming pool was an expensive luxury usually associated with Hollywood stars' estates or with the most exclusive hotels and clubs. Radically new construction techniques and a broadening market have slashed swimming pool costs to such an extent that a complete patio residential pool installation now compares favorably with the price of a new Buick, Oldsmobile or Cadillac. In fact, a swimming pool can be financed over a far

Continued on page 118



The Business Outlook for 1959

By GORDON W. McKINLEY*
Director of Economic and Investment Research
Prudential Insurance Company of America, Newark, N. J.

Prudential economist foresees a prosperous 1959 with the danger of inflation reappearing only at the end of the year. Dr. McKinley's forecast of more than $455 for this quarter is a bit more bullish than unofficial governmental economists' estimate and his projection for 1959's GNP is $470 billion. In reviewing current recession-recovery and in comparing prospects for major segments of the economy in 1959 with performance in 1958, the Economist observes: (1) surprising decline in Federal spending during the recession's low; (2) unique counter-cyclical housing industry's behavior—due to fixed FHA-VA interest rates; and (3) factors bound to inhibit upward pressure on prices for first half of 1959. Also anticipates 1,150,000 private and 50,000 publicly financed housing starts in 1959—close to recent high levels—or a total of more than $1 billion over the 1958 figure; and growing stringency in the money and capital markets.

I want to devote most of the paper to a discussion of the business, price, and money market outlook for the year ahead. I think it will help us to make a sounder evaluation of 1959 business prospects, however, if we first devote a brief period to a review of the recession of early 1958 and the recovery in the last half of the year. This will enable us to get clearly in mind where we stand today, before turning our attention to probable happenings in 1959.

Gordon W. McKinley

In the table below I have entered the principal economic measures for each quarter from the beginning of 1957 through the third quarter of 1958. I have also included my forecast for the current fourth quarter, along with an estimate, in the last column of the table, of the probable full year 1958 figures. The first official figures for the year 1958 will not be available until the end of January, but I think the estimates in this table will turn out to be quite close to the official data when it is released.

Let me say just a word about the line headings at the left of the table below. The first item—gross national product—is the best overall measure available to us of total economic activity in the United States. As you know, the gross national product is the total value of all the goods and services produced in the United States in a year. The next seven lines—from inventories down through consumer spending—show the major segments which go to make up the gross national product. Below that I have included the Federal Reserve Board index of industrial production which measures the physical output of our manufacturing and mining industries, and also data showing the number of private housing units started. I will explain the last line shortly.

Recession and Recovery in 1958

Business activity reached a peak in the third quarter of 1957 with gross national product at an annual rate of over $445 billion. This was the peak rate just before the recession began in late 1957. From the third quarter of 1957 to the first quarter of 1958, gross national product fell by $20 billion—a decline of 4.5%. Referring to the individual segments which go to make up the gross national product, you will see right away that practically all of the decline in national output was caused by a fall in the first two segments, i.e., in business inventory purchases and in business capital goods purchases.

In the third quarter of 1957, businessmen had been accumulating inventories at a $2.2 billion annual rate; by the first quarter of 1958, they were liquidating inventories at the unprecedented rate of $9.5 billion. The turnaround in inventory policy alone thus accounted for $12 billion of the total $20 billion decline in output. At the same time, business expenditures on plant and equipment fell by almost $6 billion. The decline in these two types of business spending thus accounted for $18 billion of the total decline of $20 billion in national output.

Non-Business Spending Declined Little

While business spending was dropping sharply, other types of spending showed only a very small decline. Federal Government purchases remained stable, state and local government spending rose, housing expenditures showed little change, and consumer spending fell by less than one-half of 1%.

The tremendously important part which the inventory adjustment played in the recession is shown clearly if we compare the last line of the table with the first line. The first line shows production; the last line shows consumption, or what is sometimes called end-product sales. The difference between production and sales is of course accounted for by what

Continued on page 82

*An address by Mr. McKinley before the 12th Annual Conference of Bank Correspondents sponsored by First National Bank of Chicago, Chicago, Ill., Dec. 2, 1958.

INDEX

Articles and News

Page

Editorial Coverage of IBA Convention

ADDRESSES

COMMITTEE REPORTS

Candid Pictures Taken at Convention

CANDID PICTURES taken during the course of the Convention appear in today's 24-page Pictorial Section.

Regular Features

*Column not available.

Published Twice Weekly
The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 7, N. Y.
REctor 2-9570 to 9576
HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
Thursday, December 18, 1958
Every Thursday (general news and advertising issue) and every Monday (complete statistical issue—market quotation records, corporation news, bank clearings, state and city news, etc.).
Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone STate 2-0613).

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates
Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $65.00 per year, in Dominion of Canada, $68.00 per year. Other Countries, $72.00 per year.

Other Publications
Bank and Quotation Record — Monthly, $45.00 per year. (Foreign Postage extra.
Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

"Shall We Repeat the Mistake of the 1920s?"

By LEWIS W. DOUGLAS*
Chairman, Mutual of New York
Former U. S. Budget Director and Ambassador to Great Britain

Mr. Douglas forthrightly asserts that the problem of preserving the fragile stability of exchange rates requires maintenance of foreign aid to protect our economy against the recurrence convulsions caused by exchange rate crisis as during the 1930s. Terming this a cost of protectionism, which would be with us even in the absence of military threat from abroad, the insurance head pleads that the otherwise commendable efforts to cut Federal spending not affect our export dollars. He observes: (1) our surplus trade account is probably the largest of any country which our modest reduction of trade impediments has not lessened; (2) conservatives must face today's realities in order to influence government economic intervention; and (3) that despite claims of loss of friendship, this policy strengthens the economies of NATO countries.

If we review objectively the course of history over the last half century, I think we must conclude that the period is one of the most revolutionary in modern times. The changes in the structure of society, within the frontiers of each nation state, we can identify without exaggeration as being fantastic in both magnitude and character. Within the orbit of international affairs the environment has changed no less strikingly. Never in such a short span of time has the international order of things been so completely uprooted. Never in such a short span of time has there been such a migration to the East and to the West of the centers of power. Never in such a short span of time has there developed such a sharp philosophical chasm between two such large segments of the world. Never in such a short span of time, between the two, have the amenities of diplomatic conduct been so profoundly debased, if indeed there are any amenities left at all. And never in such a short span of time have the international monetary and financial system and the international movement of commerce in the channels of trade undergone such revolutionary modifications.

Lewis W. Douglas

It is in connection with the effect, on our vital national interest, of these changes that I should like to discuss in this paper.

I am confident that what I discuss will be an oversimplification of the matter; but I am equally confident that it is a subject which touches the lives of each one of our countrymen—whether he be butcher, baker or candlestick maker; he be engaged in the business of insurance, the manufacture of automobiles, of mining non-ferrous metals, of extending credit, of healing the infirmities of the ill, or indeed of any other useful occupation.

One of the greatest difficulties of relatively conservative-minded men and women—indeed, of all people—is to accomodate their intellectual processes and their judgments of policies and measures, both private and public, to the changes that have occurred in this, the most revolutionary period of history since the disintegration of the Holy Roman Empire. Far too frequently, the person with the conservative bent of mind continues to think and act as though his own conception of things were a true reflection of his environment, and as though forces that have been created during this revolutionary period—so intensified and aggravated by two great wars and their aftermath—did not exist at all.

The problem of the conservative is to identify these noval forces that are operating, try to direct them and to control them in order to preserve the best and, indeed, the fundamental principles upon which American society rests. Such, for example, as the right of the individual to save and to expend, to invest, to make a profit or sustain a loss, to enjoy the basic human privileges of speaking one's mind, of seeking redress, of worshiping the God of one's own choice, of owning property, of preserving the rights of minorities, indeed of all the basic concepts that are embedded in our Constitution.

An example of the sort of problem to which the conservative should attempt to adjust his mind finds its image in the general view held by many people that it is the function of government to intervene in economic affairs in order to attempt to arrest or modify the exaggerated movements of the business cycle. Whether over long periods of time governments successfully can achieve this objective without creating problems far greater than the ones governments undertake to solve is a matter which only the years and experience will adequately test. But any government which asserts that it is not a public responsibility to try to prevent the appearance of wide-scale unemployment will shortly lose the enthusiasm and the confidence of its supporters. The problem is not, therefore, how to avoid doing what people expect governments to do, but rather by the enactment of what measures and the employment of what devices governments will attempt to reach the objective.

Dr. Arthur Burns has spoken pointedly and wisely about this question.

There are many other examples about which the conservative should adjust his intellectual processes which could be cited if he is to preserve some measure of influence in the development of public policies. It is within the context of a society much modified over the last 50 years by violent pressures of change and revolution that many matters could be discussed. There is, for example, the question of taxation and the volume of public expenditure; the weight of the former upon the individual and the country's institutions; and the vast enlargement of the area of economic activity into which the latter has insinuated government authority. There is the long-term problem of inflation and the highly contradictory series of public policies which necessarily limit the power of the Federal Reserve System to control it.

Singles Out International Finance

There are many questions of international affairs, especially with the apparent advent of another Berlin crisis, which should not have come upon us as a surprise. But it is of the international monetary system, the wide changes that have occurred in the commercial relationship of our own country with the rest of the world and the consequent extremely fragile stability of the international financial system that on balance it would seem to me more interesting and more of a novelty to speak about.

It is perhaps not obvious to the person in Keokuk, Iowa, in Elgin, Arizona or Memphis, Tennessee, or even to many in the heart of the financial district of New York that their economic welfare and the internal health of our country are profoundly influenced by variations in the value of foreign currencies, particularly of world currencies against the dollar.

I should, at this point, draw the distinction between a hard currency and a world currency. The Swiss franc, the Canadian dollar, and perhaps one or two other currencies can well be labeled as hard currencies, but the volume of world trade will not be substantially influenced and historically has not been much affected by a fluctuation in the value of these currencies against our own dollar, despite the large trading account we enjoy with Canada. Sterling, on the other hand, which enjoys at the moment a tenuous strength, and in which more than 50% of the total inter-

Continued on page 101

*An address by Mr. Douglas before The Life Managers' Association of Greater New York, New York City, Dec. 8, 1958.

The State of Trade and Industry

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

The upturn in steel demand is gaining speed and the big push will really take hold after the turn of the year.

Pointing to these developments to support its prediction of a continuing betterment of the steel market, "The Iron Age" on Wednesday of this week stated that steel users are rebuilding inventories and this buildup is now barely underway, adding that it will develop a full head of steam in the first and second quarters of 1959.

Steel order backlogs, it noted, are mounting and shipments also are increasing, but incoming orders are such that most mills will enter the New Year with healthy order books. One mill reports its backlogs are up 23% over a month ago.

It further noted that demand from the auto industry is good and improving. Some auto firms already have made plans to step up their supplies over the next three months and have passed the word along to the mills.

Demand from stampers and forgers also is improving and appliance makers are taking in more steel. Demand for linepipe and oil country casing and tubing could catch fire at any time in the first half of 1959, it added.

Consistently optimistic forecasts that 1959 will be a better year economically than 1958 have prompted both big and small steel users to order farther ahead and build up their inventories.

While there are still many users who are ordering 30 to 60 days ahead, more and more are looking 90 days ahead, continued this trade weekly.

Industry is chewing up more steel due to better manufacturers' orders. This means that users will have to order more steel if they are going to rebuild inventories.

Plates and structurals are showing signs of a pickup. Up to now, the market strength has been based largely on sheets and bars. In the Midwest, notably Chicago, plate and structural demand has been improving. This trend will spread to other areas.

The metalworking weekly further commented that last week and this week the flow of orders from automakers suggests a conviction that this will be a good model year. At least one large carmaker has started to lay in stock now and is planning orderly shipments from here on out.

This trade authority pointed out that the improved steel market may be obscured at the start of 1959 due to the official increase in steelmaking capacity. New capacity as of Jan. 1 is expected to be about 146,000,000 ingot tons compared with the current 141,000,000 tons.

The metalworking weekly cautioned that on this basis the mills could be turning out as many tons or more on Jan. 1 than they were on Dec. 31, but the steel ingot rate might drop due to the increase in capacity.

Automotive production last week declined below that of the prior week as a result of labor strikes at Chrysler Corp. which prevented the industry from achieving a 1958 production high. On the other hand such car manufacturers as General Motors, Ford, American Motors and Studebaker-Packard stepped-up their assembly output.

In the electric industry, kilowatt production again set an all-time high level exceeding the previous high record of the week before.

Trade volume in the latest week also showed improvement, spurred by cold weather and sales promotions, by exceeding the level of the like period, a year ago. Christmas shopping is now at its height and merchants look for a record volume of sales for the season.

The employment situation in the week ended Dec. 6 shows that new claims for unemployment compensation increased 88,400 from the preceding holiday week to a total of 390,900, the United States Department of Labor reported.

The rise, attributed largely to layoffs in outdoor work affected by the weather, was nevertheless considerably larger than the 67,600 increase in the like week a year ago. At that time, new claims totaled 396,100.

Idle workers drawing unemployment compensation also increased in the week ended Nov. 29, the latest for which reports were available. The 116,900 rise to a total of 1,873,700 also was largely seasonal, according to the department. The increase brought the rate of insured unemployment to 4.5% of those eligible, up from 4.2% the week before. A year earlier, the rate was 4.1%.

In the automotive industry the past week, Chrysler Corp. labor troubles stopped the industry from reaching a 1958 production high, "Ward's Automotive Reports" noted on Friday last.

The statistical publication estimated the past week's car output at 142,609 units. Normal Chrysler operations would have sent the total past 150,000, "Ward's" indicated, which would better the present 1958 high of 147,361 set two weeks ago.

According to the agency, 36,200 United States and Canadian employees of Chrysler are idle because of strikes and production halts stemming from strikes. Only corporation assembly plants working five days the past week were Imperial and Dodge Truck in Detroit.

In contrast to Chrysler's subdued activity, General Motors,

Continued on page 97

A Visionary Santa Claus and God's Children

To some people who have never been blessed with much imagination, Santa Claus may be only a commercialized myth and not a flesh-and-blood personage. But who will deny that the jolly old gentleman is one of the most delightful personalities ever conceived in the minds and hearts of children, little and big!

Who is there that is not witness to the fact that Santa's mystical presence and kindly actions **have never seared the soul of a single child** and that Santa has bestowed his jollity and goodness in the breast of every Mother, Father and Child who would just *make believe?*

It takes *imagination* to penetrate the mysteries of nature, the skies, the constellations and the innermost secrets of the earth. Yes, it is man's *imagination* which has built empires and nations, and implanted the spirit of freedom in our own beloved United States of America. It is *imagination* which has created the great paintings, written the great plays and operas, and given voice to the devine spirit of poesy.

And it is through *imagination* that man has explored the unknown and wrested from nature the secrets which have made possible the wonders of modern mechanical progress. *Imagination* can truthfully be said to be responsible in great part for man's most notable achievements in all departments of life.

For without *imagination*—fairy tales, dreams, romance, love, wedded bliss and poetic instincts—this old drab and prosaic world would be commonplace indeed. So let us not destroy our children's love of fairy tales, make believe and Christmas sentimentalities.

If *imagination* is a *positive* force and inspiration in our lives, then there is nothing more real and vital in the lives of little children than Santa Claus, and there is nothing more real than the millions of loving **Fathers and Mothers who are veritable Santas to their beloved ones all year round.**

Anyone, who makes one of God's children happier with a smile, a kiss, a caress of love, or who shares friendship and human kindness with a distressed and deserving stranger, is a Santa in fact as well as in fancy.

To rich and poor, young and old, who are imbued with the Christmas Spirit, the visionary Santa Claus of our dreams is as real, true and personal as was Jesus, when He uttered these memorable words: "Suffer little children to come unto me, and forbid them not, for of such is the Kingdom of Heaven."

May each of us, at this Christmastide be a Santa Claus to some distraught, needy or neglected soul of our acquaintance and by befriending one of God's little children!

ALEXANDER WILSON*

**Member of The "Chronicle's" Editorial Department.*

A.T. & T. Announces 3-for-1 Stock Split

The board of directors of American Telephone and Telegraph Co. initiated action Dec. 17 to split the stock of the company on a three-for-one basis. The proposed stock split will be submitted to the share owners for vote at the annual meeting to be held on April 15, 1959. It is expected that the additional shares resulting from the split will be distributed about June 1, 1959, and that the first quarterly dividend payment on the split shares will be made in July 1959 at the annual rate of $3.30 per share.

The board believes that the proposed action will make the company's shares attractive to more investors and therefore widen the market for the company's stock. It will strengthen the position of the company in competing for the large amounts of equity capital that will be needed in the future to meet the nation's requirements for telephone service in our expanding economy.

For the past three years the Bell System has spent $2,000,000,000 or more per year for new construction. The major part of this has been raised through the sale of securities. Expenditures of this magnitude are expected to continue. This is considerably more than has been spent by any other privately owned corporation. It has furnished employment to many thousands of people and has had a beneficial effect on business conditions throughout the country.

If the company is to continue these large and important construction programs, a broader market for the company's stock is essential.

Morris Mather Jr. V.-P. of Blyth & Co.

CHICAGO, Ill.—Morris Mather, Jr. has been elected Vice-President in charge of sales in the Midwest for Blyth & Co., Inc., it is announced by the investment banking firm. He will make his headquarters in the Chicago office, 135 South La Salle Street.

Mr. Mather started with Blyth in 1937 and remained with the firm until 1940. He returned to Blyth in 1953 and was named Sales Manager in Chicago in January 1955.

From 1940-47 he was a partner in Morris Mather & Co., securities dealers, and from 1947-53 Mr. Mather was with Carl D. Pettit & Co., investment counselors, in New York. He spent two years in the U. S. Navy during World War II.

Luttrell Maclin To Be Paine Webber Partner

On Jan. 1 Luttrell Maclin will be admitted to partnership in Paine, Webber, Jackson & Curtis, 25 Broad Street, New York City, members of the New York Stock Exchange and other leading exchanges.

A. T. Matthews With Laidlaw in Montreal

MONTREAL, Canada—Allan T. Matthews has been appointed Assistant Manager of the Montreal office of Laidlaw & Co., Royal Bank Building.

Mr. Matthews was for 12 years with The Bank of Nova Scotia in Canada and New York.

Joins Graham & King

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Joseph C. Kiernan has joined the staff of Graham & King, Inc., 16 Court Street.

Observations . . .

By A. WILFRED MAY

SILVER LINING

To this column, the current New York newspapers' strike troubles entail at least one consolation. The general obliteration of their publication of daily stock market quotations has been serving to further the indoctrination of the investing community in true investment attitude.

A. Wilfred May

Surely avid eying of the stock table, other than for the purpose of forming a buying or selling decision concerning an individual issue, is wholly inconsistent with constructive long-term value-seeking investment policy. Thus, in advising on how to read the financial news, we have suggested confining the reading of the intriguing stock table to a once-a-week maximum. In any event, there is no reason to follow an issue's price after you have bought it; surely, that severe mental anguish from watching an issue rise after you have sold it is to be avoided.

Incidentally, the presence of some investment along with the numerous speculative attributes in the current bull market, is indicated by the eight-point net rise of the Dow Jones Average midst the ten-day absence of most newspaper market quotations here.

* * *

FEET-WETTING IN STATISTICS

What a long way the use of statistics has come since its 17th Century beginning in its modern form! With its start ascribed to the importuning of Galileo by Italian gamblers to study the probabilities in throwing dice, their use is constantly fanning out to all and sundry, now ranging from the stock market community of course, to the television industry, with its advertising associates dependent on Hooper ratings for so many major decisions

Of the many books on statistics, most are written for the *producers* of statistics; that is, those who make the studies, surveys, and experiments—for the technically-equipped professionals. But there is a real dearth of literature suited to the *consumers* of statistics, those who must read and act on the reports of the expert statisticians, who require a grasp of its fundamentals, including terminology, and the ability to appraise the experts' findings.

This void in the statistical-consumer's "primary" education is now filled by the briefing available in a new volume, **A Primer of Statistics for Non-Statisticians, by Abraham N. Frantzblau;** Harcourt, Brace, New York; 150 pp., $3.50. A psychiatrist, he is presently Dean of the School of Education, Hebrew Union College-Jewish Institute of Religion in New York City. As one who once aspired to be a mathematics professor and attended Pace Institute for training in accountancy, and who helped his fellow medical students over their difficulties with statistics while he was acquiring his M. D., Dr. Frantzblau is an ideal individual to write such a statistics primer.

In any event, the end product embodied in this volume constitutes a most valuable filling of the bill for which it is intended. The uninitiated will get to understand what a formula produces, rather than how to use a formula to make it produce. Each formula used is clearly and carefully analyzed; and it is explained why a particular one is used. A separate section of "Questions and Answers" at the close of each chapter is helpful in permitting the reader to try his own hand at the material. And there is a very healthy chapter embodying "suggestions for further reading" in mathematics and statistics.

Fortunate is it that this void has been met by one of Dr. Frantzblau's versatile background and capacity for clarification.

* * *

BULL ON OUR CIVILIZATION

Formerly a journalist and economist for British banks, and in recent years a business economist and top-level management consultant, Peter Drucker is in a fortunate position to survey the

Continued on page 8

Where Are Our Greatest Foreign Investment Opportunities?

By PHILIP CORTNEY*
Chairman, U. S. Council of International Chamber of Commerce; President, Coty, Inc.

Economist-industrialist cites both political and economic overtones motivating investment in under-developed countries. Stresses advisability of exploiting the world's remaining untapped resources. Mr. Cortney points out impediments to private saving and investment in under-developed nations, including imperfect maintenance of law and order, political instability, unsettled monetary conditions, extended family technique, and systems of land tenure. Maintains when the political, economic and social environment of a country is favorable for domestic investment, it will also attract foreign capital. Concludes "it will require more intelligence than dollars . . . to stave off the flux of the barbarians."

The more I reflected on my subject matter the more I realized that a question which sounded simple may well require a complicated answer.

Philip Cortney

My first instinctive reaction, due to whatever amount of accumulated knowledge of the subject I had, was to say: "Of course the greatest opportunities are in Europe, at least for the next 10 to 15 years." Then, a few days ago I read in the newspapers that several speakers at the recent National Foreign Trade Convention had stated that the great new field for expansion of U. S. business abroad lies in setting up production facilities in foreign nations, particularly in the under-developed countries.

I also began to wonder what is meant by "under-developed" countries in the context of my subject-question, because opportunity implies assumedly a chance to make profits. It may well be that the United States itself is one of the most "under-developed" countries in the world in terms of potentiality for further economic growth and profitable investment.

Moreover, daily events do not allow us to forget that investment in under-developed countries has political overtones. Some people, especially those connected with government, speak about investment in under-developed countries in terms of patriotism in the cold war against communism.

Yet others, for instance Nehru himself, contend that more important than the division of the world into communist and non-communist countries is the distinction between developed and under-developed countries. We are told that the clamor of rising expectation for a greater share of the world's goods by the awakened masses of Asia and Africa is so pressing that most of the under-developed countries do not want to go through the same gradual process of economic growth as did Great Britain and the United States and other countries. They wish to obtain, by economic planning and authoritarian methods, if necessary, as quickly as possible a wide basis of heavy industry.

To add to our perplexity, we are being told with insistence that China is being industrialized by communistic methods and that our best chance to prove to the yet uncommitted countries the superiority of freedom is to make India the show-window of the free enterprise system.

*An address by Mr. Cortney before the Detroit Economic Club, Detroit, Mich., Dec. 1, 1958.

U. S. Foreign Investing Since World War I

Let us first have a brief look at the American investments abroad since World War I. After World War I there was a burst of investing in foreign securities which came to grief. It was only after World War II that our direct investments abroad began to assume very substantial proportions. Large scale foreign investing is so new that we still have only incomplete data about it. As you may know, the Commerce Department is now collecting data from every American firm with foreign investments in order to present a world-wide picture. Analyzing the resulting mass of data will take a full year so that it will be in 1960 before the results are available.

In the last eight years, Americans have been investing abroad at an increasingly rapid pace. In 1957 they made foreign investment abroad resulting in a net outflow of dollars amounting to nearly $4.0 billion, a figure substantially greater than the nonmilitary part of the U. S. Foreign Aid. U. S. overseas investments are now approaching $40 billion in value.

U. S. private investors have shown a number of distinct preferences in recent years. Since the end of the World War II Americans have been investing abroad primarily in affiliates in which they held controlling interest; that is to say direct investment rather than the portfolio investment which was popular in the 1920s. Direct investment in branches and subsidiaries last year was three-quarters of our total private investment.

Our investors have preferred the Western Hemisphere, whether Canada or the relatively less developed countries of Latin America, to all other areas of the world. Over two-thirds of all private foreign investment has gone into the Western Hemisphere. Western Europe is the next most popular place to invest with approximately 15% going there. Mineral extraction, particularly oil, has been the most attractive field for Americans investing abroad. We have made almost half of our foreign investments in this line of activity. The next two areas in importance judged by size of American investment are manufacturing, accounting for about one-third, and public utilities with about one-tenth.

On the basis of these facts some important conclusions follow. So far Americans have preferred to invest closer to home rather than farther away. This is perfectly natural.

One of the main reasons historically for Americans to invest abroad is to develop natural resources, particularly mineral resources and most particularly oil. It is perfectly obvious that the incentive for this type of foreign investment can only increase. Our needs for raw materials are growing as population expands and living standards rise. At the same time our own resources are becoming depleted. In 1900 the United States was a raw material exporter, now this country is a net importer for about 10% of our raw material needs. This is in spite of the rapid growth of various synthetics and efforts to conserve raw materials or to utilize lower grade ores.

American overseas investment is already producing a substantial amount of raw materials for the U. S. market. Approximately half of all the raw materials imported into this country is the output of American branches or subsidiaries.

Investment of this sort has to go where the raw materials are to be found. The investor in this field who is comparing Western Europe with the under-developed countries is probably not going to spend much time on Europe relatively speaking even though some oil companies have been finding oil in Europe recently. The under-developed countries are still the great storehouses of untapped resources. In many cases they are storehouses of untapped resources of which no inventory has as yet been taken. Even rudimentary knowledge about the mineral and other resources of many under-developed countries is lacking.

There are at least two developments affecting investment in raw material production which will be worth watching. Last year the United States proposed a substantial expansion of the technical work of the United Nations. One of the main activities to be undertaken by this expanded program is a series of surveys of the natural resources of the under-developed countries of the world. These surveys will of course take time to prepare, but they could develop a great deal of valuable basic information about the remaining untapped resources of the world.

Europe's Future Opportunities For U. S. Manufacturers

In the next 10 to 15 years Europe may well offer exceptional investment opportunities to American manufacturers. Within little more than a decade the European Economic Community will be a unified economy. Six industrialized countries with a combined population equal to ours and a combined gross national product about one-third of our own are grouping into a common market. They have a skilled and disciplined labor force and research capacity in some respects superior to our own.

There will be a real incentive for Americans to invest in the European Economic Community area in order to take advantage of the freedom to trade in this big market without hindrance from tariffs or quantitative restrictions.

I think that it is almost certain that the EEC will bring a greater degree of free competitive enterprise to Western Europe than it has ever known. On the one hand, the Treaty of Rome establishes an antitrust system in Europe which will break down the stifling cartel mentality which has prevailed there. On the other hand the drag of government controls should also crumble. Free enterprise given a continent in which to operate will prove to be too dynamic and productive to be kept in check.

There are some grave uncertainties, of course. The present stalemate in the negotiations to create a free trade area could lead to the most serious problems for Americans and Europeans alike. The prospect of a real economic cleavage in Europe is so grave that I think a way must be found to surmount the present difficulties.

Another problem is the failure

Continued on page 92

This Growing Economy And the Federal Budget

By MAURICE H. STANS*
Director of the Bureau of the Budget

U. S. budget director pleads for sanity in government finances as one essential way of guarding our economy. Mr. Stans promises as tight a budget as the President can make it—in the face of existing laws—for fiscal year 1960; foresees sharp criticism about it because to some it will be too tight and to others not tight enough; and asks why do politicians, business and labor leaders foster inflation with one hand while eloquently decrying it with the other. Warning that the world is watching how we, in our economy, deal with our problems, the official recommends three broad objectives that should guide our national policies.

In the setting of the School of Commerce, Accounts, and Finance, it is especially appropriate that we consider the urgent questions of how our economic system can maintain its stability while expanding to produce sufficient resources for the needs of a growing population, a vast national defense complex, capital investment and plant expansion, urbanization, and the added demands created by the needs of the free world community. For these are the critical tasks we have set ourselves to perform, largely through governmental action scaled to preserve the incentives for a vigorous free enterprise system at home and equal freedom of choice for those in other lands.

Maurice H. Stans

A century ago, Cardinal Newman, in his essays on "The Idea of a University," wrote of the kind of institution we see here today. He said: "An assemblage of learned men, zealous for their own sciences, and rivals of each other, are brought, by familiar intercourse and for the sake of intellectual peace, to adjust together the claims and relations of their respective subjects of investigation. They learn to respect, to consult, to aid each other. Thus is created a pure and clear atmosphere of thought, which the student also breathes. . . . He profits by an intellectual tradition. . . . He apprehends the great outlines of knowledge, the principles on which it rests, the scale of its parts, its lights and its shades, its great points and its little, as he otherwise cannot apprehend them. . . . A habit of mind is formed which lasts through life, of which the attributes are freedom, equitableness, calmness, moderation, and wisdom."

The idea of a university has not changed, but the society that the university serves is changing. We are caught up in a turbulence that has few parallels in our short history as a nation. We cannot deal with it, nor even survive it, if we do not first try to understand it —with "equitableness, calmness, moderation, and wisdom."

I have chosen to discuss "This Growing Economy," but I will take that subject more as a point of departure than as a theme. I am deliberately going to turn it into a plea for sanity in government finances, on the ground that a contrary course will destroy the promises of our economy.

There is no need to reassure you of the basic resources of our free enterprise system. You know, as well as I, that it is capable of great diversification, expansion, and productivity, and that it can provide the jobs for an increasing population. You know that it is progressive in its technology, and rich in its ingenuity. These faculties spell assurance of growth.

No Monopoly on Economic Growth

But it isn't enough that we enshrine economic growth as an end in itself. Alone, it is not a sufficient goal for the times in which we live. It must be equated into a broader structure of values, if it is really to constitute achievement. We must, first of all, remember that we have no monopoly on economic growth, and that there are those who see in the Soviet economy strong evidence that in relative terms its rate of growth exceeds our own. And so we are warned, quite properly, of the dangers of the Russian economic offensive.

Here we see on display the two contrasting economic systems of the 20th Century. Each has sprung from a social premise which is repugnant to the other. Each identifies itself with dramatically opposed theories of economics. One is brutal in its philosophy, and blusters that it will bury the other. But, as different as the Soviet and the free-enterprise systems are, they have one thing in common: growth.

In the Soviet state, the immediate source of strength is repressive control. This control produces a unification of three strategies, the political, the ideological, and the economic. All are manipulated to cause and maintain instability in the world outside of the Soviet bloc. The political strategy is to perpetuate the war of nerves, and to neutralize through fear the great population masses of Asia, Africa, and the East. The ideological strategy is to offer hope to the underprivileged — the familiar promise of pie in the sky. And the economic strategy is ultimately to employ a productive machine which, free from profit-making and risk-taking features, can undersell the high-cost industries of the West and capture the markets of the world, thus setting the stage for decline and disintegration of the Western economy as we know it.

This is what we have to deal with. It won't do to become so preoccupied with internal issues and problems that we forget the central contest of our century. We dare not become so absorbed with ourselves that we fail to realize the magnitude of the challenge that is openly being hurled against us.

Still, while we must respect the growth of the Soviet economy, we should also be objective about it. The rate of Soviet growth is less imposing when we remember that it is not a long-term rate. It includes the recovery from a low, devastated wartime basis. The Soviet Union started at a lower

Continued on page 95

*A speech by Mr. Stans that was delivered in his absence by Elmer B. Staats, Assistant Director of the Bureau of the Budget, at the 8th Annual Dean's Homecoming Day at New York University's School of Commerce, Accounts and Finance, New York City, Dec. 6, 1958.

Ailments and Altitudes Of Airline Equities

By DR. IRA U. COBLEIGH
Enterprise Economist

A ground observer's view of air transport lines in general and the current position of certain common stocks in particular.

In a share market carrying electronics and pharmaceuticals, American Motors and Lorillard, to unaccustomed and rarefied altitudes; and with the Dow-Jones average hitting the oxygen zone, there's a vast combing over of the list by brokers, analysts and advisors, to select worthy speculative vehicles that, up to now, have not gotten very far off the launching pad. Among these more sodden securities in today's market are the air transport shares.

Ira U. Cobleigh

Just why this group should have performed so poorly in the last 18 months has been the subject of numerous analytical studies, with a consensus revealing the following drawbacks of the industry: (1) Laminated competition on major routes, abetted by overlapping awards by the C. A. B.; (2) steadily rising costs of fuel, labor, with but meager rate increases to offset them; (3) necessity of "keeping up with the Joneses" in the acquisition of latest type of equipment; (4) problem of financing all this latest fashionable flying finery; (5) declining rate of productivity; (6) declining load factors; (7) costly strikes—especially this year; (8) airport airlane congestion, and some highly publicized air disasters; and (9) aggregate profits that this year may be lower than in 1949.

Among the foregoing items, one of the most serious has been the passenger load factor which has declined from about 69.6% in 1951 to probably around 58% this year. Part of this was due to the recession, part to delivery of larger planes (with more seats) and part due to route allocations made to smaller lines in competition with the profitable runs of older and larger lines. By July, 1958, however, the load factor curve started to move up again, and if it should move back above 65%, a quite dramatic increase in the net profits of airlines would ensue.

Then, in September, the report of President Eisenhower's Special Assistant for Aviation was made public. It was not a bullish document. It implied that, in a number of respects, the airline industry was on an unsound basis, and it mentioned that a resumption of subsidies, and possibly government financing might be necessary to complete the payments on $2.8 billion in new equipment which the industry had ordered. All of which did little to generate enthusiasm for air shares, especially when a slump in the market for old planes restricted the capital gains, quite commonly realized in prior years, on the sale of used and outmoded equipment. (On this point the Report recommended government loans to friendly nations so that they could buy our used transport planes.)

Confronted by such an arsenal of arguments as to why air shares are now depressed, it would seem to require either ignorance or audacity to come out in favor of airline equities at this juncture. Yet that is what we propose to do, in a qualified sort of way, because we don't feel the foregoing negative factors will prevail indefinitely; and there is also a brighter side.

The rising trend in load factor has been mentioned. That can help, of course. Even more important, however, are fare increases. In February 1958, the C. A. B. did authorize a small fare increase, 4% plus $1 a ticket, and permitted discontinuance of the round trip discount. But this increase was (and is) woefully inadequate. Nearly all the lines have applied for substantial further increases which should be acted upon by next April (with perhaps interim increases meanwhile.) Logic would suggest that the Commission grant sizable advances, not only in belated recognition of rising operating costs, but to provide a better earnings base for the financing of the new armada of jets.

Your correspondent rode into New York today on a Long Island R.R. coach that was, at the very least, 20 years old. Air lines can't run vintage items like that. There were the DC 3's, then DC 6's, and DC 7's, Constellations, turbo props and now jets. A big new jet costs $5 million. It's a marvellous carrier, in speed—2½ hours New York to Houston—and in passenger-mile capacity. Because of its speed — 9 hours New York to London—a single jet can make so many transatlantic round trips in a year that it will actually convey more people than a year's run of the Queen Mary. Moreover, a fleet of jets operates at substantially lower costs than piston planes, and jets are expected to last considerably longer. So once the problem of paying for all this new equipment has been solved, a new and higher plateau of earning power is in prospect. Not only that, but jets should prove to be the most permanent of all the postwar transport models introduced. Even supersonic planes would offer but relatively slight advantages over present jet speeds. So the jets may well prove to be standard operating equipment till the rocket age sets in.

Taking a broader viewpoint, a robust air transport industry is a national necessity. It transports 40 million passengers a year and, with many railways curtailing or abandoning passenger service, the airlines are each day increasing their importance in our overall transportation picture.

After the foregoing swift appraisal of the airline industry, some reference to particular companies seems now in order. There are 12 domestic trunk lines to choose from. We won't pretend to cover them all, preferring rather to touch upon three or four companies where, perhaps, share price recoveries appear more immediately in prospect.

American Airlines has a number of elements of current attraction. It is the largest domestic airline and the first one to operate long range jet transports. It has one of the strongest of airline balance sheets. It earned $1.31 per share on its common last year (including 23c in non-recurring profit) and should show around $1.50 for 1958. This is adequate coverage for the present $1 dividend. American Airline common sells around 24 to yield 4.16%. 1955-58 price range was between 14 and 29.

Eastern Air Lines has had the finest record of sustained earnings of any domestic line and it has consistently maintained a strong balance sheet position. It earned $3.21 per share in 1957 on its 2,921,000 common shares, listed on the N. Y. S. E., and now selling at 34. The dividend is $1 in cash and 2% in stock. Eastern has enjoyed an efficient cost conscious management, and was on the way to an improved 1958 till hit by a strike now in its fourth week—and just at a time of year when the winter Florida business begins to roar. In the 20 years ended Dec. 31, 1957, Eastern averaged a profit margin of 7.9%, the highest in the business. Market range of Eastern common in the past four years has been between 27 and 58 suggesting that today's buyer is asked to pay no fancy premium for superior management, proven earning power and attractive long range prospects.

United Air Lines showed the best improvement in earnings during the first half of 1958, increasing per share net from .88 in 1957 to $1.16 for the corresponding six months this year. This improvement was importantly due to a four months' strike on the competing Western Air Lines. United has excellent routes and once it gets over the hurdle of financing its new planes, it should be able to command something better than the current share price of 29. The 1955 high was 49½.

Among the most promising lines, in a long range conjecture, is *Delta*. It is well managed, has recently been assigned important and major new routes and has displayed a 20 year profit margin of 6.6%. The line has enjoyed a rapid expansion in gross revenues. Delta total revenues in 1957 were $79 million. They should be substantially higher this year. Delta common sells at around 22, has a book value of over $30 a share and paid a 30c dividend this year. It sells far below its 1955 high of 40 when its long range prospects were considerably less exciting.

The above four are generally regarded as uninflated equities in today's market. For those of a more speculative turn of mind a study of highly leveraged *Capital Airlines* at 18¾ and *Continental Airlines* at 6¾ might be worth while. Both of these have interesting convertible debentures available at substantial discount prices.

Airline equities are not the thing for conservative investors, seekers of steady income, or trustees. They do have considerable attraction for speculators today, however, since they have (with the exception of *Pan American*) not shared in the forward motion of the market in recent months, and possess many underlying factors suggesting an important rise in earning power within the next three years. A powerful element of growth exists in the air transport industry. All that is required is to start translating that growth into net earnings and airline equities may be invited to join the bull market.

Top Executive Changes At Stone & Webster

At a meeting of the board of directors of Stone & Webster, Inc. the resignation of William T. Crawford as chairman of the board was accepted effective Jan. 1, 1959. He will continue as a director.

Whitney Stone, formerly president, was elected chairman of the board and chief executive officer, and Richard N. Benjamin was elected president and a director, both effective January 1, 1959. Mr. Benjamin had been president of Stone & Webster Service Corporation.

At a meeting of the board of directors of Stone & Webster Service Corporation, Mr. Benjamin was elected chairman of the board of the Service Corporation and Peter J. Rempe, who had been senior vice president, was elected president, also effective January 1, 1959.

Dealer-Broker Investment Recommendations & Literature

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

Atomic Letter No. 43 — Discussing current expenditures on atomic energy and comments on **Baird Atomic Inc., Tracerlab** and **Pronto Uranium Mines Ltd.**—Atomic Development Securities Co., Inc., 1033 Thirtieth Street, N. W., Washington 7, D. C.

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

Copper—Report—Draper Dobie and Company Ltd., 25 Adelaide Street, West, Toronto, Ont., Canada. Also available is a comparison of **Canadian vs. U. S. Oils.**

Federal and State Stock Original Issue and Transfer Tax Rates —Booklet—Registrar and Transfer Company, 50 Church St., New York 7, N. Y.

How to Use Options—Descriptive booklet—Filer, Schmidt & Co., 120 Broadway, New York 5, N. Y.

Japanese Market—Review of current situation—Nomura Securities Co., Ltd., 61 Broadway, New York 6, N. Y. Also in the same review are brief analyses of **Asahi Breweries, Nippon Hodo, Nikkatsu,** and of the **Japanese Nonferrous Metal Industry.**

Japanese Stocks — Current information — Yamaichi Securities Company of New York, Inc., 111 Broadway, New York 7, New York.

Over-the-Counter Index—Folder showing an up-to-date comparison between the listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over a 19-year period — National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Ten Sound Low Priced Laggards—Report—Thomson & McKinnon, 11 Wall Street, New York 5, N. Y.

Three to Benefit From Consumer Spending — Bulletin on **Bigelow-Sanford Carpet, Roxbury Carpet** and **Hammond Organ.**—Bache & Co., 36 Wall Street, New York 5, N. Y.

Treasure Chest in the Growing West—Booklet describing industrial opportunities of the area served—Utah Power & Light Co., Dept. K., Box 899, Salt Lake City 10, Utah.

• • •

American Can Co.—Memorandum—Woodcock, Hess, Moyer & Co., 123 South Broad Street, Philadelphia 9, Pa.

American Molasses Co.—Memorandum—Hardy & Co., 30 Broad Street, New York 4, N. Y.

Atlantic Refining Company—Analysis—Schweickart & Co., 29 Broadway, New York 6, N. Y.

Automatic Canteen Company of America—Analysis—Glore, Forgan & Co., 40 Wall Street, New York 5, N. Y.

Bank of New York — Bulletin — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Beech Nut Life Savers, Inc.—Memorandum—W. E. Hutton & Co., 14 Wall Street, New York 5, N. Y. Also available is a memorandum on **U. S. Lines Co.**

Bird & Son Inc.—Analysis—H. Hentz & Co., 72 Wall Street, New York 5, N. Y.

Broadway-Hale Stores, Inc. — Report — Blyth & Co., Inc., 14 Wall Street, New York 5, N. Y.

Carpenter Steel Company — Analysis — Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y. Also available is a report on **General Bronze Corporation.**

Ceco Steel Co. — Memorandum — Muir Investment Corp., 101 North St. Marys Street, San Antonio 5, Texas.

Chemical Corn Exchange Bank—Memorandum—R. W. Pressprich & Co., 48 Wall Street, New York 5, N. Y. Also available are memoranda on **Ruberoid Co.** and **Sterling Drug Co.**

Citizens Utilities Company—Analysis—Walston & Co., Inc., 74 Wall Street, New Yok 5, N. Y.

Dana Corp.—Discussion in current issue of "Current Comments for Investors"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y. In the same issue is a brief analysis of **Ferro Corp.** and a list of candidates for stock dividends or stock splits. Also available is the current issue of "Market Pointers" with "Tax Tips" and switch suggestions, and brief discussions of **Textiles** and **H. L. Green Co.**

Federal National Mortgage Association — Memorandum — C. F. Childs & Co., 1 Wall Street, New York 5, N. Y.

G. M. Giannini, Inc.—Memorandum—John E. Samuel & Co., 149 Broadway, New York 6, N. Y.

Glidden Co.—Brief analysis—du Pont, Homsey & Company, 31 Milk Street, Boston 9, Mass. Also in the same circular are analyses of **Sparton Corporation, Central Vermont Public Service** and **Granite City Steel.**

A. P. Green Fire Brick Company — Analysis — The Milwaukee Company, 207 East Michigan Street, Milwaukee 2, Wis.

Halliburton Oil Well Cementing Co. — Memorandum — Green, Ellis & Anderson, 61 Broadway, New York 6, N. Y.

Houston Corp. — Memorandum — Moreland, Brandenberger, Johnson & Currie, Bank of the Southwest Building, Houston 2, Texas.

Howe Sound—Analysis—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y. Also available is a circular on **Glen Alden Corporation, National Telefilm Associates, Inc.** and **Grayson-Robinson Stores, Inc.**

Lawyers Mortgage & Title Insurance Co. — Memorandum — Candee & Co., 44 Wall Street, New York 5, N .Y.

Lerner Stores—Analysis—Reynolds & Co., 120 Broadway, New York 5, N. Y. Also available is a memorandum on **South Jersey Gas.**

McLouth Steel Corp.—Memorandum—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Olin Mathieson Chemical Corp.—Analysis—Blair & Co., Incorporated, 20 Broad Street, New York 5, N. Y. Also available is an analysis of **Standard Accident Insurance Company.**

Peerless Insurance Co.—Memorandum—Albert McGann Securities Co., 131 West Washington Avenue, South Bend, Ind.

Studebaker-Packard vs. Botany Mills—Report—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Unilever N. V.—Card memorandum—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

United Western Minerals Co.—Memorandum—James P. Speer & Co., 2826 Central Avenue, Southeast, Albuquerque, N. Mex.

Continued from page 5

Observations . . .

American politico-economic scene. This he has been doing provocatively and stimulatingly in a series of past volumes, including his quite epochal "End of Economic Man" back in 1939 and "America's Next Twenty Years," first published in 1955. The latter tome's optimistic view of things to come in America's next 20 years, Mr. Drucker now expands and accentuates in a new book, **"Landmarks of Tomorrow"** (By Peter F. Drucker, Harper & Brothers, New York; 270 pp., $4.50).

In this latest work he sketches a road map to our succeeding eras in history, following on our post-eighteenth century "modern age." In this optimistic preview, in a range even wider than previously, he forecasts the adoption of a whole new approach to living, which will result in replacing what he calls a haphazard and chaotic past with efficient organization and control of our technical inventions.

Maintaining that our old view (of 20 years ago) of the world which we then called "modern," no longer makes sense, Mr. Drucker states that we have imperceptibly moved into the "post-modern world," of whose new reality we still do not have any actual knowledge.

In this volume which also emphasizes the present, the author covers three big areas, namely the new view of the world with its new concepts; the new frontiers with its new tasks and opportunities; and the human situation.

The first of these areas contains a discussion of the new power to organize men of knowledge and high skill for joint effort through responsible judgment. The second part deals with the coming of Educated Society, the emergence of Economic Development; the decline in the government's and nation-state's ability to govern; and the alleged collapse of the "East," that is, of non-Western culture and civilization, and society's increased dependence on Western formulations. The third part is concerned with the fact that both knowledge and power have gained the capacity for absolute destruction, for the first time in our civilization.

The author in his introduction expresses the hope that his book accomplishes the aim of conveying to the reader the shock of recognition of how obvious the recently unfamiliar new already is, and how irrelevant "the familiar modern of yesterday" has already become. In this overall objective he succeeds — and most stimulatingly!

COMING EVENTS
In Investment Field

Jan. 16, 1959 (Baltimore, Md.)
Baltimore Security Traders Association 24th annual dinner at the Southern Hotel.

April 1-3, 1959 (San Antonio, Tex.)
Texas Group of Investment Bankers Association of America annual meeting at the Hilton Hotel.

Nov. 2-5, 1959 (Boca Raton, Fla.)
National Security Traders Association Annual Convention at the Boca Raton Club.

M. Roberts Named Gov. of Rocky Mt. IBA

DENVER, Colo. — Malcolm F. Roberts, Garrett-Bromfield & Co., has been elected to the Board of Governors of the Investment Bankers Association representing the Rocky Mountain Group of the I.B.A.

Bache Group Offers Chain Store Convertible 6% Debentures

Public offering of $2,500,000 Two Guys From Harrison, Inc. 6% convertible subordinated debentures, due Jan. 1, 1974, at 100% and accrued interest, was made yesterday (Dec. 17) by an underwriting group managed by Bache & Co.

The debentures are convertible at their principal amount into Class A common stock of the company at anytime until maturity, unless previously redeemed, at conversion prices of $11.50 per share of Class A stock prior to Jan. 1, 1964, $13.50 per share if converted prior to Jan. 1, 1969, and at $16.50 thereafter, subject to adjustment. The debentures are entitled to an annual sinking fund, beginning in 1965, sufficient to retire at least 45% of the issue prior to maturity, at a redemption price of par, plus accrued interest. They will also be redeemable at optional redemption prices ranging from 106% to par, plus accrued interest.

Nickel Plate Equipment Trust Ctfs. Offered

Salomon Bros. & Hutzler and associates yesterday (Dec. 17) offered $4,920,000 of New York, Chicago & St. Louis RR 4⅛% equipment trust certificates, (non-callable), maturing semi-annually July 15, 1959 to Jan. 15, 1974, inclusive.

The certificates are scaled to yield from 3.35% to 4.125%, according to maturity. Issuance and sale of the certificates are subject to authorization of the Interstate Commerce Commission.

The issue is to be secured by 35 Diesel electric road-switching locomotives estimated to cost $6,168,815.

Associates in the offering are: Drexel & Co.; Eastman Dillon, Union Securities & Co.; and Stroud & Co., Inc.

Keller Brothers Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Edward P. Lemack has become associated with Keller Brothers Securities Co., Inc., Zero Court Street.

With Goldman, Sachs

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — John D. Gilliam is now with Goldman, Sachs & Co. He was formerly with Fulton, Reid & Co.

Fiscal and Monetary Policy as Factors in Economic Growth

By HON. WILBUR D. MILLS*
Chairman, Committee on Ways and Means
House of Representatives (D.-Ark.), U. S. Congress

Well-known tax authority in Congress deals with the question as to how we can determine whether or not Government spending program is wanted; proposes that the budget appropriations and functions be properly evaluated; and favors increasing tax revenues instead of deficits, and would first seek ways to do so without a general rate increase. Rep. Mills suggests broadening the tax base, removing special deductions and preferences, and increasing rates on some specially favored income as the first way to raise tax income. He warns of the dire inflationary consequences of not facing up to unbalanced budgets; deplores economic decisions based on tax rather than on market considerations; and alerts mutual savings banks and other tax-favored activities they are a future tax target.

My first observation on the problem of economic growth is that a flexible monetary and fiscal policy designed to produce stability in output makes a major contribution to economic growth. The flexibility of our policies in this regard has been tested in the past 12 months and there are both bright and dark aspects to the results. In the first place, it should be noted that in the fall of 1957 and the winter of 1958, the economy was exposed to a very considerable shock. Gross private investment outlays declined by about $20 billion in annual rates in a period of six months. On the basis of previous experience this would have been enough to touch off a very long depression and many were caused to predict not only a down-turn but one of sizable proportions and duration. These and others hastened to advise immediate tax reduction to soften its impact on the economy. Not enough consideration was given by this point of view to one of the built-in factors of our fiscal system.

Hon. Wilbur D. Mills

Considerable credit for the fact that we did not have a serious depression must go to the automatic flexibility that has been built into our fiscal system. The $12 billion deficit that has been predicted for the fiscal year 1959 was due in the major part to the automatic decline of tax receipts with declining consumer income and business income. This automatic decline in government tax revenues meant that at a time when individuals were getting less income in the market place, the government was taking less of their income in taxes and the availability of dollars for private expenditure was relatively speaking, stabilized and without reduction in the rates of taxation. Our judgment that tax reduction was not necessary to bring about this stability and an upturn has thus been vindicated.

In this regard it gives me some concern to hear many individuals now speaking about the desirability of adopting different taxes that would provide a more stable source of revenue to the Federal Government even in a recession. The banking community is familiar with the notion that a banking system must have a bank of last resort. This is a bank which in time of financial panic is in a position to expand its loans when other bankers are faced with the necessity of reducing their loans to obtain more liquidity. It is a generally accepted principle today that government, specifically the Treasury, must act in the same way in times of a general recession. If in this situation tax revenues do not automatically go down, I believe there will be great pressures to carry out the Treasury function through undertaking a great variety of new expenditure programs or tax reduction or both, as a means of achieving economic stability.

On the less bright side of our recent experience is the question, could we have done better? We spend a good deal of time these days congratulating ourselves on the very impressive way that we have so far recovered from the recession and have so far moved toward full employment. On Nov. 5, 1957, I called attention to the fact that unemployment would reach five million by March, 1958, unless the force of monetary policy was utilized in supplementation with fiscal policy in an effective manner to create more flexibility. It was not until much later that the full force of monetary policy came into play.

Expenditure Programs Can Contribute to Economic Growth

I think it is not sufficiently appreciated that well-chosen and worthwhile government expenditure programs can make a major contribution to economic growth. Our national economic accounting systems do not attach a value to the assets that the government acquires in the same way that it attaches a value to private investment assets. There are, of course, some government assets that are useful in the same way as private assets, such as dams or power plants, and occasionally these assets are included in estimates of national wealth. The government acquires other assets, however, which may be of far greater, although less obvious, value. Certainly, for example, the greatest asset that we could acquire at this time would be international peace. No such asset could be subjected to a financial evaluation.

To illustrate this point, consider that to the extent that we provide for adequate defense, we protect our economy from the devastation of war, and thus increase its real value. Any factory has a good deal of fire protection provided in its design and this fire protection costs money. Without the fire protection the owner could have used his money to build a bigger factory. He considers the smaller factory with the fire protection a better investment. We are faced with the same sort of choice in national policy, namely how much defense insurance do we need? It is not obvious that we get more real growth by cutting down on defense insurance that is required.

On the expenditure side, I would not say that our problem is blindly cutting expenditures as such. Our problem is rather evaluating expenditure programs. For the past several years there has been too much talk about merely cutting expenditures without obtaining results and not nearly enough talk on the subject of whether or not we should eliminate any of the specific things that the government is requested to do. The question should be raised as to whether an expenditure or a service deemed to be desirable within an overall Budget of $20, $30, or $40 billion continues as a desirable, justified expenditure as a part of an $80 billion budget. For it must be understood that when Congress cuts an appropriation without cutting the function to be carried out by the government agency, in most cases, the only result is that a considerable amount of its expenditure will have to be covered later by a deficiency appropriation bill. A budget is the composite judgment of what it will cost in a fiscal year to pay for services that are authorized and which at some point were demanded by the public. This has been borne out time and time again in our fiscal experience.

We are told by many who interpret recent election results that the incoming Congress will be at least as sympathetically concerned with the current expenditure programs as have been recent Congresses. They tell us that we can not realistically expect any substantial reduction in government expenditure programs. At the same time we must realize that a proposed budget which does not candidly and accurately reflect the actual costs of government does no real service in the direction of achieving the objective of reduced government spending. Despite current predictions, however, I am a sufficient optimist to believe that an increase in knowledge might lead to different specific recommendations and a cutback of some programs.

Thus, I think a promising feature in the expenditure area is the possibility of improved budgetary procedures, specifically, the development of thorough-going performance budgets. Since the first Hoover Commission recommendations, we have been informed that the executive agencies have been attempting to put their budgeting procedures on a performance basis, namely, on a basis from which we could measure the things that the agency does and is supposed to do and thereby determine the cost of accomplishing these specific objectives. Full utilization of this procedure, unlike the budgets that we have, would permit the evaluation of various accomplishments in terms of cost and could lead to the abandonment of parts of programs which produce benefits that were too small to be justified in view of their costs. We have still a long way to go in developing good performance budgets, however.

I might observe that I believe that performance budgets have a great deal to do with the well-known Parkinson's Law about increasing bureaucracy. I believe Parkinson's Law operates, that is, bureaucracy proliferates, when not sufficient effort is devoted to measuring what the bureaucrats do. We get performance mixed up with the question of whether each office is busy. An office can be busy writing inter-office memos. We need to measure performance in terms of the final job that the agency has to do. By continuing our efforts to relate good performance measurements to our budgetary decisions, I believe we can achieve governmental economy without sacrificing valuable programs.

Taxes and Economic Growth

The mention of taxes brings immedately to the fore the problem of inflation with which the savings bank industry is particularly concerned. Of course, a prime element in inflation is the relationship of our expenditure policy to our tax policy. The experience of recent years indicates that our institutional structure for determining both tax and expenditure policy does not give adequate recognition to the interrelation between the two.

It would be useful to talk about this inter-relation problem with respect to the upcoming budget for the fiscal year 1960. In the current fiscal year our expenditures will be in the neighborhood of $80 billion on the basis of present programs. There is no obvious reduction in sight. Actually the deliveries to the Defense Department of major procurement items should increase in line with the recent increases in contract placements. One could, of course, show some reductions in expenditures by predicting a considerably smaller agricultural crop than we had this year and thereby showing lower support payments. I suspect, however, that it is just as likely that the crop, and the support payments, would be larger.

Even apart from whether or not existing programs will involve a somewhat larger expenditure in the fiscal year 1960, it is predicted that the new Congress will be concerned with some new programs and a few of these might well be adopted. On the revenue side a tax yield at full employment could be in the neighborhood of $75 to $78 billion. This is approximately 5% above the full employment revenue yield that the President originally predicted for the fiscal year 1959, or approximately $10 billion greater than is estimated for fiscal year 1959. It will be necessary to have a much higher level of economic activity through the next 18 months to achieve this objective than we now have, and our economy must reach those levels at an early date.

I note that some forecasters have predicted that the rate of recovery might be a bit slower over the next 12 months than it has been over the last 6. If such is the case, the level of revenue for fiscal year 1960 would remain appreciably below maximum possibilities. For example, for each $1 billion increase in total personal income, Federal revenue

Continued on page 103

*An address by Rep. Mills before the National Association of Mutual Savings Banks, New York City, Dec. 2, 1958.

Does the U.S.A. Gold-Outflow Strengthen the Free Countries?

By PAUL EINZIG

Dr. Einzig asks those who favor various egalitarian schemes to redistribute our gold, and who favorably view the recent substantial gold out-flow, whether it would be such a good thing. He explains why depletion of our gold stock may not necessarily strengthen all free countries in the same proportion and, should it continue to a danger point, why it might well be disastrous for the free world. Adds the reminder that we should not fritter away financial resources to enable well-meaning, friendly countries to avoid the realities of their economic situation, and that our aid should be only for major emergencies.

LONDON, Eng. — Most economists outside the United States and even many economists within the United States take the view that the decline in the American gold reserve by well over $2,000 million during 1958 is a matter for rejoicing, because it makes for a less unusual distribution of gold. So much has been said and written during the last 30 years about the evil effects of the maldistribution of gold, through the increase in the American gold reserve that has been going on ever since the First World War, that it has come to be regarded axiomatic that any outflow of gold from the United States must necessarily be a good thing. Again and again ingenious plans were put forward by experts and pseudo-experts, aiming at the redistribution of America's gold, and the United States came in for criticism from time to time for being unwilling to agree to some such redistribution.


Dr. Paul Einzig

Beyond doubt the United States has more gold than it needs at present, while most other countries have considerably less gold than they need. On the basis of the equalitarian principle which has become the modern fetish, the case for a redistribution would be unanswerable. Nor is it difficult to make out an economic case for redistribution. Until recently the agitation for redistribution was met by the argument that, since the balance of payments of the United States was strongly favorable, the gold given away or lent to other countries would soon find its way back again to Fort Knox. In view of the recent outflow of gold resulting largely from an adverse change in the American balance of payments, this argument is no longer likely to carry conviction.

Is Gold Loss a Good Thing?

There is, however, a much more convincing argument against the view that a substantial loss of gold by the United States is a good thing. It is that from the point of view of the free world the maintenance of the supreme financial power of the United States is of paramount importance.

During the coming years the cold war will assume largely the form of economic offensives which the Western countries have to resist in order to survive. In theory it may appear that, so long as the gold lost by the United States is gained by other free countries, the redistribution makes no difference from the point of view of resistance to Communist economic offensive. Indeed it is even arguable that the financially weaker countries could increase their resistance if they strengthened their gold reserves at the expense of the United States. This argument overlooks the fact that a redistribution of gold would not necessarily strengthen all free countries in the same proportion. There would remain weak links in the chain, and the Communists would be able to direct their economic offensive toward such weak links.

For instance, a concerted Soviet export drive in Britain's export market is liable to deplete the British gold reserve in a relatively short time. Under existing conditions the United States would be able to come to the rescue, as they did on a number of occasions in the past. Thanks to their large gold reserves, they would be able to assist Britain without unduly depleting their own reserves. But should the large part of the American gold stock be redistributed among a number of countries the United States might no longer be strong enough financially to assist Britain effectively without risking an undue depletion of their own gold reserve. Nor would any of the recipients of the redistributed American gold be strong enough to help effectively.

Trusteeship Argument

During the 'twenties Americans often argued that the United States were holding the gold received from Europe in trust for Europe. Since then the influx of European gold to the United States continued with few interruptions, but the trusteeship argument has faded into oblivion. Yet it is precisely that role that the United States are playing, in possession of a much larger gold reserve than they possessed in the 'twenties. From time to time some of the accumulated gold is released in the form of dollar aid to countries that need it. On more than one occasion since the end of the Second World War the United States was able to render immense services to the free world precisely because the American gold reserve was so strong.

In such circumstances, it may well be asked whether the application of the egalitarian principle would really help those countries for whose benefit it would be applied. By frittering away their gold reserves, the United States would no longer be in a position to render effective assistance on major occasions. Nor would the recipients of American gold be strong enough to help other countries, or indeed even to help themselves in face of a major Communist economic offensive.

A considerable weakening of the American gold reserves would not be therefore a matter for rejoicing. The United States could, of course, well afford to continue losing gold for some time on the scale of the recent gold losses. Should the outflow continue too long, however, or should it assume larger proportions, it might well be disastrous for the free world.

Adds Advice

It would therefore be wise for the United States not to be overgenerous with financial assistance of an indiscriminate kind. The American financial strength is one of the chief assets of the free world and it should be husbanded with great care. It should not be frittered away in a well-meaning effort to help friendly governments by enabling them to postpone the evil day on which they have to face the realities of their economic situation. It is largely because these governments have felt that they can depend on American aid that they have failed to tackle their inflationary situations with the required degree of vigour and determination. But for the availability of American aid in situations which these governments could and should have handled effectively without such aid, inflation would not have been allowed to proceed so far as to necessitate drastic disinflationary measures.

It would be infinitely better from the point of view of the free world if the governments of free countries were to be made to realize that they could only rely on American aid in major emergencies. Apart from such instances they should learn to work out their own salvation, instead of relying on American aid.

Bank and Insurance Stocks

By ARTHUR B. WALLACE

This Week — Insurance Stocks

One statistic that has been affected by the wide development of multiple-line writings by the fire and casualty insurance companies has been the ratio of loss reserves to earned premiums. Definitionwise, loss reserves are reserves allocated by the insurance company to claims that will be resolved into losses. Earned premium volume is what is left of net premium volume in a given period after the deduction of whatever is required as a contribution to unearned premium reserve.

This reserve of losses to earned premiums back around the 1946-50 period averaged out among over 30 companies, to about 32½% on a consolidated basis. At the 1957 year-end (not all companies report at the quarter or even half-yearly date) the comparable figure was about 37%.

In the accompanying table we have first given, on a consolidated basis, the ratio of loss reserves to earned premiums. Then the like data for the parent company has been segregated to show the result in this connection of the parent company alone. Carrying it further there is next shown the same data as it relates to the principal affiliate or subsidiary in the opposite end of the business (casualty affiliates of fire parents; fire affiliates of casualty parents).

As the base of writings is broadened by many companies branching out of their old set lines into newer ones the tendency is for the ratio to increase. For example, multiple casualty lines are more hazardous for the carrier than are multiple fire lines. The fire business ran along on a fairly even keel for many decades, and they were disturbed only by the succession of hurricanes which started with one in 1938 and ran in an irregular pattern into the 1950's. We have had none that visited inland areas for several years.

But when the fire companies crossed over into the casualty field in their efforts to develop greater diversification of business, losses tended to increase as the casualty lines carried greater hazards. And with greater risks it was logical that reserves should increase.

Other factors contributed to the need for greater reserves. The companies are faced with many more outrageous jury verdicts, verdicts that would not be permitted to stand in other days. Also, there is much more malingering on the part of injured workmen (under compensation cases) or persons injured in motor accidents. All of this spells greater exposure for the carrier.

The table will show the extent to which some units over-reserve. Careful management in an insurance company tends to over-reserve. As an example, Indemnity Insurance Co. of North America, with a reserve ratio of 98%, or Hartford with 90%, would hardly find it reasonable to stay in business if, year-in and year-out, they were perforce obliged to set up reserves of such nature. A benefit arising from high rates of reserves for insurance companies is some measure of tax saving. This is in addition to salting away equity that does not appear in liquidating value.

But it is important to point out that care must be exercised in making comparisons from company to company in a schedule of this sort. One will go completely wrong if one attempts to compare a fire with a casualty company, albeit that is becoming less illogical because of cross-writing.

But there are a number of reasonably comparable cases, and when one of these companies sets up proportionately heavier reserves, related to earned premiums than does another, the chances are good that the first mentioned is over-reserving. By saying that, care should be taken in comparing in that close attention be given to such factors as allocation of premium writings, geographical distribution of writings, etc.

Ratio of Loss Reserves to Earned Premiums December 31, 1957

	Consolidated	Parent	Major Affiliate
Aetna Insurance	41%	40%	40%
Agricultural	28	28	28
American Ins.	47	47	47
Bankers & Ship.	18	--	--
Boston Ins.	34	34	34
Continental Ins.	54	25	85
Federal	47	48	53
Fidelity Phenix	53	25	85
Fireman's Fund	54	54	58
Glens Falls	52	--	--
Great American	44	30	73
Hanover	33	--	--
Hartford	58	19	90
Home Insurance	39	21	73
Ins. Co. N. A.	58	32	98
Nat. Union	29	28	29
New Hampshire	31	--	--
Northern Ins.	21	21	16
North River	35	--	--
Pacific Ins.	19	--	--
Phoenix Ins.	33	33	33
Prov. Wash.	39	--	--
Reliance	44	41	61
St. Paul	47	--	--
Security	38	11	59
Springfield	30	--	--
U. S. Fire	34	--	--
Westchester	36	--	--
Casualty:			
Aetna Casualty	66	--	--
Amer. Re Ins.	96	--	--
Amer. Surety	58	--	--
Continental Cas.	47	51	37
Fidelity & Dep.	42	--	--
Mass. Bond	80	80	65
Seaboard Surety	49	--	--
U. S. Fid. & Gty.	65	--	--

Blanks indicate either absence of an affiliate, or an affiliate of only minor importance.

Laurence M. Marks To Admit E. E. Barrett

Laurence M. Marks & Co., 48 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Edmund E. Barrett, Jr. to partnership.

Merrill Lynch Will Become a Corporation

As of Jan. 12 Merrill Lynch, Pierce, Fenner & Smith, 70 Pine Street, New York City, members of the New York Stock Exchange and other leading Exchanges, will become a corporation. The firm is now a partnership. New officers and directors of the corporation will be named shortly.

The move is being made, according to Winthrop H. Smith, directing partner, to insure permanency of capital rather than depending on the individual partners for the supply of capital.

Kessler Opens Office

Richard Kessler has opened offices at 20 East 35th Street, New York City, to engage in a securities business.

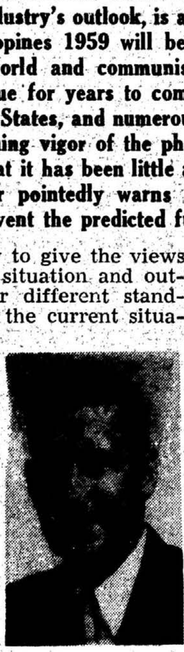
Bright Business Outlook

By DONALD B. WOODWARD*

Chairman, Finance Committee, Vick Chemical Co., N. Y. City

Mr. Woodward's appraisal of the current business cycle, long-range economic trend and, in particular, the pharmaceutical industry's outlook, is an encouraging one. The finance specialist opines 1959 will be the most prosperous year yet, the free world and communist world expansion most likely will continue for years to come at a more rapid rate than in the United States, and numerous factors are detailed regarding the continuing vigor of the pharmaceutical industry, including the fact that it has been little affected by the recent recession. The author pointedly warns against five risks which could prevent the predicted future from materializing.

I want to try to give the views of the current situation and outlook from four different standpoints. One is the current situation in the present business cycle. Another is where we are in the long-term economic trend. A third is where we are in the subject to which we live closest. The fourth view is where we are regarding risks — there are always risks and it is wise to look at them. On each of the four views I shall state what seems to me the most likely course of events. I shall end up with certain specific conclusions.



Donald B. Woodward

I

Where We Are — The Current Business Cycle

Currently business activity as measured by the usual indexes is somewhat above a low point made last spring when a decline of about three quarters of a year ended. That decline was the third recession in business in the United States since World War II and all three have proved brief and mild. The recovery from the recent decline is now about half to two thirds of the decline in most indexes but in one of extreme importance—personal income—substantially all of the losses of the decline have been obliterated and the total is now close to a new high.

Simply stated, the business decline from the late summer of 1957 to the late spring of 1958 occurred because in total the amount of goods purchased declined. That is what accounts for all business declines. In this decline the chief reduction occurred in purchases of automobiles, houses and household equipment by consumers; in business purchases of capital equipment and inventories; and in purchases of United States goods by foreigners. Factors contributing to these declines in purchasing were automobile models that did not have as much attraction as in previous years, heavy burden of instalment payments, lessened availability and higher cost of money for financing of both consumers and business, and high prices and belief that prices might decline in a number of lines, and a concomitant sharp fall in corporate earnings. In all this, there was some decline in the confident expectations of continuing prosperity that had existed earlier.

But during this decline in total purchases, it was notable that total personal income declined scarcely at all, and the same was true of total personal consumption expenditures. While government income declined there was no reduction in Federal Government expenditures despite much talk, but actually an increase, and the outlays of state and local governments rose steadily. Farmers had a very good year. The cost of living, commodity prices at wholesale, and wage rates did not decline.

The business rise which got underway in the late spring and summer can be explained by the simple statement that total purchases of goods and services rose. The increases have been quite general throughout the economy.

The stock market has a vision of great present glory and greater and more wonderful glory to come in the future.

But it should be noted that the rise in emloyment has been slow in terms of the rise in production, and this has very important political and policy implications. Also the lack of decline in important cost and price indexes, and the Government's financial problems have increased fears of further erosion in the value of the dollar.

The present situation thus contains some contradictions and unsolved problems.

But let me race on to my conclusion. The most likely prospect is that the recovery which started early last summer will proceed for another year and a half or longer. The decline in business capital expenditure seems to have ended and some mild increase seems in sight. The liquidation of inventories is ending and some accumulation in inventories is likely. Next year should be a better automobile year than this. Government expenditure will be maintained and probably rise. And the important consumer continues in the aggregate to like what is offered to him and to buy it.

In summary I believe that 1959 will be the most prosperous year the American economy has ever seen, as measured by GNP, personal income, industrial production and other customarily used indexes.

II

Where We Are — The Long-Term Trend

Let me now take a look in longer perspective.

We are in an economy with a remarkably persistent growth record. While this is a well-known fact, it seems to me that inadequate attention sometimes is given to the persistency and magnitude of the growth, or its underlying constituents. I would like to stress the persistency and magnitude and underlying constituents and then note some implications.

There are now 18 times as many people in the United States as in 1820; there are now considerably more than twice as many as when this century began. With such a large increase in numbers, the economic system would have been enormously expanded even if people had only the barest subsistence of food, clothing and shelter. The next decade, when the enormous number of war babies will be marrying and forming families, may well be referred to as the sexy sixties. If the experience of the past half a century is continued, the highest projection will be conservative. And looking on to 1980, there may well be 100,000,000 more people in the United States than there are today. This would be the equivalent of adding about 100 cities the size of Cincinnati.

Economic expansion would be marked with this population rise if, as I said, each person had only the barest subsistence. But, of course, the population has much more than that. For a long period of decades, there has been an average annual rise in production per man hour worked of about 2%. This has provided a steadily rising standard of living, and has made possible a large rise in disposable income, which is the income left after taxes.

From 1909 to date the standard of living has doubled in the United States. The total size of the market in physical terms has more than tripled; and because of the rising trend of prices the total size of the market in dollar terms has risen about 8-fold.

Can we expect such growth to continue? I have already indicated the evidence to suggest that the population constituent of this growth is likely to continue.

Going beyond population, we live in a country and a world seeking cultural and economic progress with more determination than ever before in history. In this country the Employment Act of 1946 bespeaks national policy on which most major groups agree. There are comparable acts and policies in every country in the world. This country and the rest of the world are devoting unprecedented amounts of resources to scientific research. This pushes back the frontiers of knowledge and results in a wonderful and stimulating flow of new products and services as well as better ways to make goods and perform services. Many scientists believe that we are probably merely approaching great expansions in knowledge in many important directions. The private enterprise system, which is the vital element, continues vigorous.

Faster Growth Rate Abroad

But we should not—and we do not—limit our attention solely to the United States. Actually, during recent years, the rate of business expansion in the United States, striking as it has been, has been one of the slowest of any country. Most of the rest of the world—and this means both the free world and the communist world—have been expanding at a greater *rate* than is the United States, though the actual *amount* of increase is probably still larger here.

And now my conclusion. The most likely prospect is for continued long-term growth in the United States and abroad.

It seems most likely that the expansion abroad—both free world and communist world—will continue for years to come at a more rapid rate than that of the United States. Expansion abroad can be achieved by the adaptation of existing knowledge to a much greater degree than can be done in the United States: we are utilizing more fully the stock of present knowledge, and our progress depends more upon the discovery and utilization of new knowledge which is a slower process. Furthermore, within the free world, the Mutual Aid Program helps other countries in learning and adapting methods known here—but let me add that in my opinion the United States receives full measure of aid in return.

The prospect for continuation of long-term expansionary trends here and abroad is in my opinion the most important single fact for business institutions of all kinds to consider. A focus on the essentials of these long range trends, and plans based upon taking advantage of them, is the soundest and most secure basis for business management. Short range economic fluctuations are insecure and inadequate bases for plans and procedures which affect the long run. Those businesses and those concerns which can take advantage of the great underlying trends in the economy of the world will prove most enduring and most profitable.

III

The Pharmaceutical Business

In the environment of economic expansion that I have discussed and pictured, the pharmaceutical business has thrived greatly. The total volume has grown, and its growth in the past 20 years has been at a rate about double that of the GNP. . . .

But while this industry has benefited by the general economic growth I've stressed, the pharmaceutical business has been an important contributor to the general economic expansion. For it is thanks in no small part to the great advance in the medical care of people, to which this industry contributes so much, that population has grown as much as it has. The decline in the death rate and the increase in life expectancy are important factors in population growth.

And it is in no small part thanks to the better care and medication of people that working efficiency has improved and productivity per worker has grown. The great diminution of impact of many diseases, and the shortening of the period of illness from many others makes for a better, happier and more productive life.

Can the growth of the pharmaceutical business be expected to continue? As I see it, the likelihood is distinctly in the affirmative.

There are a number of reasons that seem to me to point to this conclusion.

The present and continuing vigor of the industry is attested by the fact that it continued through the past recession all but unaffected and will achieve a new high in total volume this year — an achievement few industries have made.

Total population growth for years ahead I have already projected. But there is another aspect of population that deserves attention, and that is the age distribution. The age groups that are large users of medical care including pharmaceuticals have been expanding as a proportion of the total population. Consequently, these groups, which are the younger and the older people, have been increasing considerably more rapidly than the total population. The best projections are for a continuation of this trend.

But population is not the only reason supporting the conclusion that this industry should continue to expand and to do so more rapidly than the total U. S. economy. Continued increase in per capita income makes it possible for more people to give more attention to their health and to pay for it. And the large and growing research expenditures in our industry and in those which contribute to it—the medical schools, the chemical industry and the foundations, for example — suggest a continuing and perhaps increasingly large flow of new and improved products which will make for vigor in the industry, and contribute to the expansion of the economy in general.

And finally, this industry operates abroad, and will contribute to and participate in the more rapid economic expansion there than is likely in the United States.

Consequently, it seems to me that the future is promising, that

Continued on page 104

*From a talk by Mr. Woodward before the Pharmaceutical Manufacturers Association, New York City, Dec. 10, 1958.

How the SBA Will Administer the Small Business Investment Act

By WENDELL B. BARNES*
Administrator of the Small Business Administration
Washington, D. C.

Essential ingredients as to what might make an investment company successful and some of the requirements it has to meet, in view of the new small business financing opportunities opened up by the Small Business Investment Act of 1958, are discussed by Mr. Barnes. The SBA head stresses, also, the need for investment company to have access to reserves assets of other financial institutions, and the advantage of banks, savings and loan associations, brokerage and investment firms, to be affiliated with small business investment companies.

I am enthusiastic about the opportunities for small business financing that are offered by the Small Business Investment Act of 1958. And it is our intention in the Small Business Administration to be as helpful as possible to persons planning to organize companies under the Act, to hold necessary procedures and paper work to a minimum, consistent with good administration, and to process applications for the licensing of investment companies with the greatest possible dispatch.


Wendell B. Barnes

Essential Ingredients of Success

We do intend to make certain that the companies which are organized have the best possible management talents that are available to them. The successful operation of an investment company, we have found from our studies, is not a simple project involving primarily the obtaining of funds from private or Governmental sources or from both. It involves also an extensive knowledge of finance and the management of financial institutions, plus a knowledge of business and business management with all of its ramifications.

The successful management of an investment company also depends upon accessibility to a relatively large number of investment opportunities. Not every financing opportunity, we would all agree, deserves or can justify financing through the equity capital route. Frequently, a business which is losing money will not benefit from the injection of additional funds in the form of credit or new capital, unless other drastic changes are made, sometimes in management itself.

If an investment company has access to only a few financing opportunities, it is likely to have a distorted view of what is worthwhile and may suffer the consequences through poor investments. I know of one successful company which has carefully examined more than 2,700 applications submitted to it and has selected less than 50 in which to invest its funds. I do not mean to imply that this ratio is to be expected of all companies, since other companies may have other policies. It does, however, point up the fact that investment companies must select their investment opportunities with care, and what may appear to be a good investment, in a person's original judgment may or may not prove to be one in the light of subsequent events.

It seems to me that another essential ingredient of an investment company to be successful, is the availability of funds in large amounts. By that I mean in amounts exceeding those mentioned in the Small Business Investment Act as a minimum requirement for the establishment and organization of an investment company.

The mathematics of the situation are clear. Say a company had a half-million dollars of capital and surplus, earned 6% on it without any losses, and made no provisions for maintaining a reserve of any kind from its own assets.

Access to Additional Funds

The company would have $30,000 a year with which to pay salaries, rent, travel and taxes. This would not include any possible dividends and investment companies must earn a profit or they will not find receptive and enthusiastic investors. They must also maintain or have access to reserves, as do other financial institutions.

Access to additional funds will enable a company to provide additional capital or credit to a company which it has sponsored, and which enjoys the growth expected when the financing was first provided. This point seems so obvious that I certainly do not need to develop it further.

There are other requirements, of course, for operating a successful company, but it seems to me that any person planning to start an investment company, either under the Small Business Investment Act or otherwise, should at least give consideration to the principles I have named.

These elements should be present in his plans and, if they are not, he should consult with specialists to ascertain for himself whether the lack of any of the elements is offset by other factors.

In discussing the Act and our proposed regulations with specialists in a number of fields, I have noticed general agreement, for a variety of reasons, that it is to the advantage of banks, savings and loan companies, and brokerage and investment firms to be affiliated with the new Small Business Investment Companies.

The only disagreement seems to occur when the specialists begin to discuss the advantages that accrue to private individuals in the formation of a company. I for one believe that there are definite advantages to individual investors, but here is probably neither the time nor the place to discuss in detail the types of advantages that might accrue to different groups.

In preparing regulations interpreting the Act, we have sought to develop policies which will permit the formation of companies with a good chance of operating successfully. We do not have unlimited authority under the Act in the preparation of these regulations but must, of course, follow the statutory provisions. In some cases the comments that we received on the proposed regulations objected to the statutory provisions themselves rather than to the regulations. These comments will be subject to further examination as we prepare future legislative recommendations in connection with the Act.

The revised regulations do contain a number of substantial changes from the proposed regulations that were first issued on Oct. 29. In some instances, we found that we had not made our intent clear and, in others that there was concern over matters which we had not deemed significant when preparing the first draft.

In preparing the statutes and the regulations, to my certain knowledge some of our men worked until the early hours of the morning on several occasions—one morning until as late as 3:30—and last week until 1:30 on Thanksgiving morning. Some of them worked on Thanksgiving Day, and a large part of our staff worked on Saturday and over the weekend in order to complete and print the regulations and have them here at this meeting. And also, of course, to have them available in the field offices of the Small Business Administration in all parts of the country. I assure you that you are fortunate to have these particular staff members tell you about their phases of activity under the program, since many of you who plan to organize investment companies will subsequently deal directly with these men.

I want to express my appreciation to them for the enthusiasm, sincerity and interest they have taken in their jobs and in the prompt development of a program which all of us believe will benefit a number of small business investment companies and, to a far larger degree, many small businesses.

In closing, I think perhaps I should mention a recent news report concerning the formation of a trade association of small business investment companies which has been scheduled in New York City. I must confess that when I first heard about this proposed association, I felt that it would be comparable to a group of expectant mothers organizing a PTA.

However, those of us who work in Washington are accustomed to dealing with associations, since about 1,500 of them are located there. The Small Business Administration is geared to work with associations representing all groups and industries. It is my sincere hope that any association of small business investment companies, whenever organized, will have a broad enough base of membership to be truly representative of the companies which I hope and trust will be formed in substantial numbers within a few months.

*From a talk by Mr. Barnes before the American Management Association's Briefing Session, New York City, Dec. 2, 1958.

John J. Bergen on Pearl Harbor in "Navy"

Rear Admiral John J. Bergen, head of John J. Bergen & Co., Ltd., New York City, and President of the Navy League of the United States, is writing in the December issue of "Navy," the League's official publication, on "The Lesson of Pearl Harbor" and the future.


John J. Bergen

Two With Hill Richards

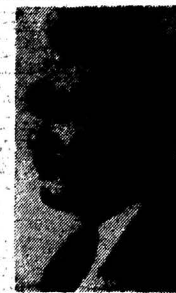
(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Ray W. Caldwell and Robert F. Keitel have become affiliated with Hill Richards & Co., 621 South Spring Street, members of the Pacific Coast Stock Exchange. Mr. Caldwell was formerly with Marache, Dofflemyre & Co. Mr. Keitel was with Wilson, Johnson & Higgins.

From Washington Ahead of the News

By CARLISLE BARGERON

Every Senator, it seems, at one time or another gets to Russia in the summer. Most of their visits are unheard of back home. But it remained for Senator Hubert Humphrey of Minnesota, to make a production of it.


Carlisle Bargeron

He talked with Khrushchev for eight hours and hit the headlines. Khrushchev, according to Humphrey, gave him a secret message for Eisenhower. Humphrey says he won't make it public and the President hasn't done so, either because he considers it unimportant, or because he doesn't want to be a party to some Humphrey propaganda.

Anyway, the statement that he had a message and had talked with the Russian boss for eight hours was enough to keep Humphrey on the front pages for several days. All political Washington waited with bated breath for Humphrey to deliver the message to Eisenhower and were disappointed when it was not made public.

The performance was enough, however, for Mrs. Roosevelt to set a Presidential boom off in favor of the Minnesotan. She said he had the spark of greatness, of which Presidential candidates should be made. She made known her preference for him over the youngish Senator John Kennedy and the expectation is that Humphrey will be built up to head off the Massachusetts senator who is running pell mell for the Presidency. He hasn't announced it but his father is spending money in every state in the Union to advance his cause. It would be a spectacle if he got the Democratic nomination and Rockefeller got the Republican. Kennedy's father doesn't have the Rockefeller billions but is a freer spender with what he does have, which is plenty.

The fascinating thing to me about Humphrey's visit with the Russian leader is that he held the latter's attention for eight hours. There is no question about Humphrey being able to talk that long. He has frequently orated that long on the Senate floor, without repeating himself. He is one of most facile talkers in the Senate. He has been known to make a lengthy speech on the Senate floor, then gather up his papers and head up town to address some group. He usually has something to say, too. He is very seldom dull.

When he was elected Mayor of Minneapolis in his early '30s, he boastfully told his wife to watch his smoke. He was going places, he said. He is serving his second term in the Senate and unquestionably has them eating out of his hands back in Minnesota.

He is tied in with organized labor and the more radical farm elements. He says that he talked as much as the Russian leader did at their meeting. The surprising thing to me is that Khrushchev got in a word.

Strangely enough, Humphrey was cautious in putting out Khrushchev's propaganda back in this country. That is more than can be said of four publishers and correspondents. Periodically they get private interviews with Khrushchev which is considered a journalistic triumph. What they write about what Khrushchev said is given prominence in the papers of this country. One broadcasting agency went to the great expense to get a televised conference with him. It was shown throughout the country.

We, in fact, maintain about 25 newspapermen in Moscow for the sole purpose of spreading Khrushchev's propaganda. Not one single item comes out of that country unless the Russians want it out. If one is slipped out, the correspondent is removed. Most of the time the fellows read the Russian papers and rewrite their contents. The United Nations serves as another forum, yet it is described by its friends as a great instrument for peace and humanity.

At present there is an organized agitation on to set up the same sort of an arrangement with China. It isn't enough that we be propagandized to death by Russia. We should give China a whack at it, too.

Cruttenden, Podesta To Absorb McAndrew

SAN FRANCISCO, Calif. — Cruttenden, Podesta & Co., well known Midwest investment banking firm with headquarters in Chicago, will take over the business and assets of McAndrew & Co., Incorporated, San Francisco, members of the Pacific Coast Stock Exchange on Jan. 1, 1959, according to a joint announcement made by Robert A. Podesta, Managing Partner of Cruttenden, Podesta and David S. Tucker, President of McAndrew & Co.


Robert A. Podesta


David S. Tucker

On Jan. 1, 1959, the San Francisco business now being conducted by McAndrew & Co. will be continued as a branch operation of Cruttenden, Podesta under the management of David S. Tucker.

Both men emphasized that substantially all of the present staff of McAndrew & Co. will be retained.

Cruttenden, Podesta & Co. are members of the New York Stock Exchange and other principal exchanges. The firm maintains offices in 13 cities in 49 communities principally in the Midwest. Head office of the firm is in Chicago with a branch in New York.

Robert A. Podesta, Managing Partner of Cruttenden, Podesta, who is in San Francisco concluding negotiations, said, "The extension of our firm's activities to the fast-growing and vital Pacific Coast area, will give the firm broader retail distributing facilities and fast coast-to-coast wire service.

"Through a new, direct Chicago-New York-San Francisco wire, which also extends to all our branch offices, we can effect rapid service on quotations of and executions for our customers on both listed and unlisted securities."

Prosperity Not Guaranteed

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

Businessmen's economist realistically weighs and assesses the expansionist and contractionist forces in the economy and assumes: (1) expansion will continue in the period ahead; (2) GNP should rise by $25 billion to reach a new high of $470 to $480 billion in 1959 and $500 billion in 1960; and (3) revival in capital goods and auto industry would give added strength to recovery, which give the expansion factors an edge but not by an overwhelming margin. Concludes "prosperity has to be earned."

Unlike a year ago at this time, the expansionist factors are stronger than the contractionist forces. Production, employment and incomes should rise 5% above 1958. But there are several negative factors to be noted. The recovery which started last April is continuing, but at a somewhat reduced rate. Gross National Product, the best overall measure of economic activity, is currently running at a $450 billion annual rate. This is $4 billion above the peak quarter rate of 1957 ($446 billion) before the recession took hold. This represents a dollar improvement of nearly $25 billion since the first quarter of 1958.


Dr. E. P. Schmidt

Personal income, which declined only from $351.8 billion to $347.3 billion (annual rates), or 1.3%, is running $12 to $14 billion higher now than it was in the recession low.

Total employment exceeded 65.3 million in October, about 750,000 below October a year ago. Unemployment, due in part to the growth in the labor force, was still 1.3 million higher in October of this year than a year earlier. It will rise seasonally this winter and may remain higher in 1959 than in 1955-57 both in the aggregate and as a per cent of the labor force.

Most of the unemployment is concentrated in the manufacturing sector of the economy; and in that sector, primarily in durable goods industries. Employment in manufacturing (October 15.4 million) is nearly two million below 1953.

The maintenance or increase of dividends, farm, business and professional income, interest payments and wage rates, and the rise of transfer payments (unemployment compensation, OASI, veterans payments, etc.) helped to maintain total spending in the recession in spite of a drop of about $9 billion in "labor income."

Personal Consumption

Personal consumption expenditures dropped less than 1% from the prior peak to the trough of the recession and now are several billion dollars above the pre-recession peak. Expenditures for durable goods showed the largest drop, declining from an annual rate of over $40 billion in the first nine months of 1957, to a $35.6 billion rate in the second quarter of this year or by nearly 12%.

For every $1 of expenditures for durable goods, however, consumers normally spend about $6 on nondurable goods and services. Expenditures for services increased in every quarter throughout the recession. Expenditures for nondurable goods by the second quarter of this year, exceeded the pre-recession peak, even though the second quarter included the trough month of the recession. Currently, total consumer expenditures are running about $5 billion above the previous prosperity peak.

The recession was mild and short. The rate of recovery has been vigorous, even though it may now slow down somewhat.

While we have been in something more severe than an inventory recession, much of the decline can be explained by the liquidation of inventories beginning 15 months ago and continuing close to the end of 1958. Investment in inventories is the most volatile component of our economy; it goes from plus to minus. After a build-up of inventories to a peak of $91.3 billion in August and September of 1957, which contributed to economic activity and incomes, liquidation started in October of 1957. This liquidation reached an annual rate of over $8 billion in the first half of 1958, accounting for much of the unemployment and decline in labor and other income. Its influence spread from manufacturing through transportation and much of the remainder of the economy.

By now, it appears that the inventory liquidation is about over. There will be some rebuilding of inventories in 1959, thereby encouraging some re-employment.

The major doubts for 1959 run in terms of expenditures for new plant and equipment, the automobile industry, the rise in labor costs and political uncertainties.

Construction

Construction prospects appear favorable, or at least not troublesome. The F. W. Dodge Corporation expects total construction outlays to rise about 3% next year, with physical volume and new housing starts remaining about the same. (Estimated housing starts—1,160,000.)

The Departments of Commerce and Labor see (Nov. 17, 1958) the possibility of a 7% increase in construction outlays for 1959 over 1958, as against an increase in dollar volume of only 1% from 1957 to 1958, for a total of $52.3 billion in 1959. But the gains for 1959 will be rather uneven, with nearly 80% of them in two sectors—housing and highways. Private construction is expected to rise about 4%, and public, about 14%. The projections of the Architectural Forum prepared last August by Miles Colean do not differ much from these figures.

Industrial construction in the private sector may drop as much as 15%; office and warehouse, 4%; public utilities, 3%.

All major public categories of construction are expected to go up; in the case of public housing, 36%; military facilities, 16%; highways, 12%; sewer and water, 9%.

The extreme unevenness of the projections for the private sector by categories or types of construction is worth noting; about half of them facing decline in 1959. This unevenness suggests varying degrees of unused capacity and demand, and less than early full recovery.

Since expenditures on housing represent nearly 40% of total construction, the rate of new housing starts, heavily conditioned by uncertain political factors (FHA, VA, FNMA, etc.), is of key importance. A fair guess is 1.15 to 1.2 million starts for 1959. But the high starts rate after mid-1958, assure a high rate of construction in the first half of 1959.

There is increasing evidence that the decline in plant and equipment expenditures (from $37.7 billion rate in the third quarter of 1957 to $30.3 billion rate in mid-1958) is tapering off and, possibly, bottoming. It is not clear that any strong expansion will be experienced in this sector in 1959. McGraw-Hill's survey projects a 1% rise for 1959, but a decline of 3% in manufacturing investment. The Federal Reserve Bank of Philadelphia projects 14% decline in manufacturing investment in metropolitan Philadelphia and 11% in the Delaware and Lehigh Valleys—a heavy concentration of diversified activity.

Greatest Uncertainty

How much idle capacity we now have or what it may mean for near-term expenditures is not known. Yet, it is difficult to attain full-blown prosperity without a strong capital goods boom. This is, perhaps, the greatest element of uncertainty for 1959. A modest but steady rise in manufacturers' orders and sales in the months ahead would dissipate this cloud.

Manufacturers' new orders received have been running at about $26 to $27 billion per month, about $3 billion above the recession lows, but still below 1957 levels. Unfilled orders are $8 to $9 billion below a year ago, the decline being found almost entirely in durable goods. Manufacturers' sales in October were still 2% under the same month in 1957.

However, investment in research and development has gone on relatively unabated. As research and development move forward, they lead to saleable products. Then new capacity, equipment and, particularly, modernization are needed. This is bound to pay off in terms of new products, new processes which generally require at least new equipment, if not new plant.

Orders for machine tools, new machinery, ball bearings for producers durables, and the like, have shown only moderate improvement. Tool and die volume (a good barometer) is expected to be up about 15% from the depressed levels of 1958. All these tend to move with great volatility and will be watched closely.

Labor and Wages

The possibility of a steel strike next July will induce considerable steel inventory building, particularly in the second quarter. This may give a false sense of boom.

Strikes and labor turbulence are likely to increase in 1959, particularly, if recovery seems firm. Wage and fringe settlements are likely to exceed productivity improvements by a wider margin than in 1958, thus giving another thrust to cost-push wage inflation. There is considerable political talk of raising the legal minimum wage from $1 to $1.25 or $1.50. After three to four years of stability in the Consumers Price Index, it started to rise in March, 1956, just when the new minimum wage went into effect. Even though an increase affects directly only a small number of cases, it tends to push up the whole wage and cost structure.

While net profits will be higher than in 1958, they will continue to be uneven. But their rise from the 33% recession decline will be used by labor leaders to wrest larger concessions, although everyone knows that wages and wage increases are paid out of sales and not out of profits.

The upward wage and fringe pressure will slow down re-employment. Unemployment is not likely to drop to pre-recession levels in 1959.

Other Factors

The key economic indicators of the National Bureau of Economic Research point upward, but do not suggest an early resurgence of boom conditions.

Farm marketings and net income have risen substantially in 1958, running counter to the economy as a whole. While gross farm income in 1959 may be close to the 1958 levels, net income is likely to be down somewhat, due to increasing operating costs and some declines in prices, particularly, hogs and, possibly, cattle in the last half of the year.

Exports from the United States have declined considerably more than our imports. Imports have remained relatively stable. Most of the major foreign economies have stopped expanding, and some show a slight decline. This would suggest no marked improvement in our foreign trade in the months ahead. There is increasing evidence that more of our products are being priced out of the world markets. The demand for more tariff protection will increase in the year ahead.

Total government (national, state and local) purchases of goods and services have increased from a $87 billion annual rate in the third quarter of 1957 to a $93.3 rate in the third quarter of 1958, and will continue to increase at about this rate—$6 to $7 billion in 1959—a good share of which will be spent on construction—already mentioned. In the past year, state and local purchases increased by $3.8 billion, rising to a $40 billion rate in the third quarter of 1958. About 75% of the dollar volume of bond issues voted upon in the November elections were approved.

The government deficit (officially estimated at $12 billion for fiscal 1959) may be financed in greater part, than up to now, through the commercial banks. This would tend to increase the money supply and stimulate upward price movements.

Money and Credit

Instalment debt repayments and extensions have been roughly in balance in recent months, leaving the outstanding balance now only slightly above the recession low. With disposable income rising, a new period of growth in outstanding consumer debt is getting underway. This potential growth is likely to result in an improvement in durable goods sales, including automobiles. New auto sales should reach a level close to 5.5 million in 1959, as against a figure of about 4.3 million in 1958; this would constitute more than 25% improvement.

The large and precipitous drop in interest rates, reaching a bottom in late spring and early summer of 1958, has been reversed. The demand for savings funds has been heavy. The improved availability of mortgage money increased housing starts in the last half of 1958.

The speed of the recovery and stock market boom induced the Federal Reserve to raise the rediscount rates and stock buying margin requirements. If wage demands continue to exceed normal productivity improvements, the

Continued on page 107

*An address by Dr. Schmidt at the Business Outlook Conference for the Press, sponsored by the U. S. Chamber of Commerce, Washington, D. C., Dec. 9, 1958.

The European Common Market And American Business

By ARNOLD R. BEARDSLEY
Manager, European Operations
Ebasco Services Inc., New York

Consultant on Western Europe outlines the huge potential opportunities for American industry and commerce rapidly evolving in new economic group movements abroad and urges American business to appraise constantly this new and fierce kind of economic competition. Besides indicating the advantageous position of American plants located abroad in selling within this fast-growing market and in exporting to world markets at prices more favorable than from the U. S. A., Mr. Beardsley depicts need for large amounts of capital and other requirements as Europe shifts to modern mass production based on free competitive system and undertakes pooled atomic energy.

The European Common Market or, as it is now officially designated, the European Economic Community is a postwar development originally initiated by Belgium, the Netherlands, and Luxembourg. These three countries, happily termed the Benelux Customs Union, sought to abolish among themselves the barriers to trade and commerce inherent in national boundaries, tariffs, and other factors limiting the free flow of goods and services. They proposed to integrate their national economies and to promote the idea of integration with other European countries belonging to the Organization of European Economic Cooperation (O.E.E.C.). Then, one after another, Germany, Italy, and France adopted these trade liberalizing concepts. Implicit in all their thinking to pool efforts, talents, and financial assistance was the determination to cooperate in the fullest sense in the development of atomic energy for peaceful industrial purposes. This organized pooled effort is referred to as Euratom.

This year, on Jan. 1, the European Economic Community and the European Atomic Energy Community officially came into being. Businessmen and industrialists in West Germany, France, Italy and the Benelux countries were mentally well prepared for this official step. The Benelux countries, following World War II, had in fact already come together as an economic unit. Following this, in 1951, the six countries, with a total of 162,000,000 consumers, had put into effect a common market for coal and steel. Contrary to widespread doubts and misgivings, these steps had been taken successfully to the benefit of all six countries concerned.

It should be borne in mind that this integration has taken place with countries of quite dissimilar standards of living and wages. A rough idea of this is given by a comparison of the annual per capita share of the gross national products of these countries, ranging from $450 in Italy, to $1,200 in Luxembourg, as compared with $2,500 in the U. S. A.

The speed of evolution of this common market program is not well understood even by Europeans, and certainly less so by American observers. To be sure, it was a dream visualized long ago by Victor Hugo and later by many forward-thinking Europeans and Americans who advocated such a union as the answer to Europe's age-old quarrels and bloodshed. And, naturally, the U. S. A. was usually held up as the pattern to follow. Today this concept is unfolding with surprising rapidity, and businessmen, not politicians are leading the parade.

Contributing Factors

Twelve years ago, World War II left Europe — victor and vanquished alike — decimated and bled white. But for speedy U. S. economic assistance under the Marshall Plan, it is certain that the war's aftermath would have been as devastating as the war itself. Europe is grateful for this timely and generous help, and is fully cognizant that self-help is now its most imperative need.

World events and the rapidly changing pattern of international politics such as the emergence of Russia as an aggressive political force, a major producer, and a growing exporter; all the reverberations of the cold war; the rising spirit of nationalism and independence in economically backward countries, recurrent difficulties in the Near East affecting the flow of fuel to Europe; the disappointments of the United Nations — all demonstrate to European countries that their security and progress lie in unity of arms, politics, and economics. And apparently they are prepared to pay the price if necessary in personal and national loss to accomplish this, convinced that the over-all general welfare will far outweigh temporary losses and displacements.

Also, it should be observed that European countries today are better off than ever before, and the living standard of the average family is higher than ever before and rising at a faster rate than in the U. S. A. There is virtually full employment and therefore no longer a pressing need to take up an unemployment slack. This fact, fortunately, minimizes the fear of intensified international trade competition under a common market.

European productivity teams comprising many thousands of selected industrialists and labor representatives, sponsored by the International Cooperation Administration, have returned from the U. S. A. to their own countries convinced, first-hand, that a prime factor in American prosperity is the productivity demanded and made possible by a mass market. They recognize that the economies of mass production cannot exist without mass markets, and have contributed greatly to Europe's knowledge and appreciation of what make living standards in the U. S. A. the highest in the world.

Another factor is "tourism." It is no longer a privilege or a custom of only the gentry and the rich to travel abroad. Today in Europe it is also the student, the butcher, the baker, and junior clerks who are crossing national boundaries and learning to appreciate the good, though different, qualities of the foreigner. They are not antagonistic in spite of their historic rivalries and wars. Knowing one another better than ever before, they fear one another less, and are more tolerant of foreign ways. And no one can tell today what far-reaching influences radio, television, and even visiting soccer and hockey teams have had on national mores and attitudes.

Undoubtedly, the rapid development of the European Common Market has been motivated by fear of Russia and by Russian resistance to the plan, as evidenced by European communist as well as by Soviet condemnation of it. Logically, too, even the man in the street has seen that the North Atlantic Treaty Organization (NATO), organized as a common defense effort in armaments and armed forces, is only one part of the solution. He appreciates that the common aim and effort must extend into the economic and political fields.

The Master Plan for the European Common Market

The plan proposes, over the next 12-15 years, to reduce tariffs progressively until they are completely removed so that, by 1970, merchandise of any kind manufactured within the Market may cross national boundaries without let or hindrance — and similarly with labor.

The main purposes of the plan are as follows:

(1) Remove all tariff barriers between the six countries.

(2) Establish uniform import duties on goods coming into the Common Market.

(3) Remove all government price supports and double pricing for domestic and export trade.

(4) Permit labor to move freely from one country to another where needed.

(5) Equalize or harmonize wages, fringe benefits and social benefits in the member countries.

(6) Make all currencies freely convertible.

(7) Create a large investment pool to develop industries in Europe, to ameliorate unusual hardships suffered by companies under the new conditions, and to invest in underdeveloped overseas areas.

(8) Last but not least, to integrate and develop the electrical and atomic power resources of the six member countries.

These are the main elements, fundamental, revolutionary, and far-reaching Minister Spaak of Belgium says that the historical economic effect of this movement will be greater than that of the French Revolution. Thus, in effect, the six countries will become a supra-national entity with 162,000,000 intelligent, discriminating and creative citizens.

Effect on Other Nations

A movement of this kind and magnitude cannot be ignored by neighboring countries or by the world at large. How will it affect little Austria, or Switzerland, or other European countries not included in the six? Can France carry its weight? Will Germany dominate the Market? How will it affect the United Kingdom? Can Europeans really forget their old rivalries and animosities? And what does the U. S. A. think about it? These, and similar questions, for the most part, permit no definitive answers. But it appears certain that the principal countries concerned are prepared to go ahead, trusting to positive results and the solution of problems with the passage of time.

A recent study made by the Food and Agricultural Organization of the United Nations may be suggestive of an awakening appreciation of this new market and its potentialities. The F.A.O. says that, contrary to widespread fears in countries outside the Common Market, this development will have a beneficial effect for exporting countries; and continues— "The creation of the Common Market has brought into being the largest single customer for agricultural products in the world."

The F.A.O. estimates that the agricultural imports of the six countries in 1956 amounted to $9,200,000,000, or more than one-quarter of the total world figure.

The European Free Trade Area

The United Kingdom early recognized great promise in the European Common Market and, at the same time, an economic threat. She found it difficult, on account of her Commonwealth trade agreements, to enter into the Common Market as constituted and, on the other hand, very dangerous to stand aside. Officially, the United Kingdom is favorable to the Common Market but thinks it does not go far enough. For this reason, the United Kingdom proposes a Free Trade Area comprising a total of 17 countries and 285,000,000 consumers. The other countries, additional to the six comprising the European Common Market, would be the United Kingdom, Denmark, Switzerland, Austria, Norway and Sweden—constituting those countries geographically or economically contiguous to the Common Market—and those less intimately related geographically, namely, Eire, Iceland, Portugal, Greece, Turkey and, perhaps, Finland.

American contribution to this development started with the Marshall Plan of 1947 which led to the formation of the Organization for European Economic Cooperation (O. E. E. C.) in 1948 which, in turn, led to the European Payments Union (E. P. U.). In parallel course the Benelux Customs Union was formed in 1948 and the European Coal and Steel Community (E. C. S. E.) in 1951.

The prospective program for the integration of the above groups of nations to form the Free Trade Area has been beset by many difficulties, often with some members of the Common Market holding out for special provisions unacceptable to the Free Trade group. It was not until July 25 that the deadlock was broken, and full agreement is expected to follow from a meeting of the 17 nations in October of this year. Thus, it appears that our sights may now be set on a common market of 285,000,000 consumers.

It is interesting to note that Sir David Eccles, President of the British Board of Trade and a member of the British Cabinet, on Jan. 3, 1958, in San Francisco, made a speech proposing an economic merger of the U. S. A., the British Commonwealth of Nations, and all of Western Europe.

Whatever the motivation may be, new ethnical and economic groupings are the order of the day. In rapid succession, we have heard of a movement among South American countries to organize a Common Market along lines similar to the European model; next, the little countries and islands of the Caribbean are federating to form a West Indies Federation; and, finally, from Cairo it is reported that African-Asian countries are promulgating a common market to offset what they consider to be an economic threat from the European organization.

These world-wide movements toward new economic amalgamations clearly call for constant appraisal by American business interests. They may well become the battlegrounds for a new and fierce kind of economic warfare.

The U. S. A. and the Common Market

The typical American reaction to the Common Market program is one of general approval reflecting a positive answer to the common — if superficial — question: "Why don't you folks get together instead of cutting one another's throats every few years?" And, officially, the U. S. is sympathetic to the development of the Common Market or the Free Trade Area. Greater self-reliance in Europe will reduce Europe's dependence on the U. S. A. and serve as a stronger bulwark against Russian encroachments. Increasing the political and economic strength of this important area of the free world will reduce the financial burden now carried by the U. S. A. and also afford new opportunities for foreign trade.

Many leading American companies, since the war, have erected new plants or enlarged existing plants in Europe. Others are exploring the profit potentialities of building or purchasing new plants.

Some companies now recognize that there is a double advantage accruing to them by producing in Europe: one, the benefits of a large fast-growing market of 162 to 185 million consumers, and two, the advantage of exporting to world markets from European plants. As expressed by an executive of the Ford Motor Company before a Senate House Ways and Means Subcommittee on Foreign Trade and Policy:

The U.S.A. may find the European Common Market closed to its manufactured goods and will find the going rougher in other parts of the world. . . . It is quite obvious that American business which would like to enjoy the huge and growing markets of Europe will do best to become part of that market.

There seems to be no doubt in the minds of European economists and industrialists that this large, fast-growing market will need to be fed by a greatly increased domestic production supplemented by a growing demand for specialized industrial machinery, technology, and methods from the U.S.A. Similarly, in this connection, the licensing of patents, processes, methods, etc., will take on added importance.

It should be noted now that American investments in Europe are showing an accelerating rate of growth. Leading American companies with plants in Europe recognize not only the advantage of being able to export from Europe to world markets at prices eventually more favorable than from the U.S.A. but also a clear advantage deriving from an exchange of technical values and a cross-pollination of ideas between their American and European counterparts. In this connection it may be interesting to note that, from 1947 to January 1958 in the Netherlands alone, a total of 106 American companies have erected plants, 70 of them as wholly owned subsidiaries and 36 in cooperation or partnership with domestic Netherland companies.

Another development of recent and growing importance is the financing of research work in Europe instead of bringing European scientists and technicians to the U.S.A.

A widely read international magazine reminds us that two great changes have taken place in world trade in recent years. The first, Russia — an unknown quantity during the 20's and early 30's—is now emerging dramatically as a major producer and exporter. The second, Europe—prostrate a decade ago—is expanding its economy rapidly and, collectively, taking decisive steps to safeguard its progress. The nations of Europe are prepared to take real risks to restore the ideal of free enterprise, sound money, and the profit motive.

Population and Trade Statistics

The Organization of European Economic Cooperation forecast in 1955 that Europe's Gross National Products will rise 80% by 1975. From 1951 to 1955 it had already increased 27%.

The U. S. Department of State gives the population of the six

Continued on page 108

The Economic Outlook

By HARRY A. BULLIS
Chairman of the Board, General Mills, Inc., Minneapolis, Minn.

A food industry leader envisions a banner year for overall economic activity and for the food industry in 1959. The recovery pace, according to Mr. Bullis, will depend upon public's acceptance of new autos, new houses and availability of mortgage money, and increased plant-equipment expenditures. Doubts causal factors behind price rises in 1956, 1957 and 1958 will be present in 1959 and 1960, and notes better understanding and opposition to price inflation by both the authorities and the public.

December Issue of "Greater Minneapolis"

The economic outlook has brightened perceptibly in the past three months and the improvement will carry into 1959. The indications are that gross national production of goods and services in the fourth quarter of 1958 will surpass the previous high mark reached in the third quarter of '57. I am optimistic enough to believe that this improvement in output will continue through at least the first half of next year and that the entire year ahead may be a banner one.

Harry A. Bullis

The recession of 1957-58 was the shortest and the most severe of the three postwar recessions. Its duration from the high to the low was only about six months, and the decline in total output of goods and services was 4½% and amounted to 20 billion dollars.

Personal Income and Expenditures

The maintenance of personal income at a high level was an important stabilizing factor which helped to limit the recent decline and speed recovery. Wage rates were kept high, even though business profits declined. By July of this year wage increases, increases in pay for government employees, the rise in farm income, combined with the increase in unemployment compensation payments, had sent total personal income well above the record high reached in August 1957. By September 1958, total personal income was 5.4 billion dollars above the high mark of a year earlier and 11 billion dollars above the February 1958 low.

As a result consumers continued to spend for the goods and services they wanted, and total consumer expenditures fell by only 2 billion dollars during the recession as compared with the 20 billion dollars decline in production of goods and services. With consumption maintained at a high level and beginning to expand in the second quarter of 1958, it was necessary for business to expand production. The reduction in inventories called for replenishment. The index of industrial production shows an increase in every month during the period May through September and the decline in inventories appears to have stopped.

Federal Expenditures and Capital Investment

As we move forward, the economy is more and more feeling the effects of the Federal Government's program. This includes assistance to housing and highways, a small cut in excise taxes and enlarged defense spending. All told the program adds up to over 6 billion dollars, of which only a small portion has as yet gone into actual production. The effect will be stronger in the final quarter of 1958 and the first half of 1959.

Furthermore, business expenditures for new plant and equipment appeared to stabilize in the second and third quarter of 1958 and the outlook is for a small increase in the fourth quarter. The rate of capital investment in new plant and equipment is highly important to economic progress. The fact that a turning point was reached before the end of 1958 is a good augury for 1959.

Thus we find an encouraging growth in total business volume. How rapid the growth will be in the months ahead will depend largely upon the public's acceptance of the new automobiles, the desire of people for new houses and the availability of mortgage money, together with increased investment by business in new plant and equipment.

Inflation

While the forces of inflation are a threat, the prospects for rapid price rises appear to be reduced. If we look over the record of price movements during the past decade, we find that the high prices of 1948 were caused by the war, that the consumer price index actually dropped 4% between 1948 and early 1950, that the impact of the Korean conflict caused prices to increase 14% by early 1952, that the consumer price index was stable for four years after 1952 while wholesale prices fell 7%, and that since 1956 the consumer price index has increased 8%.

The cause of the 1956-57 price increases is found largely in the tremendously high demand by business for new plant facilities. This placed enlarged incomes in the hands of construction workers with a consequent increase in the demand for consumer goods. At the same time it stimulated a very high demand for money, including enlarged bank credit. With the new plants and equipment not yet in the producing stage, the economy was strained, increases in wage rates exceeded general increases in productivity and the result was higher prices.

Thus it appears that the expansion of credit and income caused the price rise of 1956 and 1957. It is the price we paid for a period of sustained plant expansion. The more modest price rise in the first half of 1958 was caused largely by the adverse weather which sent prices of fresh fruits and vegetables skyward, and the high prices for pork and beef because of short pig crops and the need for rebuilding herds of beef cattle.

Price Rise Resistance

The causes of the price rises in 1956, 1957 and 1958 are not expected to continue into 1959 and 1960. Rather some resistance appears to have developed. First, there will be an increased supply of goods flowing from the increased plant facilities built during the past two years, coupled with enlarged productivity per worker. Second, the experience of the past two years has demonstrated that there is a limit to the point at which prices can be increased to compensate wage increases in excess of productivity increases.

The large government deficit adds to the fear of inflation, but a decided upturn in business activity and enlarged tax revenues can work to reduce the deficit. In addition, the monetary authorities are alert to the need for anti-inflationary measures. Furthermore the dangers of inflation and the damage it can do are better understood by both the authorities and the public as well, so that action to control inflation will have greater popular support.

Food Industry

The outlook for the food industry is excellent. Consumers continued to spend liberally for food during the recent economic decline and as a result there was no recession in the food business. In 1957 the total food bill of the nation was about 75 billion dollars. It will be higher in 1958 and still higher in the years ahead.

There are potent forces behind the prosperity in the food business. First is the growth in population—more mouths to feed every year. Second is the growth of our dynamic economy which results from increased productivity and which is accompanied by enlarged family income and a higher standard of living. Third is the desire of the housewife to improve the nutritional quality of the family diet, the demand for diversification in the diet, and an appreciation of the convenience and time saving that comes from what we call "built-in maid service" in prepared mixes and foods, which require a minimum of preparation in the kitchen.

The food industry is intensifying its research to develop new and improved products. It is investing in better facilities to give more efficient service to the consuming public and preparing for the huge potential growth in the years ahead.

Conclusion

We are making progress in economic understanding and the outlook ahead for business is good.

Elbert A. La Hue Opens

ST. PAUL, Minn. — Elbert A. La Hue & Associates is being formed with offices in the Pioneer Building to engage in a securities business. Elbert A. La Hue, proprietor of the new firm, has been a partner in Smith, La Hue & Co.

Robert Baird Branch

MARINETTE, Wis.—Robert W. Baird & Co Incorporated has opened a branch office at 1800 Hall Avenue under the direction of Edward A. Kuich, Jr.

Mid America Securities

CHICAGO, Ill.—John K. Baronett is engaging in a securities business from offices at 176 West Adams Street, under the firm name of The Mid America Securities Company.

J. P. Morgan Co. and Guaranty Trust To Merge Businesses

J. Luther Cleveland, Chairman of the Board of Guaranty Trust Co. of New York, and Henry C. Alexander, Chairman of J. P. Morgan & Co. Incorporated, announced that at meetings Dec. 17 the boards of directors of their respective banks had

Thomas S. Lamont

H. P. Davison

Dale E. Sharp

Henry C. Alexander

J. Luther Cleveland

unanimously approved plans for the merger of the businesses of the two banks under the name Morgan Guaranty Trust Co. of New York. Holders of Morgan stock will receive 4⅔ shares of stock of the merged institution for each share now held and holders of Guaranty stock will receive one share for each share now held.

Henry C. Alexander will be Chairman of the Board of Directors and chief executive offices of the merged bank. J. Luther Cleveland will be Chairman of the Executive Committee. Messrs. H. P. Davison and T. S. Lamont will be Vice-Chairmen of the Board of Directors. Dale E. Sharp will be President.

It is planned that, subject to requisite approvals of the Superintendent of Banks of the State of New York and the Federal Reserve Board, the merger will be submitted promptly to the stockholders of each bank for their approval.

The merged institution will have capital funds of over $500,000,000 and total resources of approximately $4,000,000,000, making it the third largest bank in New York City and the fourth in the U. S. A.

Fahnestock To Admit Bligh and Wilson

Fahnestock & Co., 65 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Robert A. Bligh and Clifton W. Wilson to partnership. Mr. Bligh is resident manager of the firm's Torrington, Conn. office, 127 Main Street. Mr. Wilson is manager of the Hartford office, 75 Pearl Street.

Newhard, Cook Admit Three New Partners

ST. LOUIS, Mo. — On Jan. 1 Newhard, Cook & Co., Fourth & Olive Streets, members of the New York and Midwest Stock Exchanges, will admit Edward Senturia, Joseph L. McDonough and Edwin Levis Jr. to partnership.

Harris, Upham Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Allan F. Bruen is with Harris, Upham & Co., 136 Federal Street.

THE MARKET . . . AND YOU

By WALLACE STREETE

Stocks hovered within easy reach of their record high for the most this week, hunting for a new spark to help industrials made a second bid to surpass the old peak.

* * *

The first attempt to plow through the resistance around the Nov. 17 all-time high was foiled by the slim margin of 0.17 of a point, and early this week the average was again within about a point of the top, but even a few wide run-ups by selected issues failed to inspire any all-out assault.

Technicians Undisturbed

There wasn't much in the way of chagrin selling when these approaches to the old peak fizzled out. Nor, for that matter, were the technicians unduly disturbed since the time is fast approaching when the year-end cleaning-up will be finished and the traditional end-of-year spurt set in.

* * *

The rail average had settled for a prosaic existence, presumably waiting on the senior section for the next signal. Utilities, however, had been able to nudge to a high-water mark for 28 years although it was a casual achievement and didn't stir up anything elsewhere.

Attractive Rail Issues

The long neglect of the rails continues to make them the above-average yielding section, the returns running to around 4½% in such quality items as Norfolk & Western and even more for the roads that have felt the recession more. Norfolk stands out in its ability to control costs quickly when the demand for coal that looms so large in its business goes into cyclical swings. The road was also a holdout against dieselization until recently when the economies of this form of motive power made it get in the parade. There is, however, much work to be done to convert the line to diesels so the full economies of this switch are still in the future.

* * *

Early this year when the downturn hit, Norfolk's net income dropped a third. But by the Fall and while gross income was still off a bit sharply, its profits were able to show a 6% improvement. For the full year the figure is expected to be close to last year and the year before finally.

* * *

With rails generally seen as having made a turn for the better, there has been much attention given to the railroad equipment shares. One in this section that someday could profit handsomely is Timken Roller Bearing which is in the forefront of the suppliers if rails ever are forced into full-scale modernization of their freight cars. While passenger cars are virtually all roller-bearing equipped, some estimates are that no more than 26,000 out of some 1,700,000 freight cars are so equipped although it is a well-known fact that there are sizable economies in such equipment.

* * *

The practice of interchanging freight cars has found many of the roads loathe to spend the money on modernization for the benefit of the other carriers using them. And with income pinched in a recession there was little likelihood of any mass move in that direction. But Timken is hopeful that with better times the trend might take hold.

* * *

Great Northern Railway is another high-yield item, available at a 6% yield recently. Lagging demand for iron ore has kept its traffic restricted but its income for the year is expected to be off only slightly from last year as its operating economies take hold.

* * *

Like the rails, the oils have had few champions lately both because of industry problems and the fact that institutional investors for so long have been well loaded with oils and lately have been a bit prominent on selling. As a result, however, returns running to around 4½% have been available in such as Atlantic Refining and Standard Oil of Ohio.

* * *

Not so easily explained, despite the acknowledged fact that construction has been one of the bright segments of the economy even through the recession is the neglect centering on the cement shares where Penn Dixie offers a return of above 4%. This issue also sells at one of the lower price/earnings ratios in its group, some 13-times-earnings.

Shoe Issues Neglected

Shoe issues have also been ignored rather roundly, a declining earnings trend in recent years no help to inspire more investor attention. And again the pattern of high yields as a result running to more than 5% in International Shoe even though the $1.80 current rate has been trimmed back from $3 paid a decade ago. There are some indications that the shoe business has also made its turn and good improvement could be ahead. Price markups have offset higher costs and while total output is expected to be a shade under last year's record peak, next year's output is expected to be back at a new peak. International is close to its low for the last decade and some 30% under its 1955 peak which has gone a long way to reflect the recent troubles.

* * *

Textiles have also been far from the spotlight for a rather protracted period and Van Raalte in this group, while at a new high since 1956, is still on a 6% yield on the present dividend. Earnings for this year, despite a strong finish in the final quarter, are not expected to come within half a dollar of the $3.26 of last year but would cover the dividend. But the stock seems to be starting to discount the possibility that the company will have a sharp earnings recovery next year.

Possibilities in Meat Packers

Meat packers have had their champions lately but without excessive price action, mostly because some of them are dividend-less, although prospects are that the 20% gains in hog slaughtering forecast for next year will restore them to the paying status. Armour's earnings have already shown a good pickup and projections are for a continuation. It is currently dividend-less. Cudahy is an identical story of good earnings gain and the possibility of resumed payments. Swift, the giant of them, is a case of an issue worth "more dead than alive," its book value more than double the recent market price. It is on a dividend basis although the payment had to be trimmed a bit. A return to the $2 old rate, however, would boost it to the 6% yield class at present prices.

* * *

The big discrepancy is in the office machine makers where the only demand seems to be for International Business Machines despite the fact that it sells at some 60-times last year's earnings and 45 times the results anticipated for this year. Royal McBee is virtually assured of turning in a far better picture than its three-cent profit of the last fiscal year. And Smith-Corona with a yield approaching 5% contrasts oddly with half of 1% return on IBM and less than 2% in the recently popular Pitney Bowes and Addressograph.

[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.]

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

George O. Nodyne, President of the **East River Savings Bank, New York** announces the election of Donald S. Macdonald to the Board of Trustees of the Bank.

D. S. MacDonald

* * *

Announced was the election of Paul A. McManus and Clinton W. Schwer as Vice-President of **Chase Manhattan Bank, New York.**

* * *

The Union of South Africa has undergone a period of dynamic economic growth which will provide expanded foreign trade and investment opportunities for American businessmen during the years ahead, according to Richard S. Perkins, Vice-Chairman of the Board of **The First National City Bank of New York.**

Mr. Perkins was in Johannesburg Dec. 15 for the opening of **The First National City Bank of New York (South Africa) Ltd.,** the first subsidiary of an American bank to open its doors in the Union of South Africa. This marks the Bank's 74th overseas office.

* * *

Chemical Corn Exchange Bank, New York on Dec. 17 opened an ultra-modern banking office to serve the important Hunts Point area. The new quarters are centrally located at Randall Avenue and Faile Street, Bronx.

The new office was designed to provide this fast growing and highly industrialized section with the most complete and most efficient banking service possible, according to Chairman Harold H. Helm. The Hunts Point branch increases Chemical's offices to 94 in Greater New York.

* * *

The promotions of eight men at **The Bank of New York** were announced by Albert C. Simmonds, Jr., Chairman of the Board, on Dec. 9.

Gordon D. Brown, Howard J. Poduska and J. Lenox Porter, all of the Banking Division, were named Vice-Presidents. Mr. Brown, who joined the Bank in July, 1958, is a specialist in aviation, transportation, leasing and electronics. Mr. Poduska will represent the Bank in the Mid-western states and will continue to supervise the Bank's finance company business. Located at the Bank's Fifth Avenue Office, Mr. Porter is engaged in commercial banking activities.

Promoted to Assistant Vice-Presidents in the Banking Division were, Walston C. Gallie, W. J. Leete, and Henry M. White, Jr. Mr. Gallie is a representative in the West Coast area and Mr. White in the Middle South and Southeast. Mr. Leete will continue to devote his time to term loan financing.

Eldon H. Read, who specializes in automation in banking, was named Assistant Comptroller and Everett Estes of the Fifth Avenue Office Banking Department, was appointed an Assistant Treasurer.

* * *

Charles T. Upjohn was elected a trustee of **Empire City Savings Bank, New York.**

* * *

Robert M. Catharine, Chairman of the Board of **Dollar Savings Bank of The City of New York** announced the elections of James F. Loughren and Edmund T. Wolf, Jr. as Assistant Vice-Presidents, both of whom were formerly Assistant Treasurers.

* * *

Richard B. Loomis, President of **South Brooklyn Savings Bank, Brooklyn, N. Y.,** announced the election of Lewis G. Deane to the new office of Senior Vive-President. Mr. Deane, with the Bank 41 years, was formerly Vice-President and Treasurer.

Other elections were: Philip Coombe, formerly Assistant Vice-President and mortgage loan officer to mortgage loan officer; J. Kenneth Strifert, formerly Assistant Vice-President and Assistant Treasurer to Treasurer and Frederick W. Peterson, formerly Assistant Vice-President and Comptroller to Comptroller.

* * *

The First National Bank of East Islip, New York increased its common capital stock from $200,000 to $300,000 by a stock dividend and from $300,000 to $350,000 by the sale of new stock, effective Dec. 5 (Number of shares outstanding—14,000 shares, par value $25).

* * *

The Board of Directors of the **Security National Bank of Long Island, New York** declared a 3% stock dividend payable to shareholders of record January 20, 1959.

The dividend is subject to approval by shareholders and the Comptroller of Currency in Washington, D. C. Shareholders will vote on the proposition at the Bank's annual meeting to be held January 20.

* * *

The promotion of three officers of **The County Trust Company, White Plains, New York,** to the rank of Assistant Vice-President.

Promoted from Assistant Treasurer were Irving G. Harring, Jr., who is in charge of the Croton-on-Hudson office; George Marron, head of the Yonkers office; and Gerard T. Meehan, who is assigned to the Pleasantville office.

Irving G. Harring, Jr., has been with The County Trust Company since 1946, and an officer of the Bank since 1955.

George Marron has been with The County Trust Company since 1927 and was named an officer in June, 1957.

Gerard T. Meehan has been with The County Trust Company since 1950 and was named an officer in 1957.

* * *

Stockholders of both the **Black River National Bank of Lowville, N. Y.,** and the **Watertown National Bank of Watertown, N. Y.,** will be asked to approve plans for a merger on Jan. 13.

* * *

The Board of Trustees regret to announce the passing of Frederick W. Barker, President of **Syracuse Savings Bank, Syracuse, N. Y.** Mr. Barker died Dec. 10th at the age of 69.

Mr. Barker joined the **First Trust & Deposit Co. of Syracuse** in 1925. He was elected President of Syracuse Savings Bank in 1945,

Continued on page 105

Automation and Life Insurance Assured of Bright Future

By ROGER W. BABSON

Spectacular gains, after 1965, for life insurance industry and for makers of automated equipment are predicted by Mr. Babson on the basis, respectively, of anticipated gains in life expectance and increase in birth rate.

Dr. Robert H. Wilkins of Boston, President of the American Heart Association, predicts that "in ten years or so" the life expectancy of Americans will be ninty years.

Roger W. Babson

If Dr. Wilkins is correct in his forecast, by 1968 we shall have added about 20 years to life expectancy. That should augur well for business over the longer-term, but it will mean headaches too. At present our people are collecting nearly $20,000,000,000 annually in old-age insurance payments, unemployment compensation, veterans' pensions and disability pay, railroad retirement pensions, Federal, state, and local civil-service pensions, and other government programs.

I am told that the total stake of our people in public and private pension systems of all types amounts to $80,000,000,000. Investments in private pension plans alone amount to more than $35,000,000,000 and represent 18% of our entire savings. I forecast that the total investments in all types of public and private pension plans will have jumped to $165,000,000,000 by 1978, thus assuring steady purchasing power for the pensioners and the disabled.

Effect on Insurance

The life insurance companies have enjoyed continuous improvement in mortality rates for many years now, owing largely to advances in medicine and nutrition as well as to shortening of the work week. Most companies have found their actual mortality experience more favorable than that anticipated in the calculations upon which their premiums were based. Also the life companies have had the advantage of vastly increased investment earnings because of large gains in premium income and the sharp upturn in general business since World War Two.

I believe life insurance companies stand to make further spectacular gains as life expectancy is bettered. Those insured by mutual companies should see total premium costs decline as dividends are boosted. Those insured by stock companies should benefit from lower premium rates or increases in coverage at little or no increase from present rates. Longer life expectancy cannot help but enhance the fortunes of the stock companies, of which Aetna and Travelers are the largest.

Pension Plans and Taxes

As longevity increases, the period between retirement age and death will widen. This will mean additional problems for government and business. Sharp increases in taxes levied upon employers and employees for social security lie ahead. Boosts in contributions of management and employees to private pension plans will be equally stiff.

In addition, I predict that Federal, state, and local taxes generally will move to new high levels. Some of this increase will be due to higher operating costs. A sizable portion will be due to the need for more facilities and services for the growing sector of our population above the age of 65.

New Boost for Labor

Since I anticipate another marked increase in births in this country, beginning probably about 1965 and continuing for several years, by 1978 we could well have, in a population of 225,000,000, 25,000,000 aged 65 or over and about 75,000,000 under 18. That means we will have fewer workers to support more people than at any other time in our history. Labor will once again be in the saddle, riding high, wide, and handsome. Chemists, physicists, engineers, and other skilled specialists will be in heavy demand.

There is only one method by which business can counteract the disastrous impact of this expected scarcity of manpower. It must make a greater and more effective use of the techniques of automation. Otherwise, there will not be sufficient assurance of earnings to attract needed capital for expansion and for replacement of outmoded plant and equipment. Perhaps the biggest single problem facing management over the next 20 years is manpower and the cost of that manpower. Automation is the only answer I can see. I predict that companies making machines or other equipment designed to cut labor costs will have an unusually bright future.

Puts and Calls on Tape

The firm of Filer, Schmidt & Co., 120 Broadway, New York City, has had tape recordings made of a lecture on Puts and Calls given by Mr. Herbert Filer recently. The lecture explains the history of options and their various uses, and also the selling of options. A copy of the tape recording may be had for temporary use by Stock Exchange houses or educational institutions.

Herbert Filer

F. A. Callery Opens

Francis A. Callery, Agent, has been formed with offices at 1 William Street, New York City, to engage in a securities business. Partners are Francis A. Callery, Charles Callery and Grant E. Judge.

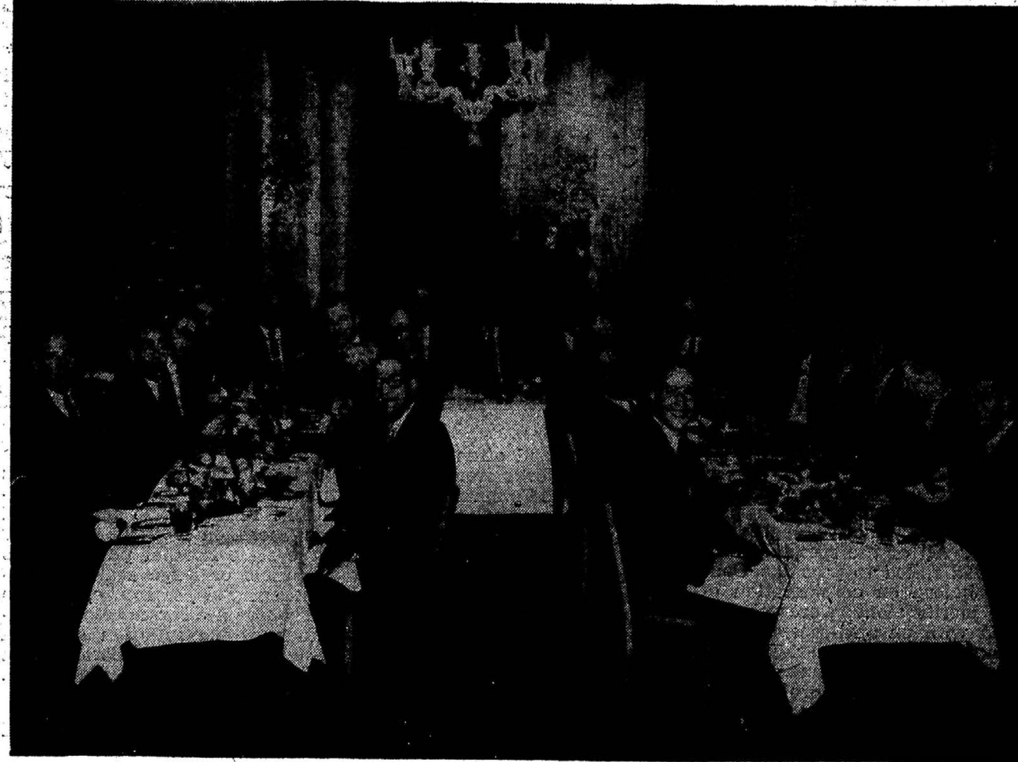
Form Chatham Associates

Chatham Associates has been formed with offices at 305 West End Avenue and 60 East 42nd St., New York City, to engage in a securities business. Partners are Louis Adler, Samuel Sockol, Marvin Greenspan, Peter I. Feinberg, Walter J. Schneider and Charles Guzzo.

Forms Zindler Co.

Irving Zindler is engaging in a securities business from offices at 55 Broadway, New York City, under the firm name of Zindler Company. Mr. Zindler was formerly a partner in Zindler & Co.

STANY GLEE CLUB



The STANY's Glee Club at its final session of the year at Oscar's Restaurant, wound up a most successful year for STANY's most popular singing group. Salvatore Rappa, F. S. Moseley & Co., has ably guided the group through five years of weekly rehearsals assisted by pianist, Henry Gersten, Oscar Gruss & Son and composer Seymour Blauner, Phoenix Securities Corp., and Harry Zeeman, Carl Marks & Co., Inc. Director Rappa praised the members for their faithful attendance record and introduced STANY's retiring president, John McLaughlin, McLaughlin, Kaufman & Co., and National Committeeman Al Tisch, Fitzgerald & Company, and announced that the Glee Club would present several new numbers at the annual STANY Waldorf Dinner in the Spring of 1959.

—(Photograph by David Mitchell, Hill, Thompson & Co., Inc.)

Form Planned Inv. Co.

INDIANAPOLIS, Ind.—George B. Steel, Jr. is engaging in a securities business from offices at 5600 East Fall Creek Parkway North Drive under the firm name of Planned Investment Company.

W. H. Webber Opens

TUCKAHOE, N. Y.—William H. Webber is conducting a securities business from offices at 85 Lawrence Avenue. He was formerly with NCE Shares Distributors and Winslow, Cohu & Stetson.

Form Wohl-Kessler

LONG ISLAND CITY, N. Y.—Wohl-Kessler Co. has been formed with offices at 31-53 Steinway St., to engage in a securities business. Partners are Alfred Wohl and Sidney Kessler.

Economic Recovery Will Be Sustained

By WILLIAM C. JACKSON, JR.*
President, First Southwest Company, Dallas, Texas
Retiring President, Investment Bankers Association of America

Outgoing IBA President pin points the reasons why he believes the recovery is well founded and will be sustained; rebuts the revived "mature economy" thinkers' fears about future excess capacity; defends the IBA stand on Federal spending recovery bills and tax reduction in place of public spending during the recession; and advises the time to fight inflation is now which precludes general tax reduction but not tax reform that will provide greater incentives to produce. The Dallas investment banker submits proposals to combat inflation and comments on the progress of the Association in the past decade.

One thing I discovered during the past year is that Washington, D. C., is not like other cities in this country. When things start slowing down in the rest of the country, the pace in Washington increases. In fact, had we concerned ourselves solely with legislation injurious to our industry which was introduced during the last session of Congress, the year just passed would have been a busy one, as the recession produced a very active legislative session. All of the spending bills that had failed to pass the Congress before on consideration of their merits alone, were reintroduced with an anti-recession tag on them. There is a marked tendency among Congressmen to believe that their pet projects are the ideal measures for curing a recession. As a consequence, the legislative mills were full of public works bills. We opposed many of these bills, both on their lack of intrinsic merit, and on the ground that they were not well suited as anti-recession measures.

W. C. Jackson, Jr.

The mere fact that a program involves Government spending does not automatically make it an appropriate anti-recession instrument. Of equal importance is the timing of the expenditures. It is no secret that it takes at least a year, and often longer, to get a public works program going. If bills like the Community Facilities Bill had passed, they would have had their first real impact on the economy in the spring of 1959, exactly when they will not be needed. If these bills had passed, they would have turned out to be destabilizing rather than stabilizing devices; rather than being cures for the recession, they would have been generators of inflation, for once you start to build a new fire station or a new dam or school building, you go ahead and finish it, even though the economic circumstances which were to justify the undertaking no longer exist.

I think subsequent events have justified our strenuous opposition to these public works bills. The Federal Government budget deficit, which appears to be the prime inflationary threat for 1959, would have been even larger than it's going to be. Early in the recession we argued that, if Government action were needed to fight the recession, it should take the form of tax relief rather than public works projects. As things turned out, the economy had sufficient resiliency to pull out of the recession without any new large scale Federal public works programs or large scale tax reductions. This, of course, is all to the good, since it reduces the magnitude of the inflation potential stemming from the Federal budget deficit during this recovery period.

Policy on Taxes Justified

The brevity of the recession—it was the shortest one we've had since before World War I—rendered the controversy between the advocates of tax reduction and the advocates of public works programs as stimulants to the economy rather academic, but it is an issue that is bound to recur. For this reason, it may not be out of place to mention it here, even though the worst of the recession is now behind us. The stand which we took on the side of tax reduction, as opposed to public works, is defensible on many grounds, but I will name only three:

First—There is the crucial advantage that a tax reduction has . . . an immediate impact on private consumption and investment expenditures . . . whereas the impact of a public works program would be felt only after the passage of a considerable period of time.

Second—Quite apart from the dollar amounts involved, the tax cut would have a desirable and much-needed impact on our system of incentives.

Third—And very important—the cut in tax rates would, in itself, help to limit the subsequent growth of Federal expenditures during the recovery period, for the simple reason that a faster rate of growth of Federal revenues tends to produce a faster rate of growth of Federal expenditures. It is unfortunate, but history reveals that Federal Government expenditures tend to rise to absorb any increase in tax revenues produced by a rising national income.

There are some who believe that the proper way to handle a recession is to let it run its course. While there is some merit to this position, it suffers from one vital weakness . . . it is completely unrealistic politically . . . and it will continue to be so as long as the great mass of people in this country fear recession more than they fear inflation.

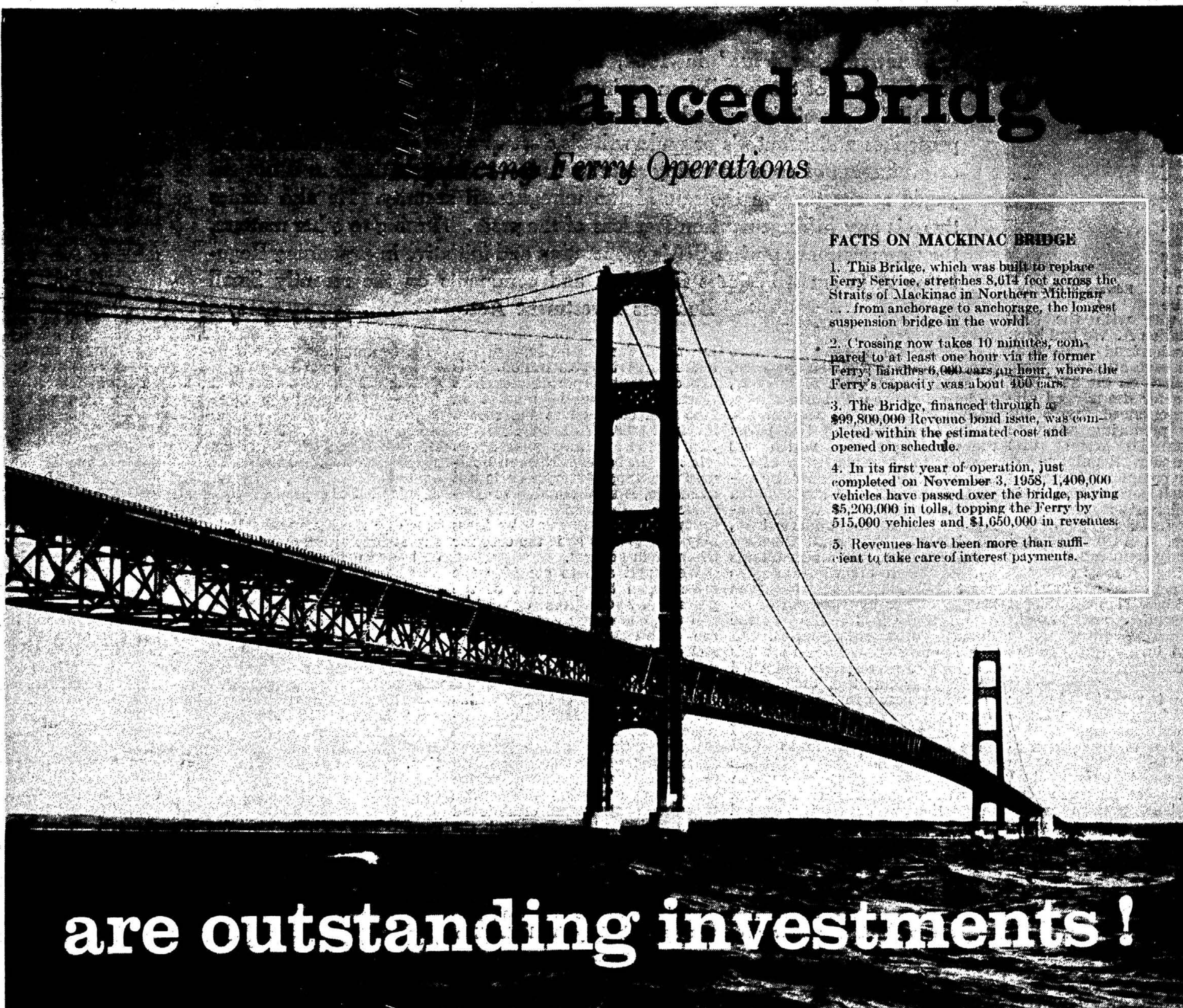
What We Can Do to Combat Inflation

The time to fight inflation is not during a recession period. The time to fight inflation is now, during the recovery period, and in the months ahead when we have returned to a full employment level of operations. In the coming year, with the economy recovering steadily, and with a huge Federal deficit, we cannot hope for a general reduction in the level of taxation, and we should oppose any irresponsible proposals of this kind. We should, however, work actively for tax reform measures which will provide greater incentives to produce. We can make a real contribution toward a sounder Federal fiscal position if we join other associations in a common endeavor to see that the rising level of Federal revenues will be used to reduce the deficit and not for a further expansion of Federal expenditures.

Another thing we can do to help combat inflation is to bend every effort to defend the Federal Reserve Board from the barrage of attacks it is certain to receive from the new Congress. We should do what we can to assist in educating the public toward a better understanding of the value of monetary controls to the average person, and the necessity for ex-

Continued on page 46

*Remarks of Mr. Jackson at the 47th Annual Convention of the Investment Bankers Association of America, Bal Harbour, Fla., Dec. 1, 1958.



Bridge Design and Supervision of Construction: D. B. Steinman, Engineers

Well-conceived, essential bridge projects which were constructed to replace ferry facilities, have had remarkable success. In many cases, traffic increases as high as several hundred percent were effected within a few years after the bridge went into operation. Facilities of this nature, based on the known earning power of the ferries replaced, have achieved a well-earned reputation among experienced investors for yield and safety, as well as tax-exemption.

Allen & Company has long been active in all phases of revenue-financed projects, acting as advisors to public bodies, as originators bringing creative "know-how" to financing problems, and as major underwriters and distributors.

A recent example of our activities in such financing is the Mackinac Bridge—which has just completed its first year of successful operation.

We were privileged to develop the financing plans for the Mackinac Bridge Authority and to act as co-managers in the underwriting.

ALLEN & COMPANY

Established 1922

New York 4, New York

STATE, MUNICIPAL AND REVENUE BONDS

"Gun-Jumping Problems Under Section 5"

By EDWARD N. GADSBY*
Chairman, Securities and Exchange Commission

SEC head specifically refers to the current Arvida case, and another "large and newsworthy issue" in 1954, in summarizing his agency's view, and enforcement, of the prohibition against "gun jumping" involved in an "offer to sell." Commissioner Gadsby denies restrictions on "pre-offering publicity" proscribes a distributor's or underwriter's dissemination of normal information or evaluation of an outstanding security issue—so long as the firm is not engaged at the time in the sale of the unregistered security. He also denies there is any infringement on freedom of the press. Turning to other matters, the Commissioner praises IBA's cooperation and initiative in explaining Regulation A in small business financing, and comments on the recently Small Business Investment Act.


Edward N. Gadsby

I had the pleasure of addressing the IBA briefly just a year ago today, at which time I described certain problems relating to the financing of small businesses. The Securities and Exchange Commission was then concerned with what it felt to be an essential lack of liaison between it and persons seeking financing in modest amounts and who might be eligible to file with the SEC under Regulation A. We had been given to understand that some businessmen and attorneys were inclined to place on the SEC part of the blame for the alleged difficulties experienced by small business in procuring adequate financing on the ground that procedure under Regulation A was unduly complex. Hence, it was said, such persons and their possible underwriters were discouraged from making public security offers. I then suggested that your body cooperate with us in organizing throughout the country a series of gatherings which would be designed to dispel this misconception and explain the techniques of filing under Regulation A in lay terms to the lawyers, accountants and underwriters.

I am happy to report that under the sponsorship of the IBA Committee on Small Business, we participated in two of these gatherings during last spring, one in Denver and one in Cleveland. I thought both meetings were very successful. The pattern which evolved in this connection went even further and was even more helpful, I think, than we originally conceived. Our audiences were made up, as far as we were able to analyze their composition, in about equal parts of lawyers, underwriters and businessmen, with a sprinkling of accountants. The sessions were in two parts: the morning session which was devoted to an explanation of the filings under Regulation A by experts from the SEC staff; and a luncheon session at which representatives of the underwriters, the bankers, the Small Business Administration, the accountants and our own organization gave short talks, each clarifying in broad outlines the function of his own activity in the field of the financing of small businesses.

It is our sincere hope that this program so successfully launched under your auspices during the year just past can be continued and expanded in the year to come. All the statistics with which I have been furnished in the past few months indicate that there will be a substantial increase in the demand for new capital, and in particular for equity capital during the winter ahead of us. During the third quarter of 1958, registration statements filed with the SEC became effective covering 275 issues of corporate securities involving $4.2 billion. This compares with similar figures for the third quarter of 1957 of 254 issues involving $3.3 billion. It is expected that corporate securities reaching the public market in 1959 will continue at the record levels of 1958. While the segregation of these figures as between what might be termed small business and large enterprises is not available, it is reasonable to conclude that the same relative activity in financing small business may be expected as is the case for business in general.

We ought also to consider the effect upon this program of the passage by Congress of Public Bill 699, commonly referred to as the Small Business Investment Act of 1958. Congress was faced during the last session with what it considered a reasonable demand for the establishment of machinery which would facilitate the financing of small business. The legislation finally adopted represents a compromise between two schools of thought, one of which would have handed this entire task to a capital fund established out of Federal money and the other of which would have left the entire job to private capital. As things stand, the private capital market becomes a statutory participant in the financing pattern estabished by this legislation. It is contemplated that the small business investment companies formed under the Act will be financed initially by private capital, which will be matched within certain limits by Federal funds furnished by the Small Business Administration. The Act also contemplates that the investment of this pool of capital in any small business may eventually be liquidated by the issue and sale by the investment company to the public of the securities sold to it by the small business. As you may appreciate, the SEC is interested in this process from several points of view, and is working closely with the Small Business Administration in order to establish feasible techniques under which these new activities may operate. Proposed rules in this connection have been distributed for comment and are now being considered by the Commission for adoption.

It seems clear to me that the SEC and the investment bankers have an obvious duty in this situation, not only to continue the excellent program so auspiciously begun during the past year, but also to expand and actively pursue it in order to publicize the mechanics of financing under the Small Business Investment Act. As I say, this legislation was drafted to preserve the functions of private capital within our economic structure. It is quite frankly an experiment. If it does not work, if it does not operate to facilitate access by the entrepreneur to the private capital market, I am perfectly sure that further legislation will be enacted which will bypass private capital and completely delegate this financing to government agencies. This I do not want to see, nor do I think you do, since it will unquestionably tend to leave the Federal Government in a permanent equity position in these businesses, a phenomenon which once established leads naturally to involving government in the ownership and management of industries which have never been thought of as proper fields for public control.

It is in view of this situation, its history and its implications that I again suggest that renewed efforts be made to discuss in every possible area the problems which small business has in its financing and the sources available to it for capital funds.

Section 5 of 1933 Act

To turn to another and entirely different field of our mutual interests, I would like to discuss with you for a few minutes the impact of the registration and prospectus requirements of Section 5 of the Securities Act of 1933 on publication of information concerning an issuer and its affairs by the issuer, its management, underwriters and dealers. I have in mind particular reference to the problem of "gun jumping," which I understand from numerous conversations with members of the securities and investment banking business is a matter of serious concern to you. This is not a new problem, nor is it one which has not been pretty thoroughly discussed from time to time in the past. So far as I can find out, furthermore, the position of the Securities and Exchange Commission on the subject has remained unchanged for many years. The problem has numerous facets and its resolution is by no means easy, even under the simplest set of facts.

There has been an increasing tendency over the years to give publicity to corporate activities and affairs through many media of communication, a tendency which has been encouraged by the enlightened attitude of many financial institutions, particularly the New York Stock Exchange. This practice reflects a commendable and growing recognition on the part of industry and the investment community of the importance of informing security holders and the public generally of important business and financial developments. The SEC emphatically does not wish to discourage this trend. At the same time, it is essential that corporate management, underwriters, dealers, lawyers and public relations firms recognize that the Securities Act of 1933 imposes certain responsibilities and limitations upon persons engaged in the sale of securities and that publicity and public relations activities under certain circumstances may involve violations of this law. The inevitable result of failures to consider these matters is to cause serious inconvenience to issuers and underwriters in connection with the timing and marketing of securities issues.

The Securities Act of 1933, the cornerstone of the entire structure of Federal securities legislation, has as one of its primary purposes the elimination of a situation found by the Congress to be a threat to investors and detrimental to the public interest. The contemporary legislative documents express a deep concern with the then existing distribution practices as the result of which investors, brokers and dealers were compelled to make blind commitments without adequate information under which they agreed to purchase securities in which public interest had been stimulated by prior publicity issued by promoters and underwriters. As expressed in House Report No. 85, 73rd Congress, 1st Session, (1933) p. 3:

"Despite the fact that business demands the assumption of responsibilities of a character fully equivalent to those of trusteeship, compelling full and fair disclosure not only of the character of the security but of the charges made in connection with its distribution, the literature on the faith of which the public was urged to invest its savings was too often deliberately misleading and illusive. Even dealers through the exertion of high-pressure tactics by underwriters were forced to take allotments of securities of an essentially unsound character and without opportunity to scrutinize their nature. They then would be worked off upon the unsuspecting public."

The Congress determined in adopting the 1933 Act that these abuses had contributed to unsound securities markets, artificially inflated values and speculative hysteria and were among the factors responsible for heavy losses suffered by security owners. It was the clear purpose of Congress in this legislation to slow down the distributive process in order to prevent brokers and dealers from making blind commitments

*An address by Mr. Gadsby before the 47th Annual Convention of the Investment Bankers Association of America, Bal Harbour, Fla., Dec. 3, 1958.

for securities which they must, of course, promptly sell to their customers if they are to stay in business. It was the stated purpose of this law to make certain that the information required in order to permit an informed and unhurried appraisal of the security offered be made a matter of public record by the issuer and underwriter prior to any solicitation by a seller of dealers or the investing public. In furtherance of these statutory purposes, Section 5, the very heart of the 1933 Act, flatly prohibits any activity designed to further the offer or sale of non-exempt securities or to stimulate offers to buy from brokers, dealers and other investors, prior to the filing with the Commission of a registration statement containing the information specified in the Act.

Specifically, among other things, Section 5 (a) of the Securities Act makes it unlawful to sell a security unless a registration statement with respect to such security has become effective. Section 5(b) makes it unlawful to send by means of facilities of interstate commerce or the mails for purposes of sale of any security unless the purchaser has received a prospectus with respect to it which meets the requirements of Section 10 of the Act or to send out any prospectus which does not so conform to Section 10. Section 5(c) of the Securities Act of 1933 makes it unlawful, with certain exceptions, for any person directly or indirectly *to offer to sell* a security unless a registration statement has been filed with the Commission.

To recapitulate what I have said, it is illegal in any way to offer a security prior to the filing of a registration statement. A security may be offered for sale after filing and before the effective date of a registration statement, provided that any prospectus employed for this purpose meets the standards of Section 10 of the Act. As a result, in general during this period, no written communication offering a security may be transmitted through the mails or in interstate commerce other than a prospectus authorized or permitted by the statute or relevant rules thereunder. After the effective date, sales literature in addition to the prospectus may be employed legally, provided the Section 10 (a) prospectus precedes or accompanies the supplemental literature.

"Offer to Sell"

The broad sweep of the basic prohibition contained in Section 5(c) is made clear by reference to the definition of the key term used. The prohibition is against an "offer to sell" which is defined in Section 2(3) of the Act to include every attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest in a security for value. These carefully chosen words reflect the Congressional mandate that the term, as so defined, shall not be construed to apply narrowly to communications which include express words of "offer" in the sense in which it is used in common parlance.

On the other hand, it has never been considered by anyone, let alone the SEC, that it is unlawful to disseminate normal corporate information to the public if such information is not a part of an offer to sell, a solicitation of an offer to buy, or a part of a selling effort. This fundamental truism was announced at an early date in Commission Releases Nos. 70 (1933), 464 (1935), and 802 (1936). In Release 464, the late Judge Burns, then counsel to the Commission, stated:

". . . even though your subscribers transmit their bulletins to their clientele through the mails or interstate commerce, such transmittal is not a violation of the Act if the subscriber does not in fact use the bulletins as selling literature. Whether or not a subscriber is using a bulletin as selling literature is, of course, a question of fact in each case as to which no generalization can be made. The intent with which the bulletins are used, as determined from all surrounding circumstances, would control the legality of circulation thereof by underwriters or dealers.

"If an underwriter were to supplement a bulletin with selling literature or with a recommendation to the recipient as to the desirability of purchase, or were to attempt to obtain from the recipient some indication of interest however tentative in purchasing the described security, such action, in my opinion, would almost conclusively establish that the bulletin was being used in an attempt to dispose of or solicit an order for the purchase of the security."

Summarizes Purposes of the Law

In summary, let me reemphasize that the purpose of the Act, as plainly disclosed by its provisions and as it has uniformly been interpreted by the Commission is to prevent "every attempt" by issuers, underwriters and dealers by any means whatever to dispose of or to solicit offers to buy securities as to which registration is required, prior to the time when the information specified in the Act has been made public in a registration statement filed with the Commission and when a prospectus meeting the requirements of Section 10 of the Act is available for distribution to dealers, brokers and investors.

In determining what constitutes such an attempt, it is important to keep in mind the warning which Judge Burns gave in 1934, and to remember that the question of whether a communication is an offer within the meaning of the Act, must be answered in the light of all the circumstances surrounding its publication, including among other things, the content of the communication, its timing, to whom it was addressed or communicated, by whom it was published, the manner of its publication, and whether its over-all effect may or actually was to cause the public or brokers or dealers to make or solicit offers to buy, however tentative such offers may be. Furthermore, for the purpose of construing the Securities Act, the communication must be viewed in the light of the procedures employed by the securities industry and the effect which the communication is likely to have upon the securities distribution process.

It is perfectly clear, when any intelligent attention is given to this problem, that an issuer or an underwriter is not privileged to engage in a publicity campaign prior to the filing of a registration statement in connection with a public offering of a non-exempt security. This does not mean that a corporation which is planning to

Continued on page 39

Problems of Management in a Technical Business

By J. E. JONSSON*
Chairman of the Board, Texas Instruments Incorporated

Mr. Jonsson sheds light on the considerably changed and increased scope in the depth and breadth of professional managers of technical business in meeting today's and tomorrow's problems. He reviews the assist automation can provide—such as the computer—and foresees need for investment bankers to develop technical people of their own who are competent enough to meet the technical manager of the businesses they help finance in working out solutions appropriate for both. Observes that decentralization of medium and large firms seems to be working well for most companies but wonders whether it will be the ultimate answer for the complexities of coordination.


J. Erik Jonsson

Before pointing up some of the future problems of technical business management, I should like to talk a little about today's problems and also to look briefly to see how we got where we are. Boss Kettering of General Motors used to say: "We spend too much time looking backward to where we have been and not enough in looking forward to where we want to be." This is true, and yet I think a review of the background of the first 50 years in which management, *per se*, came of age would help us understand why we do some of the things that now are common practice.

Past Fifty Years

First, let's think a bit about happenings in the past 50 years that have changed the way we view things compared to the way our fathers saw them.

First, there's transportation. In the early years of the century, most inland transportation was by railroad, horse and buggy, and a few primitive cars and trucks. The airplane was new and intriguing, but not, at the time, important. Today it is different. The jet age is upon us, and, in essence, passenger transportation via the railroad is obsolete. Today's highways and skyways make it possible to transport people or materials almost everywhere safely and quickly by car or plane.

In earlier days most communication was by newspaper and by mail, and a lot of that was quite slow of necessity. Today our knowledge of events in all parts of the world is almost instantaneous through media such as radio, TV, cables, and the like.

In the last 50 years we have survived two wars and a so-called police action in Korea; now we are in a cold war different from anything previously experienced. Since the early days of World War II, we have seen the real beginnings of big-time research, and the development of nuclear energy not only for destructive purposes, but for peaceful uses. Some of our technology, indeed, has outgrown our ability to develop appropriate social patterns.

We have lived in a highly cyclic economy, complete with several wonderful booms and at least two or three first-class busts. Of course, we don't often use those terms now, but instead speak politely of inflation and mention recession in the subdued tones usually reserved for the dear departed.

We have seen government grow from modest proportions to massive size, with almost terrifying built-in expenditures for multifarious programs, many of doubtful value. We have lived through an era of uncertain political climate in which we have veered from isolationism to internationalism, but with increased budgets regardless. Through all this, taxes have mounted steadily with only minor relief.

These and other events make it abundantly clear that we live in a world of accelerating change, and there is no diminution of this trend in sight.

Role of Professional Manager

In such an atmosphere of complexity and change, the professional manager has been forced to accept additional responsibilities, solve a maze of new and puzzling problems, develop fresh and often novel or unique concepts and techniques of management. Always he has been driven by the necessity to adapt quickly and readily to change, to find prompt, adequate solutions for his problems, to make decisions on which the welfare and indeed the fate of many others might depend.

Now, problems—business problems—created the need for the manager in the first place. Dating up to the 20s, few enterprises had professional managers to run them. That was the day of the family enterprise or the individual entrepreneur who owned the business and ran it, too. Operating a business was a comparatively simple matter then, and one man could pretty well keep his finger on all phases of it. He didn't have to contend with the pressures of big government, big competition, big taxes, big labor and the many other bignesses today. He ran the whole show, knew most or all of his employees personally, and steered the business course pretty much by "feel." Customarily, he did a good job of it, too. Because his problems were small, his infrequent mistakes usually were of the same order, and seldom serious.

In the 30s, things changed. Greater pressures developed, with more serious impact and implications of danger. To meet them, the individual entrepreneur either had to equip himself with knowledge in new and different fields or seek help from those who possessed such knowledge. This era marked the real beginnings of the professional manager, a man who got his job because he had specialized knowledge and abilities the business required, and not because he owned a stake in the company.

In the 40s and 50s pressures and problem areas steadily multiplied and grew, increasing not only in number, but in complexity and importance. Specially trained experts were required for their handling, real professionals in many fields — professionals in management, that is. To the pressures of bigness—those of labor, government, taxes, competition for trade, competition for capital, etc.—was added a new one of tremendous import. This was the pressure created by growing technological content in business. True, some endeavors still have little technological content and remain comparatively simple in this respect. However, many do have it and in most lines it increases almost daily.

Thus, today's professional managers of technical businesses must have solid understanding and orientation in fields and disciplines far afield as well as in the usual principles, procedures, and practices of business life. What the job requires is not so much a specialist in one or more fields as a generalist in all.

That is what many of our most successful managers are today; it is what they must become to an even greater extent in the future. Our manager can surround himself with the required specialists in the specific fields in which his company is involved, but he, himself, must possess sufficient knowledge in these fields to guide and direct their activities, establish their objectives, correlate their work with that of others, and

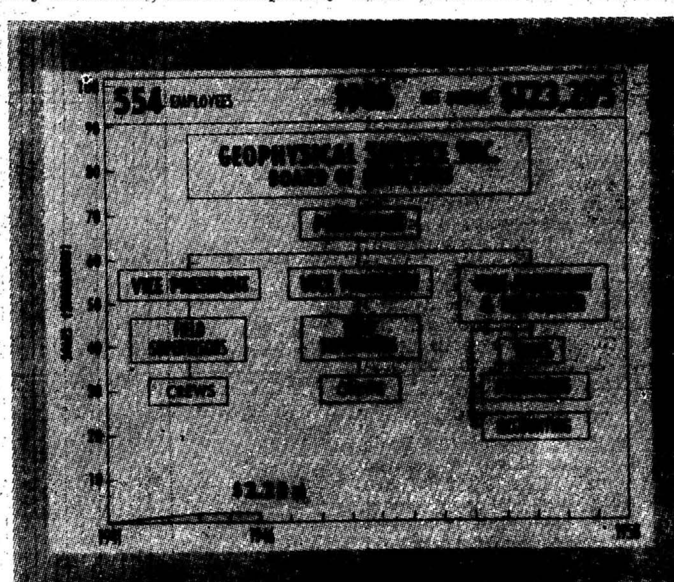


Figure 1

*An address by Mr. Jonsson at the 47th Annual Convention of the Investment Bankers Association of America, Bal Harbour, Fla., Dec. 1, 1958.

channel the total effort toward achieving the company's goals.

A Case History

Now, with your indulgence, I'd like to use some parts of Texas Instruments case history over the last 12 years to illustrate the diversity and complexity of the kind of problems referred to. I use events of this history because I saw it happen and took part in it, and therefore know at first hand of the bruising impact on our managers of the many difficult decisions which had to be made. We were faced with wide economic swings, rapid growth, wide geographic dispersal, international taxes, exchange and transfer problems, excess profits taxes, dealing with government agencies, redetermination of profits, renegotiation, and a host of other problems. These all are illustrative of rapid change, the need for management flexibility and adaptability, the requirement for wide ranges of ability, the remorseless challenge imposed on management people to grow with the job or be run over.

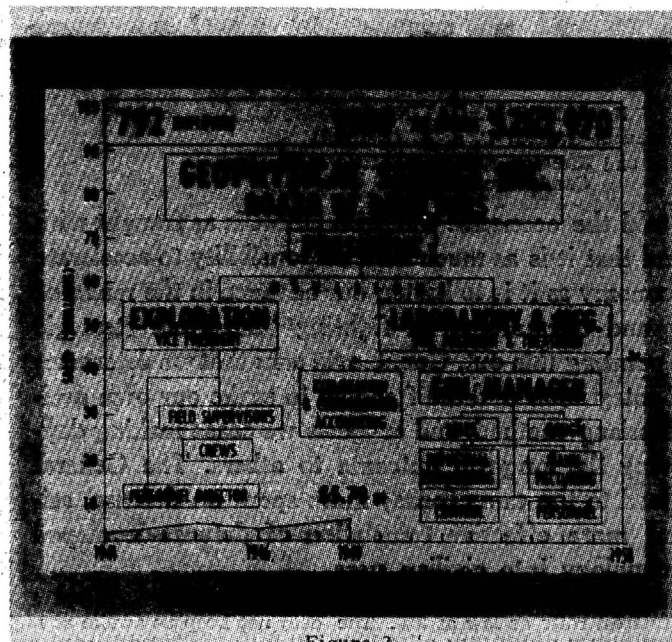


Figure 2

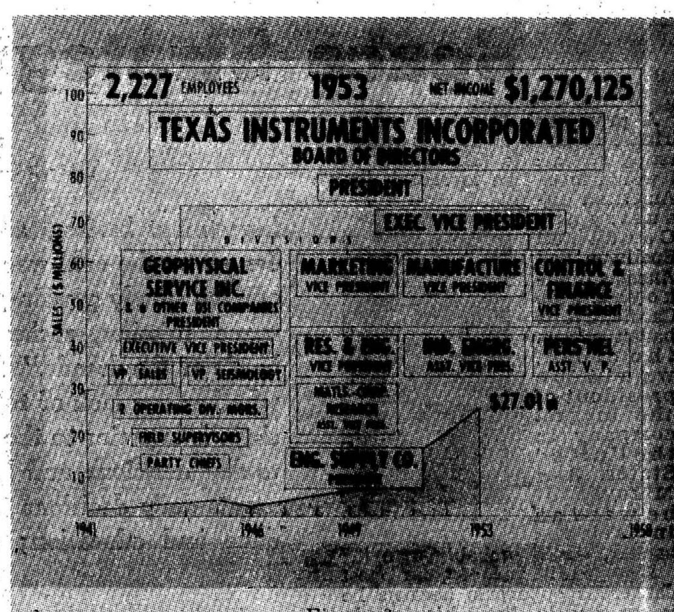


Figure 3

Our company, or rather its predecessor, began in 1930 as Geophysical Service Inc., or as it is more generally known in the oil business, GSI. It pioneered the use of the reflection seismograph to explore for sub-surface structures likely to contain oil or gas deposits. This remains today as an important activity of our company—our clients being the major and large independent oil operators.

Near the end of the year 1941, GSI was sold to a small employee group, thus marking the beginning of the present company management control. During World War II a nominal amount of military equipment was engineered and built, including submarine-hunting devices, and in the process considerable know-how in fields closely allied to our own was acquired. However, by the end of the war in late 1945, military contracts were essentially complete, and little or no engineering or manufacturing remained except that required to carry out the company's geophysical exploration activities. Shortly thereafter, the company again entered the manufacturing field, beginning with military work as before. As is frequently the case with a company of our then size and background, the organizational structure was amorphous, but functioned satisfactorily for the tasks undertaken up to that time.

"Activities Loosely Organized"

In Figure 1 we can see that the 1946 organization was very simple. Not only were activities rather loosely organized, but, in addition, selling activity lay in the hands of a few top men, each of whom wore several hats. This arrangement was wholly inadequate for what was to come. It is not important for our purposes here that you try to follow the changes in this organization, but please notice at the bottom of the chart the small shaded area which represents, not the company's handsome profits, but its sales in millions of dollars. In 1946 they totaled $2,283,000—not a very impressive sum and certainly not substantial enough to impress the casual observer with the possibility that here, indeed, was the nucleus of a growth company. You will note from the chart that our net income was $123,295, and that company employees numbered 554.

In Figure 2 we see the next stage of company development. Now the organization has been broken into two separate and distinct units—one for exploration and one for engineering and manufacturing. Increased stress began to be laid on manufacturing activities; organization for the work was becoming functional. Observe that sales of $5,790,000 and income of $262,970 in 1949 were slightly more than double those of 1946, while the number of employees increased about 60% to 792.

In Figure 3 we can see the progress of the company in the next four years. The manufacturing business had now become dominant, and the geophysical exploration efforts had been consolidated in wholly-owned subsidiary companies of Texas Instruments, the parent. The geophysical companies were much more functionally organized and had made distinct progress in developing their own marketing unit. The parent company had now developed clear lines of control and good procedures. By late 1953 it had acquired a new subsidiary, *Engineering Supply Co.* This was, and is, a small supply company serving our own business and that of other exploration and manufacturing companies in the Southwest. It served the purpose of protecting supply lines and amplifying them, as well as presenting an opportunity to grow with the growth of the area. Its sales in 1953 were

Continued on page 84

Space Strategy and Economic Growth

By JAMES M. GAVIN*
Lieutenant-General U. S. A. (Retired)
Vice-President and Director, Arthur D. Little & Co., Inc.,
Cambridge, Mass.

Investment bankers are told the economic war with USSR is as fraught with danger as the cold war and that it is as much their responsibility to accelerate our too slowly growing economy as it is to hasten our advance in the realm of space, missiles, rocketry and technology—in fighting "the great strategic battle of the decade." In pointing this out, Gen. Gavin asks that we determine whether our lack of total integration and the freedom to make our own decisions is superior to the Russians' method, and suggests we cease making day-to-day decisions and leaving the long-run outcome to others. The General wants daily decisions to lead to the same focus; more spent on defense, science and education; and more effective translation of defense-developed technology into civilian uses.

A prominent American industrialist recently made this interesting statement: "The two men I would most like to recruit for American industry are Cardinal Spellman and Anastas I. Mikoyan. The Cardinal, if he hadn't chosen the cloth, would be president of the biggest company in the United States. And Mikoyan, if he were an investment banker, would probably own it."


Lt. Gen. J. M. Gavin

Mikoyan is one of your most dangerous opponents because he is so capable. From his desk in the Kremlin, he is surveying the world as a vast economic battleground, rich with promise. And he is looking at us with the cold eyes of a shrewd warrior. One advantage he may be counting on is that we do not seem to be fully aware that we are at war.

A Two-Theater War

One theater of this cold war is space. The other theater is the international marketplace. The strategy of the one is military and technical; of the other, economic. Sputnik I alerted us to the fact that we were not leading the technical race in the space age. Now Khrushchev has openly declared economic war on us and has announced his ambitious seven-year plan.

Our survival depends upon success in conquering space and upon our ability to compete in the equally vital economic war. These are related. Later on I want to talk about the space war and indicate why our technical advances in missile development enhance our economic abilities. But first I should like to ask why we do not take more seriously the economic war.

War in the Marketplace

The Russians are serious. They intend to increase their production 80% by 1965. Last summer the Russians threatened our world aluminum markets by undercutting the world prices two cents a pound. Last summer, too, the Soviets stepped into South America to offer Argentina $100 million for oil development in a barter arrangement. In the first quarter of 1958 the Sino-Soviet bloc produced more steel than did the United States. The economic offensive of the communist world is gathering steam.

Political and economic warfare is their primary weapon. They hold fire-power in reserve and use the threat of nuclear combat as blackmail. Thomas Coulter said last February: "Soviet bloc tradesmen are everywhere these days. One by one they are attacking the key areas. . . . They have many trading advantages. They have no hesitancy, for example, to sell below cost. . . . They are willing to extend long-term credits at interest rates as low as 2%. The machinery which they offer lack chrome but are rugged and simple to operate and are often better suited to conditions in primitive areas than ours. When it comes to recruiting trained engineers and technicians who will take up residence in the far-off places of the world to train the local workmen, the Soviets have no problem. Ivan goes where Ivan is sent. And, when he goes he speaks the language."

In their strategy, the Russians know how to use art, religion, all the symbols which are powerful in a war of persuasion. Together with military threats, propaganda, and diplomatic moves, their economic strategy can provide a critical difference.

Since their aim is economic disruption, their economic moves are easy. They are not trying to put shaky countries on a stable and viable basis—but where $5 million at the right moment, may, in the long run, only wreck a country, the Russians will supply it and take propaganda advantage.

The GNP Delusion

But the war in the marketplace does not keep us awake at night. We have the highest standard of living in the world. One public figure has expressed our national sense of satisfaction "We told them it would be good, but we didn't know how good it would be!" Our gross national product is $440 billion this year. The Russian gross national product is only $80 billion. Ours is five and a half times larger. With such a prosperous economy and great technical progress, why should we feel alarmed at the blustering of Khrushchev or the strategies of Mikoyan?

I think it is probably our high GNP and our sense of well being that prevents us from taking Mikoyan's tactics more seriously. Waldemar Nielson, in "Harper's Magazine," gives this complacency a name: "abracadabra syndrome," which takes the form of juggling statistics about GNP's and Ph.D's until a figure results, proving that the Soviet economy is on the verge of collapse, that our methods, education, technical achievements are the best of all, and therefore everyone can relax.

This syndrome is familiar in history. Carthage suffered from it. Carthage enjoyed enormous prosperity and was flourishing when she was destroyed by her Roman competitor.

Much later, Rome had a Gross National Product without precedence. Her wealth and splendor were unsurpassed when the Vandals and Visigoths began their onslaughts. Neither Rome's great engineering skills, its architectural grandeur, its great laws, nor, in last analysis, its Gross National Product, could prevail against the barbarians. Their GNP was negligible. Nevertheless they ransacked the mighty Roman Empire.

The Gross National Product is no insurance of survival. It is not a sign of military strength, and indeed, it may not even be sufficient for the economic battle.

Although our total productivity is five and a half times that of the Russians, a great proportion of what we produce are luxury items. Since our standard of living is high, so is the price of our goods. We may be pricing ourselves right out of the world markets. At the same time, we are not spending enough on national defense, we have not significantly intensified our efforts in science, education, health-services or many other cardinal elements of our total strength in the long pull.

In order to do this, we must set even higher goals for our economy. We are growing at little better than 2%. This is too slow for our own good. The Rockefeller Report suggests that a 5% rate of growth would add greatly to our national resource base, so that we could finance vast expansion of outlays for national security, international economic cooperation, and services such as education. Leon H. Keyserling wrote recently that we must plan for a $600 billion economy in five years. A high GNP is not the answer—it is the rate of growth we need. The economic war is the investment bankers' war. You are Mikoyan's opponents in his tactics for economic dominance. You command the capital. You are commanders in the battle of the marketplace.

The Race for Space

Because you command capital, you have an important role in the other theatre. In the realm of space, in missiles and rocketry, and in the economic and technological realm of the problems of all these together will be fought the great strategic battle of the decade. We need to invest more heavily in these, for it is clear that from missiles and satellites will come the weapons and defenses of any military combat in the future. This is so clear that I will not belabor the point.

Our investment in space programs designates only a small percentage for hardware. The real investment is in research. Conquering space is a research problem, of enormous breadth. We must develop metals, like beryllium, that can take high heat and friction. We need fuels, and accurate, very tiny mechanical devices, electronic devices. And aside from the engineering problems of no mean proportions, we have serious medical and psychological problems to solve before man can go into space. Yoy have

Continued on page 47

*An address by General Gavin at the 47th Annual Convention of the Investment Bankers Association of America, Bal Harbour, Fla., Dec. 2, 1958.

Report of IBA Municipal Securities Committee

Sales of municipals are expected to reach a $7 billion record high for 1958 by Municipal Securities Committee. In its annual report, the Committee, headed by John M. Maxwell, explains the accomplishments of its several subcommittees, notes defeat and success of Federal financial bills of concern to the industry, calls attention to availability of model revenue bond law, deplores industrial revenue bonds, and praises highly attempts to solve metropolitan area problems. The principal Federal and court decisions, legislative activities, and other accomplishments are reported in greater detail for the benefit of interested bankers in the appendices of the Committee's report.

A thorough, but concise, report by the Municipal Securities Committee of the significant activities and developments in the municipal securities industry is presented by John M. Maxwell, of the Northern Trust Company, Chicago, to the 1958 annual convention of the Investment Bankers Association of America.

Text of Report, including Appendices, follows:

A review of the municipal market in 1958 reveals two outstanding features: (1) the record volume of sales of municipal bonds and (2) the sharp break in the market during the summer. Sales of municipal bonds during the first ten months of 1958 reached an all-time high of over $6,500,000,000 in over 6,110 issues (compared with sales of about $5,600,000,000 during the corresponding period in 1957). Thus, it is certain that sales for the full year 1958 will reach an all-time high of over $7,000,000,000.

J. M. Maxwell

After the year opened in relatively happy circumstances with the "Bond Buyer's" 20 bond average at a yield basis on Jan. 2 of 2.97% and the market continued at a satisfactory level through the first six months with the average at 2.92% on June 5 and at 3.05% on July 2, the higher money rates and large supply of bonds during the summer caused a sharp drop in the market which took the average to 3.59% on Sept. 4. The market has subsequently eased somewhat with the average at 3.31% on Nov. 21.

Summarized below are some of the principal activities of the Committee during the year:

I
Marketing and Operating Procedures

The work of several subcommittees during the year has been directed with considerable success toward recommendations to simplify and facilitate marketing and operating procedures. These objectives will be further discussed during the Municipal Forum in a panel discussion on "Syndicate Procedures — Allotment of Bonds."

(a) Printing Legal Opinions on Bonds

After the IBA Spring Meeting this year, a subcommittee was appointed under the Chairmanship of Francis R. Schanck, Jr., (Bacon, Whipple & Co., Chicago), to consider a proposal to print on each municipal bond a copy of the complete legal opinion covering the entire issue. The report and recommendations of that subcommittee, copies of which are available, were submitted in September and now have been approved by the IBA Municipal Securities Committee.

It is recommended that, whenever possible and practical, a copy of the complete final legal opinion should be legibly printed on the back of municipal bonds and the copy should be certified as a true and correct copy by the paying agent or by an official of the issuer; but in the initial sale by the issuing body there should continue to be delivered to the initial purchaser at the time of initial delivery a manually executed copy of a final unqualified legal opinion, and in subsequent transactions a certified or photo-offset copy of the legal opinion should be furnished to any purchaser who specifically requests such a copy. The full text of the resolution approved by the Municipal Securities Committee, together with the Report of the Subcommittee, is contained in Appendix A.

(b) Liaison Subcommittee

The Liaison Subcommittee, under the Chairmanship of Walter W. Craigie (F. W. Craigie & Co., Richmond), has held three joint meetings during the year with representatives of the Municipal Law Section of the American Bar Association, the Municipal Finance Officers Association, and the Municipal Forum of New York.

The principal topic of discussion at these meetings has been no-litigation certificates. The IBA and the Municipal Forum of New York have recommended that, to obtain the best bids on municipal bonds by assuring bidders that they will be obligated to take delivery of only marketable bonds, (1) legislation be adopted in the states to provide for a final judicial determination of the validity of municipal bonds and that (2) the contract of sale between the issuer and the underwriter should provide (through a provision in the notice of sale or in the bid form) that the obligation of the underwriter to take delivery of the bonds is subject to delivery of a no-litigation certificate, in addition to delivery of an unqualified approving legal opinion by a specified bond attorney.

Copies of the Report of the Liaison Subcommittee are available. (See Appendix D.)

(c) Advertising Subcommittee

A special Committee on Advertising Municipal Bonds was appointed this year under the Chairmanship of Fred Stone (The Marine Trust Company of Western New York, New York City). The scope of the work of this Committee is actually broader than is indicated by its name, because the Committee is considering the entire general problem of broadening the market for municipal bonds, recognizing that advertising is one aspect of this problem.

(d) Operating Procedures

The Municipal Securities Committees of the Central States Group and the New York Group have been working on recommendations for a uniform procedure in bond deliveries. Further consideration will be given to these recommendations and it is expected that there will be subsequent additional recommendations dealing with other phases of operating procedures.

II
Federal Legislation

(a) Amortization of Premium on Tax-Exempt Bonds

Section 2 of the Technical Amendments Act of 1958 amends Section 75 of the Internal Revenue Code to require dealers in tax-exempt bonds:

(a) to amortize premium on all tax-exempt bonds sold at a **loss;**

(b) to amortize premium on tax-exempt bonds sold at a **gain, except**

(i) bonds disposed of within 30 days after acquisition, or

(ii) bonds on which the maturity or earliest call date is more than five years from the date of acquisition.

This change is effective with respect to bonds **acquired after Dec. 31, 1957.**

Where amortization is required, the effect is to reduce the "cost" of the bond for tax purposes by the amount of premium attributable to the period which the bond was held by the dealer. The amortized premium on tax-exempt bonds is not deductible.

A copy of the text of Section 75 of the Internal Revenue Code as amended by this law was sent to all IBA members in the United States on Aug. 21.

It will be recalled that the Technical Tax Bill as originally reported in the House in 1957 would have required dealers to amortize premium on all tax-exempt bonds, regardless of whether they were sold at a loss or a gain and regardless of the maturity or the length of time the bonds were held.

(b) Community Facilities Act Not Adopted

S. 3497, which would have provided the Community Facilities Act of 1958, would have authorized Federal loans to municipalities for the construction of public facilities at an interest rate determined under a formula in the bill if the financing was not otherwise available on equally favorable terms and conditions. After passing the Senate, this bill was reported in the House with amendments to authorize $2,000,000,000 of Federal loans at an interest rate which in May would have been 2⅝%.

Representatives of the IBA testified against this bill at hearing before the Senate Committee on Banking and Currency and submitted an extensive statement opposing the bill at hearings before the House Committee on Banking and Currency.

This bill was defeated when the House on Aug. 1 voted 187 to 173 not to consider the bill.

Subsequent developments have confirmed the validity of the evidence submitted by the IBA to Congressional committees that there is no need for a Federal public facility loan program, as clearly demonstrated by the facts that (1) the high volume of municipal financing in 1957 and early 1958 had led to record levels of public construction and contract awards for public construction during recent months and (2) the volume of municipal financing during 1958 has reached a record high to assure a high level of

Continued on page 49

Report of IBA Industrial Securities Committee

Financing-plight facing medium-sized companies in future years, because of concentrated growth of fiduciary and institutionalized holdings in investment leaders, is stressed by IBA Committee headed by Los Angeles investment banker. What investment bankers can do, particularly those outside the traditional centers of finance, is outlined with stress placed upon continuous sense of responsibility for enterprises and securities sponsored as against the tendency of some to become Public Relations Experts.

Noting the special efforts recently made to help small business meet its financing needs and historic ability of large firms to obtain funds, the Industrial Securities Committee raises the spectre of medium-sized companies being neglected, particularly because of the growing concentration of institutionalized equity financing now taking place. William S. Hughes, of Wagenseller & Durst, Inc., Los Angeles, Calif., is the Chairman of the Committee that made this study which was given to the Investment Bankers Association at their 1958 convention.

Text of the Report follows:

The Medium-Size Industrial Companies—Their Significance and Their Plight in an Expanding Economy

Already visible on the horizon and becoming more evident each year is a corporate fiscal difficulty facing a large sector of our national economy. This sector is of such concern and responsibility to our profession that this discusion is in order.

William S. Hughes

Reference is made to the plight definitely facing medium-sized industrial concerns in their attempts to secure adequate financing in future years. The word "future" is emphasized, for today the medium-sized company with a valid need for equity financing can almost always obtain such financing from one or more investment bankers, who in turn can obtain the funds from private investors. This form of financing is facing difficulties in the years ahead — the important point to be amplified later. Secondly, as of now, these companies can merge with larger corporations — which historically have less difficulty in securing adequate funds—and secure additional financing in that manner. However, this source of funds is limited eventually by the Anti-Trust Laws. How, then, will the medium-sized industrial company fare in its search for equity capital in 1965 or 1970?

In our modern business world, every clear-thinking investment banker is aware of the rapid changes occurring in the structure of our capital markets. From decade to decade—in fact from year to year—significant changes take place in the role and operations of government, in interest rates, in the savings and investment habits of individuals, to name a few factors. It is especially important for us to be aware of any weaknesses in the capital market that result from these developments, such as inadequately-met capital requirements of any major segment of American business, or the imbalances between the supply of and demand for investment funds of various types.

If we are to maintain our present standard of living, to say nothing of improving it, there be a great and sustained gain in productivity; to accomplish this there must be a corresponding increase in capital investment. If the necessary industrial investment is to be financed by private capital, it will depend upon the success with which our profession performs its function as a bridge between capital sources and the industrial corporations seeking capital funds.

Special developments of the greatest import favor the largest corporations in this respect and, to a greater extent than is generally appreciated, the needs of so-called small business are receiving serious and effective consideration, such as is demonstrated by the Small Business Investment Act of 1958. The future problem of the equity financing of medium-sized industrial corporations — the backbone of our future economy—is the subject of this report.

The exact definition of a "medium-sized" company is difficult. It cannot be measured by sales, earnings, or in net worth standards, as these will vary in different industries. However, the type of company considered here is large enough in its business and financial measurements to justify reasonable access to public securities markets for its common stock, roughly equivalent to eligibility for listing on some of the national securities exchanges, subject to stock marketability existing or capable of being created. These are companies which have growth opportunities and will require substantial new capital, particularly of an equity capital nature. Our particular concern here is with one general development in recent decades which has affected our ability to meet the equity capital needs of this crucial segment of American business, namely, the growth of the institutional investor.

Trend Toward Concentration of Investments in Financial Institutions

In recent decades, we have been witnessing a significant evolution in the nature of corporate ownership and control, one which is already far advanced. It is the concentration of private savings in fiduciary hands and the institutionalization of investments.

This concentration of private savings is largely the result of the broad redistribution of wealth that is one of the outstanding developments of our generation. As an increasing percentage of the population crossed the economic line from a subsistence income to the "middle income class," the percentage of our population able to accumulate savings increased proportionately. Also, the real income of the average middle income family has increased to a level which permits greater "optional buying power." That is, it can be directed into luxury type expenditures or saved according to the inclination of the individual.

Lack of investment experience by the middle income individual, and intensive and effective competition for such savings by financial institutions, have caused the great bulk of new funds to gravitate into the control of the insurance companies, savings and loan associations, mutual savings banks, and investment companies, among others. For example, over the first half of this century there has been a striking increase in the proportion of total assets of all households in this country which consist of claims against financial institutions—savings deposits (including savings and loan shares), insurance and pension reserves, personal trust funds, and investment company shares. This proportion rose from 10.9% in 1900 to 17.9% in 1929 and 27.1% in 1949.[1]

These figures clearly indicate the sharp rising importance of institutions as outlets for the funds of individuals. Although no data are available for years after 1949, there is every reason to believe that this proportion has continued to increase since then. For example:

(1) **Life Insurance Companies**—At the end of 1958, the total assets of life insurance companies will be about 80% above the $60 billion total at the end of 1949.

(2) **Investment Companies**—Investment companies have enjoyed a rapid growth in response to a demand from the middle class investor (ably encouraged by the investment fraternity) for a medium of conservative equity investment. The degree to which the individual has conveyed the responsibility for his common stock portfolio is shown in the growth in the total asset value of investment companies. From year end 1949 to the end of September 1958, total assets of members of the National Association of Investment Companies rose from $2.8 billion to $13.3 billion. Over half of this increase was due to capital increases of mutual funds, as opposed to market price appreciation of portfolio securities.[2]

(3) **Corporate Pension Funds**—Paralleling these recent trends is the exceedingly rapid growth of corporate pension plans. Many of these funds are placed in the hands of life insurance companies (assets of insured funds amounted to $14 billion at the end of 1957), but the largest proportion ($19 billion at year end 1957) is in trusteed form. At the end of 1957, the book value of these trusteed pension funds was about four and a half times the amount at year end 1949.

These are among the more pronounced examples of institutional growth. As a result, our capital markets have become increasingly dependent upon institutional investors for the supply of funds to meet the demands of business and individuals for capital investment and homes. Today financial institutions own virtually all corporate bonds outstanding. In the case of stocks, institutional holdings have risen from 12.3% of the total outstanding to 20.5% between 1929 and 1952.[3]

The New York Stock Exchange has estimated that institutions (in this case insurance companies, investment companies, colleges, foundations and other non-profit organizations, non-insured corporate pension funds; and mutual savings banks) held 12.4% of the value of all stocks listed on the Exchange at the end of 1949, and that this proportion grew to 15.7% ($30.3 billion) by the end of 1957.

It should be noted that if we add the bank-administered personal trust fund holdings of NYSE listed stocks of a roughly estimated $30 billion, total fiduciary

Continued on page 57

1 Raymond Goldsmith, *Financial Intermediaries in the American Economy since 1900*, Princeton University Press, 1958, page 279.

2 National Association of Investment Companies.

3 Goldsmith, op. cit., page 225.

Report of IBA Public Utilities Securities Committee

The Public Utilities Committee fight against the inroads of Statism and the problems still at hand are recapitulated by Committee Chairman Thomas M. Johnson in his report to the IBA. Data are presented indicating how great the growth has been in this industry and how large is the persistent need for capital.

The challenge of the three segments comprising the utility industry is depicted by Thomas M. Johnson, of The Johnson, Lane, Space Corporation, Savannah, Ga., in presenting, as Chairman, the Public Utilities Securities Committee report to investment bankers at their annual convention. In reviewing the successes and problems of the utility industry, Mr. Johnson calls attention to Internal Revenue's decision not to allow costs of telling the private industry's story to the public despite no action taken by Congress on the matter.

Text of the Report follows:

This year, having served our time on the barricades, our report is of the battle! It is no new enemy that assails us, but in the modern guise of Socialism, it is still the ancient tyranny of the State. The barbarians making up its vanguard are firmly entrenched within our gates, and these must first be routed if we are to win in the world-wide war for the souls of men. Although for the moment the lines have held, yet we hear in the roll-call of Nov. 4, fresh re-forcements advancing and know the battle is scarcely joined.

Thomas M. Johnson

In the established pattern pursued by modern autocrats, the first target is control of the electric power industry. Recall the words of Lenin "Communism is the Soviet power plus the electrification of the whole country," and remember the strategy of Hitler and Mussolini in seizing the electric power complex in order to control the economy of their nations. Even observe how every little putsch in the smaller places of the world proclaims its revolution by a bomb in the power plant. Though differing in the method of accomplishment, the aims of the Statists within our midst are to gain the same control. Nor have their successes been inconsiderable when we realize that in just two decades the percentage of investor owned electric capacity has been whittled down from 90% in 1937 to 75.5% in 1957. When we count up the many insidious inroads against free enterprise, we snould have no illusions that a few recent victories have reversed the trend toward public power or deterred the real offensive.

So at the time of the May meeting of this Association, your Committee realized that no longer could we remain neutral while the utilities fought alone. Our Spring report, therefore, was drawn to help the industry combat proposed legislation that would have made the nation's largest power combine, the Government's Tennessee Valley Authority, completely autonomous by providing this agency with the means of financing its own expansion through issues of revenue bonds. At the time of writing, the Senate had approved and the House was considering in Committee the merits of the Kerr bill, S. 1869. We took the stand that the bill offered complete emancipation and unrestricted license for the proponents of public power and that at all cost, it must not become law. The Board of Governors of the Association supported our position and passed a resolution against the legislation. Copies of our report were widely circulated both to our membership and by courtesy of the Edison Electric Institute and the National Association of Electric Companies to most members of the Utility Industry. Members of Congress in turn were reached by these agents, and requests for extra copies were received in unprecedented number. The bill died in Committee when the 85th session of Congress adjourned, but we can expect to be faced with similiar proposals in the 86th.

The electric last month did provide us with one victory of more than passing interest. In Oregon, the home state of two zealous supporters of public power, Senators Morse and Neuberger, a statewide referendum submitted by the legislature proposing amendment of a 1932 constitutional provision authorizing the state to engage in power development and sale was defeated by a four to three margin. Also turned down by nearly two to one was a proposed $5 million hydro-electric bond issue to install power generators at the Bull Run Water Supply source of the City of Portland, and in Springfield a $3.5 million bond issue to finance the proposed acquisition of Pacific Power and Light Company's distribution properties was voted down. We wish we could take confidence from these results that the public was becoming more sophisticated and less vulnerable to the nostrums offered by the welfare state.

Less successful was a sortie made by Senator Capehart and others against Federal give-a-way programs by providing that the interest rate on any loan made by the Treasury to any department or agency must equal the cost of funds to the Treasury plus an amount adequate to cover administrative expenses and risk. These bills would have efectively provided minimum interest rates for all Federal loan programs and would have eliminated the subsidy given local electric cooperatives in the 2% loans granted by the Rural Electric Administration. Great has been the clamor of the National Rural Electric Cooperative Association that the "proposals would force higher power bills on farmers and drive many rural electric systems into the hands of private power companies. . . ." No longer is it their goal merely to provide electrification for marginal farm customers but to compete with private utilities for commercial and industrial loads. We can only regret this reform movement made such little headway in the Congress.

On another front a different line of attack was launched to prohibit the utility industry from telling its story to the public. Senator Langer in attempting to amend the Internal Revenue Code, read into the record two resolutions directing that the Bureau of Internal Revenue disallow for income tax deduction and the Federal Power Commission for figuring operating expenses, any advertising on the part of the utilities "propagandising against Federal electric power policies and Rural Electric Cooperatives." Despite the fact that no action was taken in Congress, the Internal Revenue Service did rule under Section 1.162-15 (c) of the Code that the advertising program begun by 52 independent electric light and power companies as far back as 1941 was completely non-deductable as a business expense for the year 1956. Censure by fiat was resorted to in the absence of legislation.

We can, however, record real progress in another direction; this is in the development of a more satisfactory regulatory climate in a number of the states. We welcome the decisions in Maryland, Iowa, Florida and California and in the District of Columbia where a more enlightened attitude was shown toward granting rate increases that permitted a fair return on a rate base above original cost and more in line with today's inflated cost of reproduction. There seems to be developing at long last a realization that if the utilities are to support the growth demands of their communities, they must be in a position to compete favorably for the investor's capital against all the alternates open to him in the non-regulated areas of the economy.

The skeletal tables we have included in this report indicate how great the growth has been in this industry and how large its persistent need for capital. Any recession that general business may have experienced this year certainly has little slowed the pace of the three segments of the Utility Industry. Plant investment for the latest annual period is up in the neighborhood of $7 billion and the amount of money raised in the market surpassed all previous periods—all this on top of nearly $50 billion of new investment in the preceding decade.

For electric power, installed generating capacity on Aug. 31, 1958 was reported at 136,192,000 kilowatts, an increase of 8.3% over a year ago, although output in the latest 12 months gained only 1.4% over the previous similar period. New money raised in the first nine months of 1958 was reported at $1,898 million, only slightly below the peak figures for the first three quarters of 1957 of $1,986 million.

The Gas Industry added another 891,000 customers in the year bringing the present total to around 31 million. Construction expenditures for distribution and transmission are estimated at $1,868 million for the year, the second highest period on record and close to the peak rate of $1,932 million for the 12 months ended June 30, 1957. Revenues for the 12 months ended June 30, 1958 were $6,859 million reflecting an increase of 12.6% over the preceding similar period, and financing for the calendar year 1957 amounted to $2,421 million as compared with $1,584 in the year 1956 and $1,413 in 1955.

Similarly, the Telephone Industry revealed further growth. Telephones in service at the end of 1957 were 54,241,000 for the Bell System and 9,617,000 for Independent companies showing an annual increase of 5.6%. During the last year new increases made in telephone plant amounted to $2,572 million and at Dec. 31, 1957 stood at $22,442 million.

During the year, the cost of money to utility companies varied widely in accordance with the alternating ease and restraint applied to the money market. Our tables show that preference for funded debt prevailed and equity financing provided only 21.3% of the total. It should be realized, however, that in spite of this, there has been little deterioration in debt-equity ratios because of the size of the retained earnings and funds resulting from accelerated depreciation. For comparative purposes we show relative yields on different types of public

Continued on page 38

Report of IBA State Legislation Committee

Chairman Beecroft's report presents a recommended checklist on organizing and operating state legislative committees concerned with better regulation of securities' sales; lists and summarizes amendments to states' "blue-sky" and legal investment laws; presents uniform act for simplification of fiduciary security transfers, and also depicts states with model and uniform laws governing gifts to minors.

In his report reviewing the various activities of the State Legislative Committee, Harry Beecroft, of Beecroft, Cole & Co., Topeka, Kan., stresses the close working relationship established with state security commissioners and their national organization, and close attention paid to variable annuities events.

Text of the Report follows:

The Committee has prepared a statement of Recommended Procedure for Organization and Operation of Group Legislation Committees, which is attached as Appendix A. It is hoped that this statement will provide a simple guide in subsequent years for the organization and operation of effective legislation committees. We particularly direct attention to the comment that: "In all state legislative work concerning the regulation of the sale of securities a fundamental basis and objective should be recognition of investment banking as a profession in which only responsible and honest persons should engage. Thus, state legislation regulating the sale of securities is at its best when it protects the investing public from irresponsible persons whose judgment is tempered by greed, but permits the orderly conduct of the securities business by responsible and honest persons with a minimum of regulation."

Harry Beecroft

The statement also emphasizes that honest and intelligent administration of the law is equally important with sound legislation. Recognizing that fact, the IBA has through the years maintained a close working relationship with the various state securities commissioners and their national organization, The North American Securities Administrators. This year the President of the IBA, the Chairman of this Committee and the Assistant General Counsel of the IBA attended the Annual Meeting of the N.A.S.A. We urge that all members in their respective states cooperate in every way possible with the securities commissioners in their states.

Matters of general interest in the work of the Committee are summarized below.

I

State Securities Acts

Amendments this year to the Securities Acts of Connecticut, Louisiana, Mississippi and New York are summarized in Appendix B.

In Virginia, Senate Bill 148, which would have given the state Corporation Commission broad additional authority to deny or revoke registration of securities, was defeated. The Virginia members of the IBA strongly opposed adoption of this bill because they believed that the Virginia Securities Act already provides adequate authority for the Commission to deny or revoke the registration of securities. We commend the Virginia members for their successful opposition to this bill.

II

"Variable Annuities"

The Supreme Court of the U. S. on Oct. 13, 1958 agreed to review the case brought by the SEC (in which the NASD intervened as a plaintiff) against the Variable Annuity Life Insurance Company of America (V.A.L.I.C.). In this case the SEC asked for an injunction restraining V.A.L.I.C. and the Equity Annuity Life Insurance Company from selling or offering for sale "variable annuity" contracts unless the contracts were registered under the Securities Act of 1933 and unless the company was registered under the Investment Company Act of 1940. The Federal District Court for the District of Columbia on Sept. 3, 1957 dismissed the case; the U. S. Court of Appeals for the District of Columbia on May 22, 1958 affirmed the judgment of the District Court; and the U. S. Supreme Court has now agreed to review the case.

Bills were introduced again this year in the New Jersey Legislature to authorize insurance companies to sell "variable annuity" contracts in that state. At hearings on these bills on May 2 before the Committee on Business Affairs of the General Assembly of New Jersey, a representative of the IBA urged that such legislation not be adopted until "variable annuities" are subjected to the same regulation as other securities. The bills subsequently passed the Assembly and, at the time that this report was prepared, were pending before a Committee of the New Jersey Senate.

Applications by "variable annuity" companies for authorization to sell their contracts in Virginia were originally scheduled for a hearing before the Virginia Corporate Commission on April 22, but those hearings were postponed indefinitely and it is our understanding that the applications were subsequently withdrawn.

In West Virginia a petition filed on behalf of the Securities Commissioner of West Virginia in the Circuit Court of Kanawha County seeks to enjoin the sale of "variable annuity" contracts by V.A.L.I.C. (which has been authorized by the Insurance Commissioner of West Virginia to sell its contracts in West Virginia) until the contracts are registered as securities under the West Virginia Securities Act and until the Company is registered as a dealer under that Act. This case was pending at the time that this report was prepared.

III

Gifts to Minors

The *Uniform* Gifts to Minors Act has now been adopted (with some modification in certain states) in the following 33 states:

Alabama
Arizona
Arkansas
Connecticut
Delaware
Florida
Idaho
Indiana
Kansas
Kentucky
Louisiana
Maryland
Massachusetts
Minnesota
Mississippi
Missouri
Montana
Nebraska
Nevada
New Hampshire
New Mexico
North Dakota
Oklahoma
Pennsylvania
South Dakota
Tennessee
Texas
Utah
Vermont
Virginia
West Virginia
Wisconsin
Wyoming

The *Model* Act for Gifts to Minors, which was used prior to approval of the Uniform Act, has been adopted (with some modification in certain states) in the following 10 states and the District of Columbia:

California
Colorado
District of Columbia
Georgia
Michigan
New Jersey
New York
North Carolina
Ohio
Rhode Island
South Carolina

Since there have been numerous questions about tax considerations in connection with gifts to minors, we again summarize three of the principal tax considerations involved:

(a) The Internal Revenue Service has ruled that a gift under the Model Act was a completed gift at the time of the transfer and qualified for the annual gift tax exclusion of $3,000 ($6,000 for a carried couple), and it appears that the same ruling would apply under the Uniform Act.

(b) The Internal Revenue Service has held that, regardless of the relationship of the donor or of the custodian to the donee, income derived from property transferred under the Act which is used in the discharge or satisfaction, in whole or in part, of a legal obligation of any person to support or maintain a minor is, to the extent so used, taxable to such person. To the extent that income derived from the property in question is not so includable in the gross income of the person obligated to support or maintain the donee, such income is taxable to the donee.

(c) The Internal Revenue Service has ruled that the value of property transferred by a donor to himself as custodian for a minor donee, pursuant to the provisions of the Model Act, is includable in the donor's gross estate for federal estate tax purposes in the event of his death while acting as custodian and before the donee attains the age of 21 years. It appears that the estate tax consequences might be avoided by appointing as custodian some person other than the donor, preferably someone who is under no duty to support the donee.

IV

Legal Investment Laws

Amendments this year to the Legal Investment Laws of Connecticut, New York and Rhode Island are summarized in Appendix C.

V

Security Transfers by Fiduciaries

There is now available a Uniform Act for simplification of fi-

Continued on page 60

Report of the IBA Federal Taxation Committee

Voicing hope that there will be bipartisan agreement on some tax reform when Congress meets in January, IBA Committee of tax experts stress crucial need to reduce the capital gains levy; tax on dividends; personal income tax rates; and to permit averaging of incomes over a "reasonable" period.

Numerous examples, some funny and others not humorous at all, are contained in a report on the paramount need for tax reform legislation turned over to IBA group as a whole by Committee Chairman Walter Maynard, of Shearson, Hammill & Co., New York City. In submitting four tax relief proposals, the Committee observes that this action should result in greatly increased revenues and stabilized security markets.

Text of the Report follows:

A year ago at this time a recession in our economy was clearly present, and many observers of the tax scene were hopeful that the Administration's reaction to this economic challenge would be the logical one of reducing punitive rates of taxation. As the event turned out, Congress adopted the customary politician's method of dealing with the problem, and raised expenditures substantially while leaving tax rates unchanged. The result of this action, combined with the declining productivity of our progressive tax system, resulted in a prospective $10 billion deficit in the present fiscal year.

Walter Maynard

The elections have resulted in a substantial increase in the strength of the Democratic contingent in Congress, and 54 Senators and 220 members of the House have been elected with AFL-CIO endorsement. Senator Byrd still heads the Senate Finance Committee and the Chairman of the House Ways and Means Committee will again be Representative Wilbur Mills of Arkansas, who is a true scholar in the field of taxation, and, within the limits of what is politically possible, can be expected to give an attentive ear to realistic proposals for tax reform. Hearings on some aspects of tax reform, and on the related subjects of "loophole closing" and relief from hardships, will begin in January, which, since the capital gains tax is on the agenda, will give us a renewed opportunity to present our views. Looking further ahead, it seems possible that in the second session of the new Congress there may be a degree of bi-partisan agreement on certain aspects of tax relief with an eye on the 1960 elections.

Since the logical objectives of tax reform—tax relief and a minimization of inflationary pressures—can only be hoped for if there is widespread understanding of the practical effects of present tax laws, we once again venture to summarize our views in the following paragraphs:

Some General Considerations

The securities industry has always been primarily interested in the capital gains tax because we recognize that this tax is, in effect, a variable rate transfer tax on all forms of property. This is especially true in an inflationary economy.

However, a basic obstacle to our obtaining any substantial degree of relief from the capital gains tax is the punitive rate of ordinary income tax, which exerts tremendous pressure on taxpayers to convert ordinary income into capital gains income. In fact, certain influential groups have already succeeded in making this conversion on a large scale, and it is natural for these groups to feel rather complacent about the present situation and therefore to resist change.

To give an idea of the pressures that exist, it may be remembered that a number of years ago farmers were given the privilege of capital gains tax treatment on sales of livestock used for breeding purposes. Other animal breeders have now been successful in obtaining the same treatment, and at the last session of Congress even mink breeders obtained this tax shelter — it was, however, denied to breeders of mice! Similarly, owners of wood lots and forests now enjoy capital gains tax treatment, and beneficiaries of corporate pension funds under some circumstances also are favored. Therefore, one of our tasks is to make it clear that the problems of owners of property are entirely different from the problems of these already tax-sheltered groups.

Income Taxes: Having these facts in mind, we should therefore continue to press for reduction in punitive rates of income tax. The logical objective would be a reduction in the maximum rate of 50%. It is when rates exceed 50% that it becomes more worthwhile for a taxpayer to devote his effort to tax avoidance than to earning additional income. A reduction in the maximum rate of personal income tax to 50% would cost only $700 million per year, or approximately one-fiftieth of the amount now being collected from personal income taxes.

We should also continue to urge that averaging of incomes should be permitted. Arithmetically, 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 income in irregular amounts over the same period. The events of the past two years again emphasize the importance of averaging in our industry, which has been subject to such tremendous swings in its profitability. We should urge strongly that the income tax laws should permit averaging of incomes over a reasonable period — say five years.

Double Taxation: In 1954 a useful start was made in reducing the impact of double taxation on stockholders through the inauguration of the 4% tax credit on dividends. Further progress should be made along these lines to 20%, which is the rate of dividend credit in Canada, and which would have the effect of eliminating double taxation in the lowest personal income tax bracket. Incidentally, even the present small measure of relief is apt to come under heavy fire from left-wing groups in the new Congress.

Capital Gains Tax: The foregoing reforms would permit rational considertiaon of the tax area in which we are most interested—the capital gains tax. The events of the past year emphasize more than ever the urgency of reform in this area. Inflationary pressures have intensified so that a vast amount of potential capital gains tax liability has accrued in assets which have had an illusory price boost through the workings of inflation. At the very least it would seem that the cost basis of capital assets should be adjusted upward to compensate for inflation.

However, real taxes on illusory gains are only a minor part of the capital gains tax problm. The real harm in the capital gains tax arises from the fact that it is in reality merely a transfer tax which the taxpayer need only pay when he voluntarily chooses to make a sale of property in which he has a gain. Because of the high rate and self-assessment feature of the capital gains tax, it seems logical to believe that the existence of the tax has been an important contributor in creating the conditions which have led to recent volatile security markets.

Proposals for Relief

Here are our proposals for relief, which, incidentally, we believe would have the effect of greatly increasing revenues from the tax, while at the same time tending to stabilize security markets:

(a) **Lower Effective Rates:** We believe that the maximum effective rate of the capital gains tax should be reduced to 12½% through a decrease in the inclusion from 50% to 25%. This would have the effect of spreading the benefits of the lower rate to taxpayers in all brackets.

(b) **Loss Provisions Should Be Liberalized:** Present law allows only $1,000 per year of capital losses to be deducted from ordinary income. We believe that the fact that many more taxpayers

Continued on page 70

Report of IBA Investment Companies Committee

Investment bankers are brought up to date on significant Federal and state, and other developments affecting investment companies. The IBA Committee finds unjustified Illinois restrictions on interlocking directories with respect to investment fund management, supplements IBA State Legislative Committee's comments on variable annuities, and describes increasing public information and education activities successfully pursued.

The Chairman of the IBA Investment Companies Committee, Charles F. Eaton, Jr., of Eaton & Howard, Inc., Boston, informs his banking colleagues of the principal trends in the investment company field during 1958, a year which experienced a slightly increased rate of investment company shares purchased by investors.

Text of the Report follows:

The open-end investment company industry will have estimated assets of $13.0 billion by the end of this year. This figure represents holdings of only 3.5% of the available supply of listed securities. The investment company industry has grown impressively over the past decade, and it continues to attract the interest of individuals and institutions in equity investment as part of their financial plans. This growth has, however, been in some measure geared to the growth of our national economy. Certainly investment companies hold in their portfolios, even today, only a relatively small share of the investment securities issued by our nation's industries.

Chas. F. Eaton, Jr.

A recent estimate of the number of investors in the United States indicates that one investor in six, 1.7 million, is a holder of the shares of mutual funds. During 1958 investors purchased investment company shares at a rate slightly above that of 1957. An estimated $1.5 billion of new fund shares will have been purchased this year. There will be an increase of 500,000 accounts during the year. A particularly important part of this figure is the number of new accumulation plans opened, 230,000, for investment of moderate amounts of money on a monthly or quarterly basis. It is estimated that there are in excess of 860,000 accumulation plans now in force and that the investment company shares held under these plans have a value in excess of $1.3 billion.

Growth is evident in another way. During the year, some 18 new funds were founded.

During 1958 additions to and adjustments in investment company portfolios, because of the sale of new shares and changing investment conditions, were effected by portfolio purchases of $2.7 billion and sales from portfolios of $1.8 billion. The bulk of these transactions took place on the organized security exchanges or in over-the-counter markets.

These notations on the trends in the investment company field are, I know, important to you. As I have pointed out in the past, most IBA members have more than passing interest in investment companies and the services they provide Many members engage in the retail distribution of shares of investment companies to the public. Other IBA members act as underwriters for investment companies, or perform investment services in connection with the supervision of investment company portfolios.

The Investment Companies Committee has, during the past year, continued to maintain a close liaison with the National Association of Investment Companies and its various operating committees, and with the Investment Companies Committee of the National Association of Securities Dealers. The following summary sketches the developments in the investment company field which have been the principal concern of this Committee during the past year.

Federal and State Developments

In 1958 there have been many significant regulatory and legislative developments in the securities, tax and related fields on both state and federal levels. A brief summary of those developments which are of particular importance follows.

Rule N-22D-1: In May, the SEC published a proposal that a rule (N-22D-1) be adopted under Section 22(d) of the Investment Company Act. Section 22(d) requires that open-end investment company shares be sold at a public offering price described in the prospectus. The proposed rule would codify administrative interpretations of and exemptions from Section 22(d).

Among other things, the rule would prevent various people from combining purchases of shares in order to obtain quantity discounts.

The SEC held hearings on the proposed rule in July, and its adoption is expected shortly.

Rule N-10F-3: On July 15, 1958 the SEC proposed a new rule under Section 10(f) of the Investment Company Act. This rule (N-10F-3) would establish definite criteria as conditions for automatic exemptions from Section 10(f). Section 10(f) prohibits investment companies from purchasing securities during the existence of an underwriting syndicate if affiliates of the investment company participate in the underwriting. Presently all exemptions from Section 10(f) must be obtained by exemptive order.

Comments which were submitted by members of the investment company industry are being studied by the SEC.

Municipal Bond Fund: The House Ways and Means Committee held hearings in January on the so-called "municipal bond fund" bills: (HR 8810, 8811, and 8812). Under the proposed bills regulated investment companies with substantially all of their assets invested in state and local government obligations would be permitted to "pass through" to their shareholders the interest received on these bonds in its exempt status. Amongst those testifying in support of these bills were Arthur Levitt, Comptroller of the State of New York, Wesley Lance, Majority Leader of the New Jersey Senate, Edward B. Burr, as spokesman for the National Association of Investment Companies, and S. L. Sholley of Keystone. Hearings were also held on a broader bill (HR 8702) which would extend the conduit principal to other investing companies, including personal holding companies.

The Ways and Means Committee did not act upon the bills, but the Senate Finance Committee attached the text of the municipal bond fund legislation to HR 8381, an important tax bill which had been passed by the House. HR 8381 as amended was passed by the Senate, but in the conference between the House and Senate representatives the municipal bond fund legislation was deleted from the bill before its enactment.

Unintended Benefits and Hardships Bill: In September the President signed HR 8381, the "Technical Changes Act of 1958." This measure, frequently referred to as the "unintended benefits and hardships" bill, contains three amendments of Subchapter M of the Internal Revenue Code, which contains the provisions applicable to regulated investment companies and their shareholders.

One of the Subchapter M amendments is purely technical.

Another is designed to eliminate an "unintended tax benefit" in connection with the purchase of regulated investment company shares immediately before the declaration of a capital gain dividend and the sale of the shares immediately afterward. This neat little device made it possible for a person to change ordinary income into long-term capital gain.

The third amendment is intended to restore a provision, previously in the law but inadvertently omitted in the 1954 revision of the Internal Revenue Code which prohibits regulated investment companies from offsetting realized capital losses against ordinary income in order to make nontaxable distributions to their shareholders. This restores to the Federal Internal Revenue Code a provision previously in the law but unintentionally omitted from the 1954 Code.

Transfer and Issue Tax: An omnibus Excise Tax Bill was enacted into law during the 1958 Session of Congress. The new law changes the basis for computing the transfer and issue tax from par value to actual value. It thus substantially increases taxes payable in connection with the issuance and transfer of investment company shares. The transfer and issue tax provisions of the bill become effective Jan. 1, 1959.

At hearings on this bill held by the Senate Finance Committee in July, an industry representative urged that investment companies be exempted from issue tax. The American Bar Association at its annual convention in California adopted a resolution to the same effect. It is quite certain that efforts will be made in 1959 to have the law changed.

Other Federal Legislation

Your committee has closely followed other bills which pended before the 85th Congress but were not enacted.

These bills were:

(1) *The Fulbright Bill (S 1168):* This bill would have required certain corporations whose securities are unlisted to furnish financial and other information to their shareholders and the SEC. Investment companies already furnish such information, and the bill contained a specific exemption for investment companies.

(2) *The "Privilege of Doing Business Fee" Bill (S 2520).* This bill would have required broker-dealers to pay a registration fee to the SEC for the privilege of doing business, measured by the aggregate dollar amount of securities sold. It was passed by the Senate without hearing in 1957, but no action was taken on it or on an identical Bill (HR 7778) by the House before Congress adjourned.

(3) *(S 1601).* This bill would have amended the Securities Exchange Act of 1934 to require the disclosure of the "beneficial owner" of proxies given or exercised in contested elections with respect to securities listed on a national exchange.

(4) *Pre-Merger Bills (S 198, S 722, HR 7698).* These bills would require corporations to give prior notification to the Attorney General and Federal regulatory agencies of the acquisition of stock or assets of other corporations. They contain provisions which provide exemptions when the stock held after acquisition does not exceed 10% (S 722) or 15% (S 198) of the voting stock of the company whose shares are acquired.

Study of Size

The Investment Company Act authorizes the SEC to conduct a study of the size of investment companies, when it "deems that any substantial further increase in size of investment companies" creates any problem in various areas. In 1956 the SEC announced that it intended to make such a study, and this year it apparently has gotten underway in earnest.

Continued on page 64

Report of IBA Aviation Securities Committee

FOREWORD*

Virtually every member of the Investment Bankers Association has either underwritten aviation securities or has clients who are stockholders in the industry. Every member of the Aviation Securities Committee has participated in financing of the industry and is qualified to speak from professional experience.

Today, the aviation industry is responsible for engineering a revolution in American transportation and for insuring the strategic security of America. Its financial strength is a vital concern to every citizen of our nation.

Because many of the industry's financial problems are the result of relations with our Government, we urge the financial and investment community at large to make their views known in Washington. We urge Association members who concur with our Report to distribute copies to their clients and to petition their Representatives in Congress.

Neither as citizens nor as bankers can we allow this vital industry to falter for want of intelligent financial support.

AVIATION SECURITIES COMMITTEE
of
INVESTMENT BANKERS ASSOCIATION OF AMERICA

**Figures in this Report are from published sources believed reliable and checked by independent authority but not guaranteed by the IBA or this Committee.*

Experts in aviation financing warn fellow investment bankers that the Government in certain areas is unwittingly penalizing rather than stimulating the aviation industry. The nine-man Committee of financial executives earnestly recommends a program said to allow the industry the earning power, stability, growth potential, and incentives to attract the necessary capital, management, and resources in a highly competitive economy—lest we lose aviation superiority to the Communist Bloc.

Pointing out earning declines in aircraft manufacturing and airline operation, capital shortages and continued disparity between the splendid 1938 Civil Aeronautics Act and its administration by CAB, jeopardizes our air superiority, the Aviation Securities Committee outlines a series of recommendations to achieve financial solvency of the industry. The Chairman of the Committee, Donald N. McDonnell, of Blyth & Co., New York City, delivered the report to the 1958 IBA convention.

I

American Aviation: A Crucial Partnership of Government And Industry

The security and well-being of our nation continues to depend in large measure upon a unique partnership between the American Government and the aviation industry. Because this partnership appears unequal, with government unwittingly penalizing rather than stimulating the industry, there is a real danger that our system may be weighed in the scales of history and found wanting.

Donald N. McDonnell

Our Defense Department relies upon a few private aircraft manufacturers to maintain the Free World's strategic air and rocket superiority over the combined resources of the most powerful Communist aggressor in history. Our Civil Aeronautics Board regulates our airlines as the major commercial supplier of U. S. intercity passenger transportation, the principal source of our military jet transport fleet, and the sole representative of American enterprise abroad in competition with Soviet Aeroflot.

Rightly, the government is senior in this crucial partnership. National security and public welfare must of necessity receive priority over the internal economics of the industry. But it is important to remember what the government is asking of its aviation industry partner—*to compete as private companies in a free economy and to win against the total mobilization of the entire Communist state, with the prize world peace and America's security.*

The requisite for aviation industry success is a partnership status whereby government regulation allows the industry the earning power, stability, growth potential, and incentives to attract the necessary capital, management, and resources in our highly competitive free economy. Successive earnings declines in both segments of the industry, chronic overregulation, mounting and capital shortages — all are warning signs that the necessary relationship has not been achieved. Recurrent Soviet aviation firsts — in earth satellites, in intermediate range rocketry, in production of commercial jet and propjet transports, in inauguration of international commercial jet service—all warn that we are in danger of losing the larger competition.

It is to this problem — the problem of a proper government-industry relationship to insure survival — that our Report is addressed. In humility we believe it is in part an investment banking problem. Primarily, it is a problem of recreating the economic soundness of a crucial industry in order to reestablish its financial priority in our capital markets commensurate with its strategic priority to our nation.

II

The Air Transport Industry And the CAB

A. *The Development Theory of Regulation*

The Civil Aeronautics Act of 1938 established full time government regulation of American air transportation primarily to insure the growth, stability, and economic development of the industry. The semi-independent five-man regulatory Civil Aeronautics Board was granted broad legislative, executive, and judicial powers to achieve the intent of the Act. The CAB alone could grant entry into the industry, could certify routes, allow mergers, regulate subsidy and mail rates and determine maximum allowable passenger fares and, hence, earnings. Granted these powers, the CAB has been in a position from the beginning to determine the economic fate of the air transport industry.

The constructive intent of Congress in thus empowering the CAB is beyond dispute. One of the original Congressional sponsors defined as the purpose of the 1938 Act: "To give assurance of security of route . . . to protect against cutthroat competition . . . to give financial stability to these companies so they can finance their operations and finance them to advantage." The initial declaration of policy of the Act expressly orders the CAB, among other things, to consider the following:

"The *encouragement* and *development* of an *air-transportation system properly adapted to the present and future needs of the* foreign and domestic *commerce of the United States . . .*

The *regulation* of air transportation in such a manner as *to . . . foster sound economic conditions* in such transportation . . .

The *promotion of adequate,* economical, and efficient *service . . . without* unfair or *destructive competitive practices . . .*

Competition to the extent necessary to assure the sound *development* of an air-transportation system . . .

The *regulation of air commerce* in such manner as *to best promote its development . . .*"

(Emphasis added.)

The constructive and developmental emphasis of the 1938 Act and of its Congressional authors cannot be disputed. Yet recent CAB policies under the Act, as outlind below, have had the exact opposite effect, have unduly restricted the airlines in the past, and now jeopardize their growth in the future.

In view of this continued disparity, we repeat last year's recommendation as a matter of greatest urgency: Namely, that the President of the United States appoint at once an outstanding individual to make a complete review of the Civil Aeronautics Act and CAB procedures under the Act in order to re-establish constructive guidelines for regulation of the industry. The Cherington Report, despite certain limitations, is a beginning step in this direction. We urge that the review be undertaken with constructive intent and with equal weight given to the views of Congress, executive agencies, the general public, the industry, and financial leaders concerned, with the aim of presenting to the President and to Congress at an early date a concrete program for remedial action.

B. *The Overrestrictive Practice of Regulation*

Summarized below are but a few areas where CAB regulatory

Continued on page 65

Report of IBA Nuclear Industry Committee

Investment bankers committee, showing detailed familiarity with nucleonic developments, doubts fusion will be feasible for the next generation; refers to disillusioning awakening of underdeveloped countries to the fact that atomic energy is still not a panacea for their economic ills; notes capital cost per kilowatt still is twice coal and oil—though these will fall in the next decade, particularly for England compared to us; and predicts world reserves of high grade ore will be about 10 million tons of uranium. Doubts coal, oil or natural gas will become obsolete and discusses other developing aspects of this new source of power.

Paul F. Genachte, of Chase Manhattan Bank, New York City, as Chairman of the Nuclear Industry Committee, presents to his banking colleagues at their annual convention his Committee's expert analysis of the atomic energy developments here and abroad. The Chase Manhattan banker's broad and fine strokes of the present and future picture of nuclear energy deals with the disenchantment experienced, successes obtained, and reasonable, reassuring prospects for tomorrow.

Text of the Report follows:

I

Fusion vs. Fission

Geneva was the center of the nuclear world for the first half of September of 1958. Over 6,000 delegates and observers from 69 countries reviewed the present uses of nuclear energy and considered how it might be used most fruitfully in the future. Scientific and commercial exhibits were featured at the same time. The Geneva Conference is likely to have a profound effect on the development of atomic energy.

Dr. Paul F. Genachte

The truly phenomenal feature at the scientific exhibit was the United States display of controlled thermonuclear or fusion devices. It may be said that, as a result of this Conference, research in controlled thermonuclear or fusion power will from now on be completely devoid of secrecy. This in itself is a remarkable achievement, just as the 1955 Geneva meetings are to be credited with the large amount of declassification which has occurred in the field of nuclear fission. It was constantly emphasized at this year's Conference that a very long road lies ahead to the accomplishment of a self-sustaining reaction that is a net power producer, i.e., a reaction that gives off more power than is needed by the containment device.

At the previous 1955 Conference, Dr. Bhabha of India had predicted that a method would be found to liberate nuclear fusion energy in a controlled fashion within the next two decades. Although the papers presented this year on fusion research showed that remarkable progress has been made in this field on a very broad front, it may take under the most conservative estimates, at least 10 years to reach the break-even point in experimental devices and it may take a period at least as long to develop industrial scale machinery. The time scale given by others goes as high as 50 years. Although temperatures of several million degrees have been reached in deuterium gas, the problem is to reach temperatures of at least 100 million degrees-centigrade. The problem is also to hold these high temperatures for a sufficiently long time for an appreciable proportion of the deuterium to be burned. Thus, for a long time to come, we are going to put large amounts of energy into these experiments without getting any out. It is perhaps also well to indicate that fusion — if and when harnessed — appears to be economic only in very large plants which may exceed half a million kilowatts. Fusion will complement fission and will not put it out of business, not any more than atomic energy from fission will render coal, oil or natural gas obsolete. Let us only hope that atomic energy in the form of fission will be sufficiently developed by the time oil and natural gas become scarce.

We can thus dismiss fusion for the next generation at least and the practical attitude today is to look at the problems of atomic energy as released in fission.

II

Atomic Energy—A New Source Of Energy

In reviewing the progress made to date, our best guide is to analyze the results as they came out of the 1958 Geneva Conference.

It would appear that there was not quite the same enthusiasm in Geneva as at the Conference of 1955, although the attendance was greater and more papers were delivered. The situation may best be summarized by saying that the honeymoon period of atomic energy is over; the glamour is gone. However, a much more wholesome and interesting life is to follow and what will be built now will endure.

No Panacea for Economic Ills

The excitement of 1955 was brought about mainly by the underdeveloped nations of the world in anticipating that impending atomic energy developments would soon close the gap between their standard of living and ours and would provide a short-cut to industrialization. They regarded atomic energy as a panacea that would remedy all economic ills. These nations today realize atomic power will not perform miracles and that even to build reactors of limited capacity, say up to 20,000 kilowatts, would in itself solve nothing.

First of all, reactors being more complicated machines than conventional power plants, the investment per kilowat is considerably higher in nuclear plants than in conventional plants. This investment problem becomes even more acute in the case of small nuclear power stations. Thus, the financing problems of these nations for nuclear power projects are made even more difficult. Furthermore, insofar as the cost factors are concerned, the energy produced in small atomic plants would hardly be cheaper than the most expensive electric energy produced by conventional means, such as diesel plants. Next, a rough rule of thumb indicates that the investment in industrial plants to utilize the power produced in a conventional or nuclear power station is 10 to 20 times that in generating equipment. It is therefore not sufficient to build a nuclear power station without at the same time building up industries that can utilize the power. And finally—last but not least—there is the consideration of the load factor. Let us explain. The cost of the electric kilowatthour is made up of two parts:

(1) The fixed charges on the investment per kilowatt of power. Since there are 8,760 hours in a year, 1 kilowatt of power at 100% load factor will deliver 8,760 kilowatthours of energy. At 50% load factor, the kilowatt will only deliver 4,380 kilowatthours. It is evident that the load should be such as to obtain a load factor as close as possible to 100% so as to avoid the burden of the constant, never-ceasing costs of interest and depreciation on an unused plant; or, in more technical terms, so as not to incur unduly high fixed charges for interest and depreciation per kilowatthour produced.

(2) The second element of cost is the nuclear fuel per kilowatthour, just as there is a fuel charge for coal, oil or natural gas.

In some of the underdeveloped nations, reactors installed in remote areas as the only source of power would in most instances not operate at high load factors. Even when atomic energy will become competitive, it will only be so at high load factors in the early years. A number of years more must pass before reactors can compete with conventional power at low load factors or to carry the peak load in utility systems.

These are the reasons for the disenchantment of some nations which now realize that atomic energy will not be the ready or the quick cure-all for their lack of industrial development. Rather, it is likely that in spite of atomic energy, the gap between the underdeveloped nations and the more technically advanced or industrially sophisticated nations will continue to widen for a couple of decades before it begins to get narrower.

Remarkable Progress Nevertheless

If, in relative terms, some nations thus appear to have lost further ground in their efforts towards industrialization, nevertheless, the atomic energy field, in absolute terms, has made remarkable progress in the world since 1955 and particularly in this country since 1954 when the Atomic Energy Act was passed, permitting private industry to enter this new field.

The United States, Soviet Russia, the United Kingdom, Canada, France, Germany and a few other nations, have made enormous strides, with our country still holding the lead with the most diversified program. The truly big disappointment of the Conference, however, was that although much more experience has been gained in reactor technology since Geneva 1955, nuclear power economics are still such that nuclear power plant costs are hardly more reliable and predictable than in 1955. The United Kingdom has been using metallic fuel expected to achieve a burn-up of at least 3,000 megawatt-days per ton, so that one ton of uranium will do the work of 10,000 tons of coal before reprocessing is needed. Yet, the maximum achieved has been only about 1,300 megawatt-days per ton of uranium. Reactors using uranium oxide fuel such as produced in this country, expect burn-ups of 10,000 megawatt-days per ton; yet, no such experience was reported at Geneva, although we now have 17 reactor-years of

Continued on page 68

IBA Governmental Securities Committee Report

In a report submitted to the Investment Bankers Association's annual convention by Robert B. Blyth, of the National City Bank of Cleveland, such problems as Federal debt structure and budgetary situation are singled out. The study notes that the cost of carrying the public debt was relatively less today than it was in 1951 as a per cent of the budget and GNP.

A group of Government finance specialists sound a warning to the Treasury about the public's hesitancy to hold on to longer-term fixed-income issues and the flight into common stock and short issues, because of the fear of inflation, which adds to the Treasury's problem in financing and lengthening the structure of the Federal debt. The report delivered to investment bankers by Committee Chairman Robert B. Blyth calls for a study of speculation in the bond market and repurchase agreements and points out budgetary cost of increased rates is nominal compared to toll of inflation induced by easy money.

Text of the Report follows:

Nineteen fifty-eight marks the seventh year since we returned to free markets. These have been active years in the bond market and the current year has been no exception. A year ago the bond market was moving up strongly and starting near the middle of this year, we have experienced a sharp decline.

Robert B. Blyth

The freeing of the bond market was a necessary step in the fight to protect the value of the dollar. Furthermore, in the opinion of most thoughtful people, the actions of our monetary authorities since that time have exerted a wholesome impact on our economy. Nevertheless, the freeing of the bond market has created enormous problems for the U. S. Treasury in its management of our Federal debt. Partly as a consequence, and in spite of a real effort on the part of this Administration to improve the structure of the debt and extend its maturity, very little progress has been made. In some important respects ground actually has been lost.

Short-Term Debt's Size

At the end of 1951 the marketable debt due within a year[1] was $55.7 billion. The one-year debt reached a year-end peak of $79.2 billion at the end of 1953 and then dropped back to $60.6 billion at the end of 1955. It now stands in excess of $75 billion.

In the refunding operation just completed the Federal Reserve System took $2.8 billion 3⅝% due May 15, 1961 and other investors took $1.2 billion of this issue. This has prevented the one-year debt from moving into new high ground in the immediate future, but in the next two years approximately $27.5 billion of securities will have to be sold with a maturity beyond 1961 if the one-year debt is to be held in check. In addition, any deficit in the period would also have to be financed with maturities outside the very short-term area. Obviously it will require a well-planned effort to prevent the one-year debt from moving into new high ground.

At the end of 1951, the marketable debt due after 10 years[2] amounted to $53.2 billion. This amount declined to $43.7 billion at the end of 1953; and in spite of the efforts of the Treasury to sell longer term issues, the ten-year-and-over debt will aggregate little more than $40 billion at the end of 1958. Furthermore, in the period since 1951, the volume of U. S. savings bonds outstanding has declined from $57.9 to about $52 billion.

The piling up of short-term Treasury debt, and the loss of position in the long-term bond market have serious implications in the fight to protect the value of our dollars. So, too, does the loss of position with private investors, which is suggested by the decline in savings bonds outstanding.

Against this background the Governmental Securities Committee of the Investment Bankers Association has consistently urged the Treasury to issue longer term securities at every favorable opportunity.

Recent Speculation

Such an opportunity appeared to exist in June, 1958, when the Treasury sold for cash $1.1 billion 3¼% bonds due in 1985. This issue was well placed by a careful control of subscriptions. Apparently a substantial speculative interest in the market, unable to acquire the 3¼% bonds, turned their attention to the refunding operation which was consummated at about the same time. In this operation investors and speculators voluntarily took $7.4 billion of 2⅝% bonds due in 1965. The amount of speculation in this 2⅝% issue and in other parts of the bond market was larger than anyone had believed possible.

As a consequence, the bond market was exceedingly vulnerable to the change in Federal Reserve credit policy and to the improved business sentiment which developed shortly after this financing. As the tide turned, the market for Government securities declined abruptly.

The Treasury has been criticized for undertaking this financing, and the speculators in turn have been criticized for their activities in the market. In retrospect, it is clear that there was not enough data available as to the size of the speculative position in the market. However, some responsibility for the condition of the bond market at that time clearly lies at the door of a well-advertised recession-inspired credit policy that helped drive rates on short-term Government securities down to extremely low levels. This in effect encouraged the use of bank credit to purchase long-term securities. It encouraged short-term investors to invest in longer maturities than they were prepared to hold and encouraged the extended use of repurchase agreements which had the effect of supplying additional speculative credit to the bond market. The availability of data as to speculation in the bond market and the subject of repurchase agreements are matters that need careful study.

Longer Bill Cycle

More recently the Treasury has announced that it intends to raise an additional sum of money through weekly offerings of six-month Treasury bills in addition to the regular weekly cycled 91-day bills. We regard this as an effort on the part of the Treasury to improve its technique in managing the short-term debt and not as a means for facilitating an increase in the size of the short-term debt. Hopefully an increase in the amount of Treasury bills outstanding handled at regular weekly auctions will enable the Treasury to reduce the size of its other refunding operations which have presented the bond market with a series of recurring crises in periods of credit restraint.

In addition to announcing the longer bill cycle, the Treasury also introduced another innovation in the refunding just completed by offering securities at a discount. This technique permits greater flexibility in pricing new issues and should prove useful in future financing operations. Still another new financing technique was used in October when a Treasury bill was offered at a fixed price basis.

Regardless of the particular merits of any of these actions, we believe that the Treasury is wise to explore every possible avenue for improvement in the handling of the short-term debt. An improvement in the climate surrounding debt management operations even in the short-term area is necessary if we are going to have a background against which other steps may be taken to improve the debt structure. These various measures demonstrate a real purpose on the part of the Treasury to improve its handling of the debt; but important though they are, they can be helpful only in a technical sense. Any material improvement in the structure of the debt probably requires a fundamental reappraisal of the importance of a sound Federal debt structure in relation to long-run monetary policy objectives.

Monetary Objective

The broad objectives of our nation's monetary policy are to encourage the sound long-term growth of our economy while at the same time protecting the value of our dollar and the value of the savings of our people to the maximum extent possible. There can be no challenge to these objectives, but the precise techniques of fiscal and monetary policy are certainly a proper subject for review. Recent newspaper stories state that Congress again plans to investigate U. S. monetary and fiscal policies. One point of issue is expected to be the cost of servicing the Federal debt.

Since 1951, the cost of servicing the debt has increased 32% whereas budgeted expenditures in this fiscal year are up 75%. The cost of servicing our Federal debt currently is about 9.6% of the budget and 1.6% of Gross National Product. In 1951, the cost of servicing the debt was 13% of the budget and 1.7% of Gross National Product. It is clear that the cost of servicing our debt has not increased as much as other parts of the budget and that the burden on a relative basis has been declining both in relation to the total Federal budget and to the Gross National Product.

Furthermore, the increased cost of servicing the debt in some real measure is the result of the failure of Congress to balance the budget in the intervening period with a resulting increase in the public debt of nearly $20 billion dollars. Many debt management

Continued on page 71

[1] Debt due within a year including all tax savings notes outstanding.

[2] Debt due after 10 years including the nonmarketable investment series "B" bonds which are convertible into marketable securities.

Report of IBA Railroad Securities Committee

Expert appraisal of the railroad industry, under the guidance of Alfred J. Ross, reveals "There is much reason to be optimistic based on what has already transpired this year, as well as what is in the offing, wholly apart from the excellent traffic outlook both near-term and long-term." The Committee report: (1) looks forward to freedom of rails to make competitive, compensatory, non-discriminatory rates; (2) discusses the improving earning and carloadings, economies, and study strides taken on mergers and coordination; (3) praises recent legislative gains and lists further changes to be asked of Congress in January; and (4) recommends subsidization of passenger traffic.

Included among the reasons for the brighter future for rails, Chairman Alfred J. Ross, of Dick & Merle-Smith, New York City, points out in the Railroad Securities Committee report the considerable improvement in the laws regulating the industry and the additional requests that will be made when Congress meets again in January.

Text of the Report follows:

At this time a year ago your Committee in reporting to you emphasized the deplorable credit position of the railroad industry. In this connection the Committee stated: "With few exceptions, railroad credit is at such a low level that most roads cannot finance necessary additions and betterments to roadway and structures. . . ."


Alfred J. Ross

Generally speaking, we believe, those charged with the responsibility of safeguarding and prudently investing the vast sums that are channeled each year into life insurance companies, pension funds and savings institutions, still feel railroad mortgage bonds are not an attractive medium for long-term investment funds. There are, of course, exceptions to the general rule but, unfortunately, their number and more particularly the funds at their command are grossly inadequate to supply the industry's need for new capital.

Paradoxical Situation

The industry's continuing need for new capital funds each year has created a paradoxical situation. Management, having limited or no access to capital markets other than for equipment (and in certain instances even this money was unavailable), is compelled to penalize stockholders to obtain funds for modernization and improvements. Since most roads are unable to sell any appreciable amount of mortgage bonds, the outstanding mortgage bonds are constantly being strengthened by the additional property investment placed behind them and paid for out of retained earnings.

Rapidly declining railroad traffic in the latter part of last year followed by a contraction in earnings and weakened treasury position caused such grave fears in Congress of an imminent financial collapse in the railroad industry, that action was taken to alleviate the problem. On Nov. 22, 1957 it was announced by Senator Magnuson, Chairman of the Senate Interstate and Foreign Commerce Committee, that hearings would begin on Jan. 13, 1958 before a Sub-Committee, Senator George A. Smathers, Chairman, to study the deteriorating railroad situation. In his remarks opening the hearings on Jan. 13, 1958, Senator Smathers citing certain statistics, commented, in part, as follows:

"These ominous statistics call for attention. It is clear that a study must be quickly undertaken, and solutions proposed to the problems presented if we are to keep the railroads alive and a part of an effective transportation system in these United States, and if we are to keep them completely out of government ownership."

At the conclusion of the hearings on April 3, 1958, Senator Smathers made certain pertinent observations, including:

"It seems apparent that all is not well with the railroads. But to restore health to the railroads will require more than outside ministrations or legislative action. The patient must also demonstrate a strong will to health and an aggressive spirit to compete in the struggle for existence.

"The problems of the railroads are wide and varied—some are immediate, while others are long range in scope. As might be expected in a situation with so many complex factors, there is a wide divergence of opinion regarding a solution.

"However, one thing is certain. The solution is neither simple nor easy. It will not be found in a single program, not in a single approach."

Improved Results

In the opinion of your Committee, these hearings and investigation, as well as the public relations work so ably done by rail management, have been of inestimable value, in getting the public generally to better understand the predicament of the railroad indistry and the severe handicaps under which it is compelled to operate.

Legislatively speaking, the Transportation Act of 1958 is the outgrowth of the hearings, also the repeal of the 3% tax on for-hire transportation of freight. In addition, the hearings are responsible for Senate Resolution 303, which authorized the Senate Committee on Interstate and Foreign Commerce to study and report on important problems of transportation policy not yet resolved, with recommendations for future action.

Although not by any means a panacea for the railroad ills, it is the belief of your Committee that the 85th Congress has done more to correct inequities hampering the railroads than any Congress since the passage of the Transportation Act back in 1920. In this connection Senator Smathers and a number of his colleagues cannot receive too much praise for their splendid cooperation and sense of fair play. There still remains, however, much more to be accomplished both internally and externally.

Lists Accomplishments

Listed below are some of the 1958 accomplishments of the railroad industry in the field of regulation:

Removal of the Federal excise tax of 3% on freight charges.

Establishment of a program of government-guaranteed loans to aid railroads otherwise unable to borrow needed funds on reasonable terms.

More effective authority for the Interstate Commerce Commission to order prompt adjustment of intrastate rates found to be unduly low.

New authority for the Interstate Commerce Commission over discontinuance of money-losing passenger train service operations.

Restriction on further expansion of the list of commodities exempt from regulation and restoration of some commodities to regulation.

New rule of rate-making stating, in effect, that no form of transportation shall be required to maintain rates higher than necessary in order to protect the traffic of other modes of transportation.

All for-hire interstate transportation, except that specifically exempt, made subject to regulation.

Redefinition of contract carriage and removal of certain competitive handicaps on common carriers.

January Congress

When Congress meets again in January, you can rest assured rail managements will prosecute vigorously their efforts to secure equality of treatment with other modes of transportation and the necessary legislative action to accommodate the many items that were not taken care of by the 1958 legislation. Amongst these may be cited the following:

The Federal excise tax of 10% on passenger fares of railroads and other for-hire carriers only.

Inadequate and unrealistic depreciation allowances for tax purposes on railroad plant and equipment.

Exemption from regulation of numerous agricultural commodities, including many processed or manufactured commodities in various stages of transportation far beyond the initial movement from farm to primary market or storage.

Exorbitant state and local taxes on railroads in contrast with tax-free highways, waterways, airports and airways for railroad competitors.

Absence or inadequacy of user charges on railroad competitors to compensate for their use of publicly provided facilities.

Denial to railroads of equal opportunity to provide service by other modes of transportation while requiring them to pay heavily in taxes toward the support of publicly provided facilities required by other modes.

The extremely important feature of the Transportation Act of 1958 relating to rates would seem to require special comment. Under the 1958 Act, it is provided that "rates of a carrier shall not be held up to a particular level to protect the traffic of any other mode of transportation, giving due consideration to the objectives of the national transportation policy." It is presumed, of course, that the rates the railroads might

Continued on page 72

Report of IBA Oil and Natural Gas Securities Committee

The Committee, chairmanned by Edmond N. Morse, of Smith, Barney & Co., New York City, included in its report to this year's Convention, for updating purposes, various topics discussed by its predecessors, and explored several new areas pertaining to the industry with a view toward perhaps "creating a new attitude toward the oil industry."

Some measure of the broad scope of the **full report** of the Oil and Natural Gas Securities Committee is evident in the following recital of the topics discussed: "The Refinery Situation; Outlook for Drilling Activity; Outlook for the Offshore Area; The import Situation; Natural Gas Situation; Is Integration Desirable?; Growing International Character of the Domestic Oil Industry; and lastly, Canadian Oil Developments." In some of these areas, the subject matter was recharted in order to update facts and conclusions discussed in previous years.

Excerps from the Report follow:

Domestic [oil] consumption in 1958 will probably show only a modest 1% increase over the 8.8 million barrels daily consumed in the United States during 1957. We are firm in our opinion that the adverse demand situation is of a temporary nature, and believe that within a relatively short period of time the rate of growth in consumption will average 3-4% as compared with a 5-6% annual rate of increase during the 10 years ending with 1956. It is estimated that within 15 years daily consumption of crude oil in the United States will be over 14 million barrels, which would show more than a 60% increase over the amount used in 1957.

Edmond N. Morse

The demand for crude oil in the United States averaged 8,764,000 barrels per day during 1957, approximately 53.9% of the total of the "free world," as contrasted with a refinery capacity of some 9,570,000 barrels.

We believe even a small gain in domestic petroleum consumption this year is an admirable showing in view of the many adverse influences affecting the business picture. The increase elsewhere will likely exceed 6%. The growth abroad is expected to gather momentum and will give an increasing amount of stability to the whole petroleum industry.

While the growth of consumption in the United States is not expected to increase as rapidly as abroad, the nature of domestic demand permits a much higher realization factor per barrel of crude oil — which is directly reflected in the gross profit margins.

The changes that have occurred in the demand and supply situation since 1935 are tabulated in the following table. (Figures are in millions of barrels per day.)

	Refinery Capacity 1935	Refinery Capacity 1957	Daily Demand 1935	Daily Demand 1957
United States	3.8	9.6	2.7	8.8
Other Western Hemisphere	0.8	3.4	0.1	2.2
Western Europe	0.3	2.9	0.2	3.2
Asia, Africa, etc.	0.4	2.4	0.1	2.1
Free World	5.3	18.3	3.1	16.3

Any acceleration in the rate of increase in consumer demand for oil products should restore the balance between supply and demand and reduce the pressure on prices and excessive inventories, especially gasoline.

The Import Situation

Nineteen hundred fifty-eight has marked the first full year of operation of the Voluntary Petroleum Import Control Plan instituted by the oil industry and the government in July 1957. The importance of the year from the investment community's point of view is, we believe, summarized as follows:

(1) The investment implications of any petroleum import control program, or conversely the lack of such a plan, have been brought sharply into focus during the year.

(2) The oil industry has had an opportunity to test for a full year its ability to comply with a flexible voluntary program, and the results to date can probably be assessed as having been very good.

(3) The need for constant review and the probability of considerable revision of any import program, in the light of changing conditions in the dynamic oil industry, has been made clear.

Investment Implications

The implications from an investment point of view of the Voluntary Petroleum Import Control Plan during 1958 have been considerable. Fundamentally, the control of crude oil imports together with domestic prorationing have helped provide relative stability for the price of domestic crude oil during a period of adverse domestic and world-wide over-supply. For the company producing crude oil in the United States, this program has undeniably helped maintain the value of reserves and, in addition, has assisted in the maintenance of cash flow levels.

With respect to the domestic integrated company, on the other hand, to the extent that such a company is a buyer of crude oil on-balance, its ability to purchase less expensive foreign chude has been impaired by the import control program. In addition, products manufactured from less costly imported crude oil, together with imported products themselves, have tended to depress product prices, particularly in seaboard areas. Hence, for the domestic refiner on-balance, the import control program can be said to have been one factor contributing to reduced margins experienced during the year.

Turning to the international companies, the U. S. market for foreign crude has been curtailed as a result of the imposition of crude oil import restrictions. As a consequence, both the long standing foreign producer and the numerous recent entrants have been forced to seek to a greater extent new markets in areas outside of the United States.

Industry Compliance

Considering the large number of companies involved, and the difficult economic conditions under which the import control program has operated during the year, the record of the oil industry for 1958 with respect to compliance has been excellent. The industry's fear of mandatory controls together with the interest of most importers in the domestic producing industry have contributed to the achievement of this record.

Following the initiation of import controls in July 1957, total U. S. crude oil imports were below the national allocation for 10 consecutive months through July 1958. Beginning in August 1958, crude oil imports rose to 977,000 barrels daily, or about 5% above the quota, and in September of this year, the latest figure available, crude imports exceeded the quota by approximately 6%. All of the surplus imports occurred in the area east of the Rocky Mountains and can be accounted for by the excessive imports of two independent refining companies. Imports of unfinished oils, which have been under allocation since July 1958, were below their quota until September.

In addition, at the start of the crude oil import control program, crude oil imports for the total United States were averaging 1.2 million barrels daily. Since that time, the program has effectively reduced imports to the extent that by September 1958, the level of imported crude oil had declined to 989,000 b/d, a reduction of almost 19%. Over this same time period, crude oil imports into areas east of the Rocky Mountains were down 11%, and on the West Coast had declined 38%. For the first nine months of 1958, crude oil imports east of the Rocky Moumtains were almost 2% below the year ago level, while West Coast crude imports had fallen about 32%.

The above figures regarding crude oil are sharply in contrast to refined products imports. From the July 1957 rate, total refined product imports rose 65% by September 1958 to a level of 699,000 b/d. Through the first nine months of 1958, product imports were up approximately 30% over the comparable year ago period.

Import Program Revisions

In a business as complex and dynamic as the oil industry, it is clear that any import control pro-

Continued on page 41

Report of IBA Canadian Committee

Canadian banker, heading a committee of American and Canadian bankers, presents from a Canadian point of view an interpretation of his country's recent economic performance, Government and Central Bank action, and major problems underlying nation's domestic and foreign policy.

Canadian Committee's Chairman, Arnold B. Massey of Mills, Spence & Co. Ltd., Toronto, Canada, delivers an interpretative insight into economic events in Canada and an assessment of Canada's particular problems to create a better understanding of her domestic and foreign policy.

Text of the Report, including statistical indices, follows:

This report by the Canadian Committee describes three aspects of the Canadian economy: a summary of the performance of the Canadian economy in the economic recession of 1957-58; some highlights of Government and Central Bank action, and an indication of what are a few of the major problems of our nation.

Arnold B. Massey

Please be assured that the purpose of the Report of the Canadian Committee is not primarily to record recent events, but to interpret from the Canadian viewpoint, some of the outstanding characteristics and problems of our economy and to explain some of the actions of the new political regime at our capital in Ottawa.

The recession of 1957-58, as indicated by seasonally adjusted data, was much less severe in Canada than in the United States. Using percentage change in the Gross National Product as the measure, the decline in Canada was about one-third as large as that in the United States. In terms of some other measures, the difference was somewhat smaller, but still significant. However, the dip in Canada's economy was of longer duration than that experienced in the United States.

Automatic Stabilizer

One reason for the differences is that Canada has a great automatic stabilizer in her International Payments. When we have prosperous times we are heavier importers than during a recession and capital flows into our country in larger amounts. During a recession the reverse is true.

When we have prosperity, Canada leans heavily on purchases from other countries, but when times are poor she depends more on local production for her needs. This has a stabilizing effect on internal Canadian business. This phenomenon, evident in many of Canada's business cycles of recent decades, has the effect of cushioning recessions.

The stabilizing effect of the expenditure program of the Federal Government is important in Canada, as it is in the United States. Specifically, Canada's Federal Budget amounts to about 16% of the Gross National Product, compared with just over 17% in the United States. Further non-budgetary items, for the most part reflecting expenditures and receipts on account of capital items, can substantially and directly affect the cash position of the Government. Through the course of a business cycle, our Government expenditures tend to be more stable than expeditures in other areas of the economy and they constitute a large portion of the total spending. In addition, other automatic stabilizers such as unemployment insurance, come into play with variations in national income and discretionary action directed towards stabilizing the level of economic activity has now come to be expected from Federal Governments, especially in the event of an economic recession.

In Canada there is much more discretion allowable in the classification of Government receipts and expenditures as between budgetary and capital account than is the case in the United States. For instance, the old-age security fund, though substantially dependent upon direct taxation, is not classed as a budgetary item.

Budget Deficit

For the current fiscal year it is anticipated that Canada's Federal Government budget deficit will amount to about $700 million compared with a deficit last year of only $38,000,000. In addition, non-budgetary items will involve a further net drain on financial resources of over $800 million. This reflects mainly increased housing loans made directly by the Central Mortgage & Housing Corporation, a Crown company. The total anticipated cash requirement in the current fiscal year, therefore, amounts to aver $1,500 million which is abcut nine times the cash deficit for the 1956-1957 fiscal year. In passing, the United States deficit to be of comparable size in relation to Gross National Product would be over $21 billion.

Broadly speaking, the recession appears to be reducing our Government receipts by about $300 million in the current fiscal year. On the expenditure side it is virtually impossible to calculate the ultimate effect of the recession since Governments today exercise vast discretionary spending power when an economic recession occurs. It is also impossible to assess with much accuracy, the exact motives or causes for all expenditure. In the current year, however, it is possible for us to consider much of the direct housing loan expenditures as an anti-recession measure. This expenditure offsets to a large extent the decline in capital expenditures in other sectors.

Public and Private Investment

Turning away from the Government budget picture, public and private investment in Canada amounts to about 26% of Gross National Product. In this field, expenditure for housing, schools, highways, hospitals and other public works almost completely offset the decline in capital expenditures by industry in 1958.

The Federal Government and the Bank of Canada have in the past year made several decisions of far-reaching importance, both economically and financially. In September 1957, the Central Mortgage & Housing Corporation was authorized to make direct loans for small homes. Within a month or so mortgage loan approvals more than doubled and then receded to a plateau still much higher than would have been the case had the new program not been inaugurated. Allowing for seasonal adjustment, total housing contract awards doubled between September 1957 and March 1958. Demands for conventional loans have tended to expand in the last half of 1958, which suggests that direct housing loans through the Central Mortgage & Housing Corporation will now be a smaller portion of the total funds required for housing.

The small home loan program is filling the housing needs of families with limited assets, but quite adequate income to service the debt. There is still a great deal of sound potential housing demand in this limited asset market. It now appears that there have been at least 153,000 housing units started in Canada in 1958. This is a new record, surpassing the previous record of 1955 by almost 11% and 1957 by over 25%. In relation to population, Canada in 1958 has been building almost 40% more housing units than the United States.

Debt Refunding

Another important step the Government took was the debt refunding operation which was inaugurated last summer. As you know, institutions and individuals in your country and ours have

Continued on page 74

SEASONALLY ADJUSTED BUSINESS CYCLE INDICATORS

LEADING INDICATORS		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1. Industrial Common Stock Prices (1935-39 100)	1957	293	287	284	291	301	300	293	258	247	233	234	229
	1958	227	234	231	221	232	243	246	247	259	276(e)		
2. Housing Contracts ('000,000-$)	1957	44.6	56.4	48.4	77.6	64.3	63.8	67.6	74.3	65.3	94.2	103.3	109.9
	1958	101.3	122.2	134.5	126.1	118.7	100.1	110.7	121.6	146.2	118.1		
3. Business, Industrial and Engineering Contracts ('000,000-$)	1957	159.9	223.2	197.2	182.5	166.6	160.2	144.9	163.1	158.1	156.9	160.1	152.3
	1958	241.5	140.2	175.1	223.2	162.2	154.2	162.9	146.0	193.8	250.1		
4. Average Weekly Hrs. Manufacturing	1957	40.8	40.8	40.7	40.8	40.5	40.6	40.6	40.8	40.5	40.2	39.7	39.9
	1958	39.3	39.8	39.8	40.0	40.3	40.8	40.4	40.6	40.5			
5. Corporate Profits ('000,000-$)	1957		443			446			414			403	
	1958		358			383			408(e)				
6. Wholesale Prices Industrial Materials (1935-39 100)	1957	250	247	246	245	243	241	242	238	236	233	230	231
	1958	230	231	230	226	227	228	231	229	229	231		
COINCIDENT INDICATORS													
7. Industrial Employment Index (1949 100)	1957	123	123	123	124	124	124	123	124	123	123	121	120
	1958	119	118	118	118	119	119	118	118	118			
8. Persons Without Jobs ('000)	1957	199	199	209	215	216	242	266	285	317	347	378	377
	1958	340	339	356	361	403	480	471	463	442	526		
9. Industrial Production Index (1935-39 100)	1957	291	293	287	289	288	284	285	284	282	278	276	272
	1958	276	280	274	280	281	280	279	279	280(e)			
10. Gross National Product-Ex Farm ('000,000-$)	1957		7552			7574			7698			7666	
	1958		7595			7709			7760(e)				
11. Cheques Cashed in Clearing Centres (a) ('000,000-$)	1957	6540	6489	6510	6490	6541	6464	6369	6394	6474	6384	6402	6644
	1958	6462	6602	6441	6385	6629	6857	6563	6942	7251			
12. Imports of Goods ('000,000-$)	1957	490	500	502	483	476	471	467	473	464	443	446	442
	1958	428	423	453	401	435	445	422	466	418			
13. Exports of Goods ('000,000-$)	1957	410	406	403	392	402	398	403	412	406	386	413	413
	1958	395	384	411	398	459	413	380	410	368			
14. Freight Carloadings (b) ('000 cars)	1957	273	293	289	289	283	274	280	273	270	271	265	258
	1958	273	253	253	254	259	259	253	242	267			
15. Wholesale Price Index (1935-39 100)	1957	237	236	236	236	236	237	237	236	234	235	234	235
	1958	234	234	233	231	231	231	233	232	233	233		
LAGGING INDICATORS													
16. Average Hourly Earnings Mfg. ($)	1957	1.57	1.58	1.58	1.58	1.59	1.59	1.60	1.61	1.61	1.62	1.64	1.64
	1958	1.65	1.65	1.65	1.65	1.65	1.66	1.65	1.66	1.66			
17. Retail Trade ('000,000-$)	1957	1207	1242	1232	1193	1181	1173	1158	1171	1176	1206	1250	1220
	1958	1309	1287	1258	1235	1256	1204	1232	1228	1189			
18. Manufacturer's Inventories ('000,000-$)	1957	4177	4225	4239	4272	4292	4300	4332	4345	4389	4427	4370	4310
	1958	4257	4199	4211	4186	4148	4109	4086	4088	4145			
19. Day to Day Loan Rate Per Cent	1957	3.00	3.55	3.70	3.71	3.53	3.83	3.75	3.55	2.45	2.60	3.53	3.25
	1958	3.10	3.05	2.45	1.03	1.43	1.65	0.65	0.63	0.40	2.50		
20. Consumer Installment Credit ('000,000-$)	1957	1555	1579	1601	1615	1608	1618	1624	1615	1621	1628	1626	1640
	1958	1661	1685	1677	1678	1665	1625	1652	1665(e)				

NOTES: Sources of original data—Dominion Bureau of Statistics, #1, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18; Bank of Canada, #19, 20; McLean Building Guide, #2, 3; (a) excluding Toronto and Montreal, #11; (b) excluding grain and iron ore, #14; Seasonal Adjustment by General Research Associates; Most recent month (e), GRA estimate; Data shown here are the latest revised seasonally adjusted figures; Revisions, due to changes in basic data and seasonal factors, are incorporated as they occur.

In Attendance at the IBA Convention

ABRAMS, JAMES S.*
Allen & Co., New York

ADAMS, WILLIAM M.*
Braun, Bosworth & Co., Detroit

AGEE, RUCKER*
Sterne, Agee & Leach, Birmingham

AHBE, JOHN L.
Distributors Group, Inc., New York

AHEARN, JOHN W.
Rockland-Atlas National Bank, Boston

ALEXANDER, NORMAN J.
James Richardson & Sons, Winnipeg

ALEXANDER, TED R.
Texas Bank & Trust Co., Dallas

ALEXISSON, GUSTAVE A.*
Granbery, Marache & Co., New York

ALLEMAN, F. MONROE
Leedy, Wheeler & Alleman, Orlando

ALLEN, ALONZO C.
Blyth & Co., Detroit

ALLEN, HERBERT
Allen & Co., New York

ALLISON, WILLIAM J.
Allison-Williams Company, Minneapolis

ALLYN, ARTHUR C.
A. C. Allyn & Co., Chicago

ALLYN, JOHN W.
A. C. Allyn & Co., Chicago

ALMON, TAYLOR B.
Rauscher, Pierce & Co., Dallas

ANASTASIA, ALBERT A.
Dow Jones & Co., New York

ANDERSON, GLENN E.
Carolina Securities Corporation, Raleigh

ANDERSON, HERBERT R.
Distributors Group, Inc., New York

ANGLIN, THOMAS L.*
Mackall & Coe, Washington

APPLEGATE, A. LOWRIE*
Hulme, Applegate & Humphrey, Pittsburgh

ARMSTRONG, GEORGE H.
New York Hanseatic Corporation, New York

ARNOLD, EUGENE
Harriman Ripley & Co., Philadelphia

ARNOLD, H. WILSON*
Arnold & Crane, New Orleans

ARTHURS, ADDISON W.*
Arthurs, Lestrange & Co., Pittsburgh

ASCHER, H. ALBERT
Wm. E. Pollock & Co., New York

ASHPLANT, FREDERICK B.
F. B. Ashplant & Co., New York

ATKINS, J. MURREY*
R. S. Dickson & Co., Charlotte

ATWILL, Jr., WILLIAM
Atwill & Co., Miami Beach

AYRES, Jr., ROBERT M.
Russ & Co., San Antonio

BABICH, LEO B.*
Hill Richards & Co., Los Angeles

BAIRD, ANDREW M.
A. G. Becker & Co., Chicago

BAKER, PHILIP D.
White, Weld & Co., New York

BAKER, RALPH D.
James Richardson & Sons, Winnipeg

BAKER, R. H.*
Rowles, Winston & Co., Houston

BALDWIN, ROBERT H. B.
Morgan Stanley & Co., New York

BARKER, FRANCIS
Bear, Stearns & Co., New York

*Denotes Mr. and Mrs.

BARNETT, Jr., GEORGE E.
The First National City Bank, New York

BARRINGTON, CHARLES S.
Harry Downs & Co., New York

BARROW, WILLIAM R.*
Barrow, Leary & Co., Shreveport

BASS, Jr., JACK M.
Jack M. Bass & Co., Nashville

BAUMANN, JOHN F.*
The Milwaukee Company, Milwaukee

BAXTER, Jr., CHARLES M.
Baxter & Co., New York

BAXTER, DANA F.*
Hayden, Miller & Co., Cleveland

BEDE, ALAN H.
Julien Collins & Company, Chicago

BEECROFT, HARRY*
Beecroft, Cole & Co., Topeka

BEHRENS, BERTRAMS
Lehman Bros., New York

BEINHORN, Jr., WILLIAM A.
Russ & Co., San Antonio

BELL, GEORGE deB.
Drexel & Co., Philadelphia

BENNETT, FRANK S.
Cutter, Bennett & Co., New York

BENT, GORDON
Bacon, Whipple & Co., Chicago

BERGMANN, CHARLES L.
R. W. Pressprich & Co., New York

BERGQUIST, P. ALDEN*
The First National Bank, Chicago

BESSE, HARRY W.*
Boston Stock Exchange, Boston

BIEN, WILLIAM D.*
Fort Lauderdale News, Fort Lauderdale

BINGHAM, CURTIS H.*
Bingham, Walter & Hurry, Los Angeles

BLACK, Jr., EUGENE R.*
Lazard Freres & Co., New York

BLACKFORD, Jr., HENRY J.
A. M. Law & Co., Spartanburg

BLAKE, JOHN L.
Eaton & Howard, Boston

BLEIBERG, ROBERT M.*
Barron's, New York

BLEWER, CLARENCE F.
Blewer, Glynn & Co., St. Louis

BLYTH, ROBERT B.*
The National City Bank, Cleveland

BODMAN, WARREN H.
DeHaven & Townsend, Crouter & Bodine, Philadelphia

BOEHMLER, ERWIN W.
Investment Bankers Association, Washington

BOENNING, H. DICKSON S.
Boenning & Co., Philadelphia

BOENNING, HENRY D.
Boenning & Co., Philadelphia

BOGERT, Jr., H. LAWRENCE*
Eastman Dillon, Union Securities & Co., New York

BOLGER, DAVID M.
Shillinglaw, Bolger & Co., Chicago

BOLGER, JOHN F.
Shillinglaw, Bolger & Co., Chicago

BORIN, LEIGHTON H.*
National Securities & Research Corporation, Minneapolis

BORKLAND, Jr., Ernest W.
Tucker, Anthony & R. L. Day, New York

BOWEN, FRANCIS*
Government Development Bank for Puerto Rico, San Juan

BOWMAN, FRANCIS B.
The Chase Manhattan Bank, New York

BOYCE, C. MEREDITH*
Mercantile-Safe Deposit & Trust Co., Baltimore

BOYCE, J. RAYMOND
Auchincloss, Parker & Redpath, New York

BOYNTON, ELWOOD D.*
C. F. Childs & Co., New York

BRADLEY, S. WHITNEY
Eaton & Howard, Boston

BRADY, EUGENE P.
Thomson & McKinnon, Miami

BRASHLER, RICHARD J.*
Barcus, Kindred & Co., Chicago

BRAUN, Jr., FREDERICK C.
F. S. Moseley & Co., New York

BRAUNS, ROBERT A. W.
McDonnell & Co., New York

BRAYSHAW, DONALD B.
Lord, Abbett & Co., Atlanta

BRECKENRIDGE, HUNTER*
McCourtney-Breckenridge & Co., St. Louis

BREWER, ORLANDO S.*
Phelps, Fenn & Co., New York

BRITTAIN, MILTON C.
Shearson, Hammill & Co., New York

BROOKE, Jr., FRANCIS M.
Brooke & Co., Philadelphia

BROOKS, JOHN H.*
Putnam & Co., Hartford

BROPHY, FRANK J.
R. S. Dickson & Co., New York

BROWN, AUSTIN*
Dean Witter & Co., New York

BROWN, EDWARD L.*
Marine Trust Company, Buffalo

BOWN, HARRY
Salomon Bros. & Hutzler, Chicago

BROWNE, ALAN K.*
Bank of America, San Francisco

BRUSH, GERALD F.*
Brush, Slocumb & Co., San Francisco

BRYAN, JOHN E.
Cleveland Plain Dealer, Cleveland

BRYAN, JOHN F.
Reynolds & Co., New York

BUECHLER, RICHARD K.
E. F. Hutton & Co., New York

BUHSE, HOWARD E.
Hornblower & Weeks, Chicago

BUNN, JOHN W.
Stifel, Nicolaus & Co., St. Louis

BURGERT, WOODWARD*
Harris Trust & Savings Bank, Chicago

BURKHOLDER, H. FRANK
Equitable Securities Corporation, Nashville

BURNS, III, JAMES F.
Blyth & Co., New York

BUSH, ROLLIN C.
The First National City Bank, New York

BUTLER, JOHN G.*
Prescott, Shepard & Co., Cleveland

BYRNE, EDMUND C.*
Phelps, Fenn & Co., New York

BYRNE, WILLIAM D.*
Phelps, Fenn & Co., New York

CAFONE, THOMAS C.
W. E. Hutton & Co., New York

CAHN, Jr., WILLIAM M.
Henry Herrman & Co., New York

CALDWELL, WILLIAM R.
The First Boston Corporation, New York

CALLAGHAN, JOHN W.
Goldman, Sachs & Co., New York

CALLAHAN, PAUL A.
Halle & Stieglitz, New York

CALLAWAY, DAVID H.*
First of Michigan Corporation, New York

CALVERT, GORDON L.
Investment Bankers Association, Washington

CANNON, FRANCIS A.*
The First Boston Corporation, New York

CANVIN, JACK H.*
First California Company, San Francisco

CAPEK, CHARLES A.
Lee Higginson Corporation, Chicago

CARBERRY, PATRICK
Wall Street Journal, New York

CARPENTER, EDWARD E.*
McDougal & Condon, Chicago

CARR, FRANK C.*
John Nuveen & Co., Chicago

CARRISON, H. GEORGE*
Pierce, Carrison, Wulbern, Inc., Jacksonville

CARROLL, LAWRENCE B.
Burke & MacDonald, Kansas City

CARROLL, LEE W.*
Lee W. Carroll & Co., Newark

CARTER, Jr., Frank E.
Equitable Securities Corporation, New York

CASEY, DOUGLAS*
A. C. Allyn & Co., Chicago

CASEY, Jr., JAMES D.
A. C. Allyn & Co., New York

CATE, HENRY*
The Keystone Company, Boston

CHAMBERLAIN, MELVILLE P.*
Chemical Corn Exchange Bank, New York

CHAPMAN, R. C.
Fulton Reid & Co., Cleveland

CHARTERS, R. MICHAEL
Association of Stock Exchange Firms, New York

CHISHOLM, FRANK A.
Varnedoe, Chisholm & Co., Savannah

CHRISTIE, III, ROBERT E.*
Dillon, Read & Co., New York

CHRISTOPHEL, ARTHUR A.
Reinholdt & Gardner, St. Louis

CHRYSLER, K. MACK
U. S. News & World Report, Washington

CLAFLIN, III, WILLIAM H.*
Tucker, Anthony & R. L. Day, Boston

CLAPP, Jr., JOHN J.*
R. W. Pressprich & Co., New York

CLARK, Jr., DICK
Dallas Union Securities Company, Dallas

CLARK, FORRESTER A.
H. C. Wainwright & Co., Boston

CLARK, HAROLD W.
Clark, Landstreet & Kirkpatrick, Nashville

CLARK, JOHN C.
Wachovia Bank & Trust Co., Winston-Salem

CLARK, JOSEPH F.
Municipal Finance Officers Association, Chicago

CLARK, ROBERT E.*
Calvin Bullock, Ltd., New York

CLARK, ROBERT M.*
Blunt Ellis & Simmons, Chicago

CLARK, WILLIAM N.
Chicago Tribune, Chicago

CLARKE, HARRISON*
Johnson, Lane, Space & Co., Atlanta

CLARKE, JAMES H.
American National Bank, Chicago

CLARKE, JOHN W.*
John W. Clarke & Co., Chicago

CLAUDE, Jr., ABRAM*
J. P. Morgan & Co., New York

CLAYTON, CALVIN W.*
Clayton Securities Corporation, Boston

CLOSE, L. PAUL*
Rambo, Close & Kerner, Phalidelphia

CLUETT, W. SCOTT
Harriman Ripley & Co., New York

COCULO, T. ANTHONY
Fidelity-Philadelphia Trust Company, Philadelphia

COGGESHALL, GEORGE K.
Schoellkopf, Hutton & Pomeroy, New York

COLEMAN, FRANK X.
Gregory & Sons, New York

COLEMAN, SYLVAN C.
E. F. Hutton & Co., New York

COLLINGS, Jr., CLIFFORD C.
C. C. Collings & Co., Philadelphia

COLLINS, JULIEN H.
Julien Collins & Company, Chicago

COLTRIN, FREDERIC C.
Hugh W. Long & Co., Elizabeth

COOK, A. HALSEY
The First National City Bank, New York

COOK, HAROLD H.
Spencer Trask & Co., New York

COOK, R. JACK*
Wm. J. Mericka & Co., Cleveland

COOPER, WALTER W.
F. S. Smithers & Co., New York

COSTIGAN, EDWARD J.
Edward D. Jones & Co., St. Louis

COUGHLIN, WALTER J.
Coughlin & Co., Denver

COUIG, J. DALTON (JACK)
Hirsch & Co., New York

COYLE, ALFRED J.
Hayden, Stone & Co., New York

CRAFT, ROBERT H.*
The Chase Manhattan Bank, New York

CRAGO, JOHN H.
Smith, Moore & Co., St. Louis

CRAIGIE, WALTER W.*
F. W. Craigie & Co., Richmond

CRANFORD, JAMES A.*
The Atlantic National Bank, Jacksonville

CREELY, WALTER J.*
Goldman, Sachs & Co., St. Louis

CROLL, JOSEPH D.
Asiel & Co., New York

CROSBY, PAUL H.*
Bell, Gouinlock & Co., New York

CROSS, CALVIN M.*
Hallgarten & Co., New York

CROSS, Jr., JOSEPH G.*
C. J. Devine & Co., New York

CROSSLEY, E. LYNN*
Municipal Finance Officers Association, Dallas

CROWE, JOSEPH M.*
Luce, Thompson & Crowe, Kansas City

CROWELL, WARREN H.*
Crowell, Weedon & Co., Los Angeles

CULLEN, DANIEL J.*
Walston & Co., San Francisco

CULMAN, JOHN K.
Harriman Ripley & Co., New York

CUNNINGHAM, BERNARD J.*
Blunt Ellis & Simmons, Chicago

CUNNINGHAM, FRANCIS J.
Kidder, Peabody & Co., New York

CUNNINGHAM, KIRKWOOD B.*
Cunningham, Schmertz & Co., Pittsburgh

CURTIN, JOHN S.*
Kalman & Co., Minneapolis

CURTIS, ARTHUR W.
A. G. Becker & Co., Chicago

CUTLER, PAUL WM.
Chapman & Cutler, Chicago

DALENZ, JOHN McG.
Calvin Bullock, Ltd., New York

DARBY, EDWIN W.
Chicago Sun-Times, Chicago

DARMSTATTER, E. WILLIAM
Stifel, Nicolaus & Co., St. Louis

DATTELS, DAVID R.*
Dattels & Co., Kitchener

DAVANT, JAMES W.
Paine, Webber, Jackson & Curtis, Minneapolis

DAVIS, G. POWELL
Investment Corporation, Norfolk

DAVIS, GEORGE W.*
Davis, Skaggs & Co., San Francisco

DAVIS, SCOTT*
Ralph W. Davis & Co., Chicago

DAVIS, SHELBY CULLOM
Shelby Cullom Davis & Co., New York

Continued on page 48

Continued from page 27

Report of IBA Public Utilities Securities Committee

utilities securities as of Oct. 31 in each of the last three years.

	1958	1957	1956
Bonds–Yields to Maturity			
Triple A	4.17%	4.30%	3.66%
Double A	4.27	4.40	3.76
A	4.45	4.63	4.06
Preferred Stocks–Yields			
Group I	4.73%	4.97%	4.42%
Group II	4.81	5.04	4.46
Group III	4.97	5.29	4.69
Common Stocks–Yields			
Group 1	4.37%	5.41%	4.86%
Group 11	4.43	5.45	4.93
Group III	4.60	5.72	5.22

Prepared by Irving Trust Co.

It will be noted that the average yield on Electric Utility commons was close to 4½% and in both 1957 and 1958 approximately 15% of those having any significant investor interest have increased their dividends. This again proves the ability of this group not only to maintain but to increase its earnings as much as 5%-7% during a recession period.

This is an outstanding performance when compared with sharp declines experienced by many industries. While total industrial production averaged 10.5% lower during the first half of 1958 vs. the same period a year ago, kilowatt hour sales remained virtually unchanged. Yet, gross revenues increased 4.0% over the same period of 1957 and net income increased about 7.5%. This is in part due to the fact that residential and commercial revenue segments have continued to grow at almost the historical rate. In the first six months, residential sales increased 9.3% and commercial sales 5.4%. Also, average annual kilowatt hour sales per residential customer continued to increase; for the 12 months ended June, there were 3,290 kwh. vs. 3,063 a year earlier. While industrial kilowatt hour sales declined 6.1% in the same period, the decline has not been as great as for business in general. Industrial revenue declined only 2.0% however, due to the cushion provided by minimum monthly charges to industrial users.

The industry has very effectively controlled costs, the two largest items being labor and fuel. Again, the industry is unusual in that the labor factor represents less than 20% of total revenues. Yearly increases in wages amounting to an average of about 5% are equivalent to only about 1% of annual revenues. Continued installation of larger, more efficient generating units has aided in fuel costs; also, coal prices have tended to stabilize and, of late, even weaken somewhat.

At the 26th annual convention of the Edison Electric Institute held last June in Boston, Mr. J. W. McAfee, retiring President, summarized the accomplishments of the electric power industry in the past and projected the demands and expectations for 20 years into the future. As a basis for his forecast he predicted that the Gross National Product would reach about $1 trillion in 1957 dollars or about 2½ times last year's total. Population is expected to be in the neighborhood of $250 million in this country or nearly 50% above the present and households will total more than 82 million, an increase of two-thirds during the two decades. In order to keep pace, the industry will need an annual increase in its rate of growth of some 8%, or a doubling of sales every nine years, and will reach an annual output of three trillion kwh. in 1979. This will require generating capacity of 665 million kw. nearly five times what it was at the end of last year. After taking inflation into account, he believes that the amount invested in electric company plant will then have reached a figure of $221 billion or nearly six times the $38½ billion invested at the end of last year. He pointed out that . . "In the dry figures presented are the flesh-and-blood of exciting accomplishments to come. These forecasts present an exhilerating prospect. This is the kind of a big job that is the glory of the American free enterprise system, the kind of achievement no other system has been able to approach, and which, in fact, has brought leadership to America beyond that of any nation in world history . . ."

It is needless to add that the challenge is no less ours in the investment banking business!

Respectfully submitted,

PUBLIC UTILITY SECURITIES COMMITTEE

Thomas M. Johnson, Chairman
The Johnson, Lane, Space Corporation, Savannah

William N. Bannard, 3rd
American Securities Corporation, New York

Elwood D. Boynton
C. F. Childs and Company, Inc., New York

Carl C. Brown
Laurence M. Marks & Co., New York

Edward J. Costigan, Jr.
Edward D. Jones & Co., St. Louis

Carl H. Doerge
Wm. J. Mericka & Co., Inc., Cleveland

Thomas B. Gannett
Hornblower & Weeks, Boston

W. Ronald Gill
G. H. Walker & Co., Providence

Albert H. Gordon
Kidder, Peabody & Co., New York

Edwin B. Horner
Francis I. du Pont & Co., Lynchburg

B. Franklin Houston
Dallas Union Securities Company, Dallas

James M. Howe
Farwell, Chapman & Co., Chicago

Hudson B. Lemkau
Morgan Stanley & Co., New York

Milton F. Lewis
A. G. Becker & Co. Incorporated, New York

Edgar J. Loftus
W. E. Hutton & Co., Philadelphia

Wallace M. McCurdy
Thayer, Baker & Co., Philadelphia

George L. Nye
Smith, Barney & Co., New York

Robert H. O'Keef
The Marshall Company, Milwaukee

John W. Pancoast
Dewar, Robertson & Pancoast, San Antonio

James M. Powell
Boettcher and Company, Denver

Albert E. Schwabacher, Jr.
Schwabacher & Co., San Francisco

J. Raymond Smith
Weeden & Co., Inc., New York

Carle Stolle
G. A. Saxton & Co., Inc., New York

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

Electric Utility Industry

12 Months Ended	Electric Production (Thous. kwh)	Installed Generating Capacity at Period End (kwh)
Aug. 31, 1958	632,825,000	136,192,000
Aug. 31, 1957	624,302,252	125,753,959
Aug. 31, 1956	589,452,837	118,010,526
Aug. 31, 1955	518,363,951	110,029,299
Dec. 31, 1954	471,686.354	102,592,410
Dec. 31, 1949	291,099,543	63,100,334
Dec. 31, 1941	164,737,878	42,405,436
Dec. 31, 1929	92,180,273	29,839,459

SOURCE: Electric Power Statistics, Federal Power Commission.

Telephone Industry

Telephones Installed (in thousands)

Year End	Independents	Bell System
1957	9,617	54,241
1956	9,112	51,344
1955	8,461	48,029
1954	7,996	45,044
1949	6,086	34,776
1946	4,825	26,900

Operating Revenues (in thousands of dollars)

Year End	Independents	Bell System
1957	$722,873	$6,467,583
1956	648,222	5,966,190
1955	596,030	5,425,442
1954	526,109	4,907,481
1949	286,572	2,970,690
1946	201,170	2,157,917

Plant Investment (in thousands of dollars)

Year End	Independents	Bell System
1957	$2,760,215	$19,681,340
1956	2,323,052	17,556,590
1955	2,042,322	15,799,247
1954	1,795,029	14,567,746
1949	961,190	9,726,535
1946	655,878	6,440,847

SOURCE: Statistics of the Independent Telephone Industry—United States Independent Telephone Association.

Electric Utility Industry

Securities Sold (thousands of dollars)

	9 Mos. to 9/30/58	9 Mos. to 9/30/57	9 Mos. to 9/30/56	9 Mos. to 9/30/55
Long-term Debt				
Publicly	$1,463,000	$1,283,500	$661,500	$592,500
Subscription	19,700	101,052	59,779	37,737
Privately	90,393	150,950	27,500	67,150
	$1,573,093	$1,535,502	$748,779	$697,387
Preferred Stock				
Publicly	$192,500	$59,057	$134,265	$112,425
Subscription	27,283	1,639	32,836	23,243
Privately	12,100	------	10,600	20,750
	$231,883	$60,696	$177,701	$156,418
Common Stock				
Publicly	$61,125	$120,856	$63,362	$90,660
Subscription	133,886	291,524	141,254	140,440
	$195,011	$412,380	$204,616	$231,100
Total Financing	$1,999,987	$2,008,578	$1,131,096	$1,084,905
Total New Money	$1,898,087	$1,985,768	$1,127,000	$952,407

SOURCE: Ebasco Services, Incorporated.

Gas Utility and Pipeline Industry

12 Months Period	Total Revenues (Millions)	Construction Expenditures (Millions)	Customers (Thousands)
June 30, 1958	$6,859	$1,868 (est.)	30,879
June 30, 1957	6,115	1,932	29,988
June 30, 1956	5,750	1,628	29,190
June 30, 1955	4,901	1,345	27,954
Dec. 31, 1954	3,052	1,055	27,528
Dec. 31, 1951	2,228	1,462	24,953
1940-46 average	1,565	799	22,267

Forecast of Construction Expenditures

1958 .... $1,868 million 1959 .... $1,736 million

Gas Operating and Holding Companies Securities Sold (in thousands of dollars)

	1957	1956	1955	1954
Debt Issues	$1,964,839	$1,142,624	$946,557	$1,861,595
Preferred Stocks	162,189	258,930	192,043	327,585
Common Stocks	293,798	182,151	274,153	242,082
Total	$2,420,826	$1,583,705	$1,412,753	$2,431,262

SOURCE: "Gas Facts" and Quarterly Report American Gas Association.

Long Inv. Branch

MANHATTAN, Kans. — Long Investment Company has opened a branch office at 110 South Fourth Street under the direction of Harry J. McLaughlin.

Morrison Co. Office

ELKIN, N. C. — Morrison & Company has opened a branch office in the Elkin Loan & Insurance Service Building, under the management of Jack Underdown.

Two With Sterling Assoc.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Theron T. Kinzie and Joseph B. Simpson, Jr. are now connected with Sterling Associates, Inc., Johnston Building.

Joins Camp & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg. — Lawrence M. Neault is now with Camp & Co., U. S. National Bank Bldg.

With E. F. Hinckle Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg.—Vernon E. Paulsen is now affiliated with E. F. Hinkle & Co., Inc., Equitable Building.

Continued from page 21

"Gun-Jumping Problems Under Section 5"

bring an issue to market must close its advertising department, dismiss its public relations people and gag its officials and employees. Certainly, an issuer may continue the normal conduct of its business and it may continue its normal publications prior to the filing of a registration statement and even during the so-called "waiting or cooling off period." Thus, it may continue to publish advertisements of its products and services without interruption. It may send out its annual and other periodic reports to its security holders. It may publish its proxy statements, send out its dividend notices, and make routine announcements for the public press. The SEC does not normally regard these activities as any of its business. But when, on the other hand, public statements of various sorts begin to appear shortly before the filing of a registration statement which discuss such aspects of a business as its finances, its earnings or its growth prospects in glowing and optimistic terms, stressing in seductive fashion the favorable over the unfavorable, I think it is logical to conclude that there is an attempt to condition the market for the forthcoming sale of the issue, and that such statements are a part of the selling effort and are in violation of the law.

Analyses of Security Issues

It has also been indicated to us that, in spite of our repeated efforts to clarify our understanding of the effect which the provisions of Section 5 have upon such activities, there still remain serious doubts as to whether a distributor or underwriter is safe in publishing the customary analyses of outstanding security issues. We have said before, and I repeat here that we have never raised any questions in this regard, so long as the organization which is publishing such reports is not engaged at the same time in the sale of unregistered securities. I again refer you to the statement of Judge Burns in Release No. 464, although this release as well as the others to which I referred must be read in the context under which they were issued. The problem has never been answered more logically.

The question of when such an organization becomes involved in the sale of a new issue and should therefore stop and analyze its program of financial analysis for the time being does not seem to us to be particularly baffling or complex. We think that, ordinarily, a dealer is not required to pay much attention to the financing plans of an issuer until he offers to or is invited to become a member of the selling group. Neither do we believe it to be necessary for an investment banker to withdraw his existing analyses or refrain from issuing new ones until he has received indication that he is going to participate as an underwriter in an issue of securities of a given company. The syndicate managers must, we think, be a little more careful, since they may be involved in the selling effort as soon as they commence to negotiate a deal with the issuer. We see no reason why anyone should be confused by such an approach to this question, or why the institution of reasonable cooperation between the purchasing and the research departments of an underwriter should not avoid the slightest problem.

Refers to Arvida Case

Perhaps the clearest example of an attempt by an issuer and its underwriters to make an offer in contravention of the statute is the recent and well publicized Arvida case. The facts in that matter are familiar to almost all of you in certain details. The whole story, however, has not appeared, so far as I know, except in the records of the Court and the Commission. It deserves some attention as a case study in what not to do. Essentially, it is as follows:

Mr. Arthur Vining Davis, a man of some substance and very widely and favorably known, formed a corporation last summer called Arvida Corporation to which he transferred some large tracts of Florida real estate which he had accumulated. This action was described in a press release published in some Florida papers on July 8, 1958, which simply announced the formation and purpose of the Corporation. Thereafter, negotiations with various financial concerns culminated in an understanding arrived at on Sept. 18 of this year whereunder certain outstanding Wall Street house agreed to underwrite a public offering of Arvida common stock. Thereupon, another press release was given out and a press conference held, as the result of which wide publicity was given, not only to the plans and projects of the Corporation, but to the contemplated public sale of the issue by the underwriters pursuant to their agreement. This release reads precisely like a letter which a distributor would send to a prospective purchaser in an effort to persuade him to invest in the enterprise. The only thing it does not do is specifically to ask the reader to send in his order.

Immediately upon the publication of this article, "expressions of interest," began to come in, one or two of which were, revealingly enough, entered on buy order forms. Our investigation revealed that, in two business days after the release, such "expressions of interest" totalling over $500,000 had been received by broker-dealers other than the underwriters. All of the indicia of the beginning of a distribution by security houses country-wide were present which normally follow the filing of a registration statement. The important point is that no registration statement had been filed, and that the SEC had not been given the opportunity which the law plainly states it must have to review the published facts upon the strength of which this public interest had been aroused. I might add that the information contained in this release and the whole tone thereof do not jibe in many respects with the content of the registration statement and prospectus which have subsequently been filed with us and which are currently under study.

Judging the activities and communications I have described in the light of all the circumstances surrounding the publicity given out by the issuer and its underwriters and in light of the procedures employed by the securities industry in distributing securities and the effect of the industry in their function in the distribution, it was, and is the considered opinion of the Commission that an offer of a security or a solicitation of an offer to buy within the meaning of the statute had been made. Certainly, in any view, the activities involved here related directly to a desire to promote an awakening and developing of a buying interest on the part of the public in a security. We believe that this was the beginning of a sales effort. If, in fact, activity such as was involved in the Arvida case were to be permitted, it would be proper for issuers and underwriters in any case to create a demand for a security and in effect accomplish its sale before the true facts were revealed in proper form to the public. This result would obviously be contrary to and defeat one of the fundamental principles and objectives of the Securities Act.

No Press Censorship

I have seen and heard statements from time to time that the efforts of the SEC to administer this statute in some way constitute an infringement on the freedom of the press. This is an idiotic remark which would never be conceived by one who had read the plain words of the law, or was familiar with the express intent of Congress in enacting it or with the history which lies behind it. What the press may choose to publish with reference to financial affairs, whether fact or fancy fiction, is none of our business. Most financial and other corporate information, at least that concerning most established enterprises, can be gathered from open and public sources. Moreover, it is no matter of concern to us if the financial press chooses to publish any of the rumors which, some true, some false, are as indigenous to and prevasive in Wall Street as is the odor of roasting coffee. All that the law says is that no issuer or underwriter may be a party to any publicity campaign in connection with a forthcoming, but unregistered, issue of securities. That law we intend to enforce.

The SEC has for some time been aware of the pressure which has been brought to bear on issuers and underwriters to publicize coming issues. For many years, however, the bankers manfully resisted this pressure. The law was materially amended in 1954 to relax the rigidity of the limitations upon pre-effective offers, and we felt that the trade should have relatively little trouble complying with the amended Act. It also was amended to relieve the industry of the limitations of Section 4(1) which had the effect of prohibiting transactions by dealers in securities as to which a registration statement had been filed for one year after the effective date of the registration statement unless a prospectus had been sent or given to the purchaser. Among other things, this amendment, to which the Commission agreed, made it possible for dealers to send out their own literature concerning registered securities to their customers upon the expiration of 40 days after the effective date without worrying about the delivery of a statutory prospectus, provided the dealer was not then engaged in disposing of an unsold allotment or was not otherwise participating in an incompleted distribution.

The Commission believed and continues to believe that these changes in the law to legalize sales activities immediately after the filing of a registration statement and to permit a greater freedom with respect to sales literature after a distribution has in fact been completed or has presumed to be completed were a realistic and sensible recognition of the need for statutory changes compatible with the economic facts of life. The amendments were not intended to and do not in fact change the fundamental principle of the law that sales efforts must not be started before filing of the required facts. Nor did the amendments change the fundamental principle of the law that an issuer, underwriter or dealer may not do indirectly what he is prohibited from doing directly. We do not believe that the ability of a seller to seek out or secure publicity free of charge

Continued on page 40

Continued from page 39

"Gun-Jumping Problems Under Section 5"

whether before or after the filing date which if paid for would clearly violate the law, changes the character or effect of his action in terms of the provisions of the Securities Act.

Cites Large Issue of 1954

Shortly after the adoption of the 1954 amendments, however, a very large and newsworthy issue was placed on the market after a series of publicity releases which gave us very serious concern. The result was to whip up public interest to the point where the issue was to all intents and purposes completely sold and, in fact, greatly oversold long before any registration statement was filed. There is every indication that the negotiations with respect to the contemplated issue price were materially affected by the indicated demand which had at least in part been stimulated by this publicity. In short, the situation generally bore, to a detached observer, a troubling resemblance to the classic pattern of security distributions as they developed in the late 1920s. In questioning whether the stock could have been sold at the offering price if the prospectus had been the first step in the selling campaign, I may point out that the market for the stock shortly after free trading commenced dropped below the offering price and, as I remember it, has never been up there since.

In view of this situation, and a number of other more recent indications that the securities industry was slipping into a rather nonchalant attitude toward the provisions of Section 5, the Commission determined to, and did issue its Release 3844 in October of last year, in which we attempted to remind the trade of the serious nature of this problem. We have since seized every opportunity which has presented itself to reiterate this warning. We can do nothing more, as I see it, nor most certainly can we do anything less.

From the very nature of the statute, which attributes very great importance to the subjective intent of the parties, it is completely impossible to lay down hard and fast rules for general application to this question. I would like to say again that there is ample room for legitimate corporate publicity under the law, but that it is the duty of the bankers and issuers to keep in mind the purposes of the law and to make sure that such publicity does not become mixed up with a securities sales campaign. The SEC has never had any reason seriously to complain of a lack of cooperation by the respectable element of the securities industry. I ask now for the industry to take a new and dispassionate approach to this serious problem, to consider the duties imposed on us by the Congress and to restrain itself within the limits established by law to the public issue and sale of securities. The SEC has enough to do to protect the investors in America against chicanery and fraud, and we begrudge every minute which we are required to spend in guarding them against "gun-jumping" by legitimate business. We believe that a little more care, a little more thought would be enough to avoid such problems.

In closing, permit me to express my appreciation for the opportunity to discuss with you some of our problems. Many factors contribute to making our system of free enterprise work. The ability of industry to grow and prosper depends upon its ability of obtain capital. Access to capital, in turn, is dependent to a large extent upon the confidence which the investing public has in securities as a safe and profitable place to invest its savings. This confidence is in large measure a function of the extent to which corporate financial and related information is disclosed to investors. Our job is to extend and preserve this confidence, and our only reservation is due to the limited prohibitions of a carefully drawn and purposeful statute designed to see that the information so disclosed is actually fair, accurate and complete. We believe our interests and yours are identical, and that one of our primary purposes is to help you to expedite the flow of capital from American investors to American industry. If the SEC and the investment bankers can cooperate to this end, we will have made a notable contribution to the lasting strength of our national economy.

Shearson, Hammill Co. Admit R. L. Speight

Randolph L. Speight will become a partner in Shearson, Hammill & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1.

Asiel & Company To Admit New Partners

Asiel & Co., 20 Broad Street, New York City, members of the New York Stock Exchange, on Dec. 31 will admit D. Paul Jacoby, Richard L. Mayer and William H. House to partnership.

William Blair & Co. To Admit Bruce Thorne

CHICAGO, Ill. — On Jan. 1 Bruce Thorne will be admitted to partnership in William Blair & Company, 135 South La Salle St., members of the New York and Midwest Stock Exchanges. Mr. Thorne has been associated with the firm in the Buying Department.

Clark, Dodge & Co. To Admit Partner

Clark, Dodge & Co., 61 Wall St., New York City, members of the New York Stock Exchange, on Jan. 1 will admit Edmund P. Combe of London to partnership in the firm.

New York Stock Exchange Weekly Firm Changes

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

Maurice J. Cohn will retire from partnership in Andrews, Posner & Rothschild Dec. 31.

Laurence S. Johnson will withdraw from partnership in Auerbach, Pollak & Richardson, December 31.

Lester Santly will retire from limited partnership in Felder & Co., Dec. 23.

Peter F. D. Elser will retire from partnership in G. C. Haas & Co., Dec. 31.

Clinton G. Hough will withdraw from partnership in Long & Meaney, Dec. 31.

Shaskan Bros. will be dissolved Dec. 31.

Zock, Shields & Co. will be dissolved Dec. 31.

Industrial Partnership in Modern Agriculture

Ronald E. Kaehler, center, San Francisco, President of the San Francisco Division, Pacific Coast Stock Exchange; Ernest Hart, left, San Jose, President, Food Machinery and Chemical Corporation, and Jesse Tapp, right, Los Angeles, Chairman of the Board, Bank of America, shown with the Award for Industrial Partnership in Modern Agriculture presented to the Pacific Coast Stock Exchange by the Central Valley Empire Association at the National Salute to Agribusiness in Fresno, Dec. 3. Mr. Tapp was the principal speaker at the dinner. The purpose of the Salute was to call attention to the fact that modern mechanized and chemicalized agriculture is one of industry's biggest customers.

Forms Barsh Co.

PASSAIC, N. J.—Thaddeus A. Barszcz is engaging in a securities business from offices at 663 Main Avenue under the firm name of Barsh & Co. Mr. Barszcz was formerly with Ira Haupt & Co.

Patrick Clements Opens

HOLLYWOOD, Calif. — Patrick H. Clements is engaging in a securities business from offices at 6715 Hollywood Boulevard under the firm name of Patrick Clements & Associates.

Continued from page 35

Report of IBA Oil and Natural Gas Securities Committee

gram, of necessity, must be flexible. A review of the original program established in July 1957, the changes effected in 1958, and those now under consideration indicate a degree of flexibility. From an investment point of view, these revisions in the program must be followed carefully since each carries certain implications for particular companies.

* * *

The "Carson Plan"

As a result of many requests for additional import allocations and in response to suggestions from members of the petroleum industry that allocations of imports be related to refinery capacity, the Administrator of the Voluntary Oil Import Program, Captain Matthew V. Carson, Jr., advanced a new program for import control on Sept. 10, 1958. This suggested program has been thoroughly studied by the industry, and company comments have been forwarded to the Administrator as requested. Possible revisions of the plan are now being studied prior to the acceptance of a new program by the President's Cabinet Committee.

The newly proposed plan tends to turn away from allocations based on historical rates of crude oil imports and, instead, fixes allocations in relationship to refinery capacity and runs. Under the new tentative plan, total crude imports are limited to 751,300 b/d, which is 12% of domestic production. To this is added 75,000 b/d of other unfinished oils. Total permissible imports are therefore fixed at 826,300 b/d, which is 10.1% of annual total demand. Present import allocations will remain in effect until Jan. 1, 1959. Following that date, allocations under the proposed plan will be as follows:

Jan. 1, 1959 to June 30, 1959—Importers, whose allocations are less than 6% of individual reported refinery capacity will be granted allocations equal to 6% of such capacity. Those whose allocations are greater than 37½% of reported refining capacity will be reduced to that level.

July 1, 1959 to Dec. 31, 1959—Refiners with import quotas of less than 9% of refinery runs for the year ending March 31, 1958 will be increased to 9%. Those with the highest percentage allocations will be progressively reduced in order to raise the others to 9%.

Jan. 1, 1960 and each six months thereafter — The allocations of all importers will equal the percentage that the total of all import allocations bears to the total of industry refinery runs for the year ending three months prior to the effective date of the allocation. For example, if the allowable level of total imports equalled 11.4% of industry refinery runs, each refiner could receive 11.4% of its refinery runs in an oil import allocation.

* * *

Under the proposed new plan, the import quotas of historical importers would suffer most, while companies that have considerable domestic refining capacity, would benefit. The principal companies whose allocations would be reduced under this tentative plan are Atlantic, Eastern States, Gulf, Standard of California, Sun and Tidewater. On the other hand, the chief beneficiaries would be Continental, Phillips, Pure, Shell, Standard (Indiana), Standard (New Jersey) Standard (Ohio), Sunray Mid-Continent, and Texas. The import positions of Cities Service, Sinclair and Socony would not be materially changed.

This plan was made available to all interested parties in the middle of September, and it was requested that comments be submitted to the Administrator of the Voluntary Imports Plan by Oct. 13.

* * *

The Natural Gas Situation

EDITOR'S NOTE: Subsequent to the presentation of the Committee's report to the Convention, the United States Supreme Court reversed the lower court's so-called "Memphis Decision." However, we deem it of interest, and for the record, to carry the Committee's accompanying views on the impact of that "Decision" on the various segments of the natural gas industry.

On Nov. 21, 1957 the United States Court of Appeals for the District of Columbia Circuit issued the now-famous "Memphis Decision" upsetting the accepted procedure under which the gas pipelines have applied to the Federal Power Commission for increased rates under their service agreements with their customer distribution companies. The pipeline industry and the Federal Power Commission presented a united front in petitioning the U. S. Supreme Court for immediate review prior to its summer recess. Early in Januray the Supreme Court agreed to review the lower court decision but denied the petitions to hear the case prior to the summer recess. The Supreme Court heard argument on the appeal on Oct. 20 and 21 and a decision is now expected before the end of the year.

In the meantime, the Memphis Decision has had a serious impact on the natural gas transmission industry, although some companies have been much more seriously affected than others. In some cases financing plans (and hence expansion programs) have, of necesity, been delayed. In other cases financing programs have gone forward although the uncertainties arising from the decision have acted as a hinderance to market conditions.

The last year has brought forth no clarification of the regulatory situation with respect to independent producers of natural gas. About three years have elapsed since the City of Detroit case under which the Federal Power Commission is required to use a so-called rate base method (at least as a "point of departure") in determining the reasonableness of producers' rates which are subject to its jurisdiction. Despite lengthy proceedings and the taking of much evidence, the FPC has yet to issue a decision which adopts a basis for determining a "rate base" for a producer of natural gas or establishes an area for a rate of return which the Commission finds to be "fair." To regulate natural gas producers on a utility rate base method is not only unfeasible from an administrative standpoint but contrary to the principles of free competitive enterprise. Amendatory legislation to alleviate this situation made no progress in Congress this last year. It is hoped that a bill will be passed in the coming session although positive signs of unified industry support are difficult to find.

The last year has witnessed

Continued on page 42

Continued from page 41

Report of IBA Oil and Natural Gas Securities Committee

some violent swings in the money market, to put the matter mildly. The bond market is, of course, of primary concern to natural gas transmission companies. All types of borrowers are concerned with the level of the bond market; however, there are aspects in the pattern of pipeline financing which make this industry especially sensitive to the effect of these higher interest costs. One of these factors is the higher proportion of debt employed by natural gas pipelines in financing their expansion programs and the other is the rapid rate of amortization applicable to pipeline indebtedness. The operation of sinking funds results in the rapid retirement of the earlier low-cost issues and replacement with the higher-cost issues of more recent years. By contrast, other public utilities such as the electric light and power industry carry much lower sinking fund requirements and most of these requirements may be offset or canceled out against net property additions, with the result that actual retirement of the electric industry's previously-issued bonds are a rare occurrence. The pipeline industry, on the other hand, does not generally have a provision permitting a credit for property additions against sinking fund retirements. The rapidly increasing cost of senior capital experienced by all borrowers including the pipeline industry obviously can result in a serious squeeze on the common stock equity component of the capitalization unless the Federal Power Commission allows a compensatory increase in the over-all rate of return. Reflecting these circumstances, a number of pipeline companies have applied for rates of return of 6½% and more but most such cases remaining pending.

The lack of visible progress toward solving the industry's regulatory and legal problems, as frustrating and inhibitive as they are, has however been ineffectual to date in halting or even seriously slowing its growth trends. In witness are the latest AGA estimates that expenditures on new gas facilities in 1958 will set an all-time record of $1.9 billion. That more would have been accomplished if the Memphis Case had not caused cutbacks or cancellation (i. e. the Beatrice project of planned construction) seems less important than the demonstrated vigor of the industry despite adversity. Natural gas retains a competitive edge over heating oil for the house heating market and continues to make inroads into oil's share of this business. As a result, heating saturation rose by the end of 1957 to 62% and, according to the AGA, will continue advancing to 1970 when 85% of all gas customers are expected to have heating service.

The effect of these trends is apparent in the industry's operating results for the 12 months ended June 30, 1958. Operating revenues were up 12.6%, Mcf sales 5%, and net income 17.5%. Also during this period gas-fueled air conditioning equipment and sales promotion have been noticeably revitalized with renewed promise of developing an important counter-seasonal market.

A recent AGA survey of the gas industry's growth over the coming decade or more clearly emphasizes the urgency of preserving investor confidence and access to private capital markets by clarification of the perplexing problems currently facing it. AGA forecasts the need for $36 billion of new gas company plant by 1970 to accommodate a doubling of volume sales and a 45% increase in customers served. It is therefore hoped that the next year will bring forth considerably more progress toward constructive solutions to industry problems than the one under review.

Is Integration Desirable?

Events of the past several years have raised many questions concerning the changing patterns of the free world petroleum industry. One of the recurring queries is whether the small producer and refiner can remain independent, or will the pressure to integrate become irresistible?

In order to attempt an answer to this question, it seems wise to look ahead for several years, despite the uncertainties that always attend such projections. Of great usefulness in the petroleum industry are the long range forecasts of the Petroleum Department of the Chase Manhattan Bank. One of its periodic bulletins, entitled "Future Growth and Financial Requirements of the World Petroleum Industry," has just been released. This paper forecasts demand and sources of supply for the free world during the years 1958-67. Capital expenditures necessary to finance the growth visualized are also estimated. By utilizing this interesting long range study, together with other material, certain guiding principles can be established which are, we believe, useful in arriving at an answer to the question of integration.

Outlook for the Petroleum Industry

Demand: The long range outlook for the petroleum industry, according to the Petroleum Department of the Chase Manhattan Bank, is for a demand growth in the United States of nearly 5% per annum for the next decade. This is based on an expansion in population to 200 million people by 1967. A rising standard of living points to overall energy requirements 50% greater than present rates. Petroleum will supply almost one-half of the total energy requirements and will reach a level of 14.4 million barrels a day.

At the same time, demand for natural gas in the United States should continue to grow faster than petroleum, reaching levels of 17.2 trillion cubic feet within ten years. This will represent about 25% of all energy consumed in the U. S.

Oil demand in free foreign areas is in an earlier stage of development and seems likely to continue to expand more rapidly than in the United States. Supporting this outlook is the unavailability of natural gas in many foreign regions and the difficulty of expanding coal supplies. For the next decade demand abroad will grow about 7.7% per annum and will average 15.1 million barrels a day in 1967.

Thus, total demand for the free world will exhibit a growth of 6.2% a year and will total 29.5 million barrels daily in 1967.

Supply: There is little doubt that crude oil reserves are more than ample to supply production for the estimated growth in demand over the next ten years. However, these reserves are unevenly distributed relative to the consuming area. The United States now accounts for 56% of world demand, but has only 13% of reserves. In sharp contrast is the Middle East with 72% of the reserves and less than 1% of consumption. In fact, Middle Eastern reserves are so great that all of the world's needs for petroleum could be supplied by this prolific area if political stability and adequate facilities were provided.

Within the United States the Chase Manhattan Bank estimates that the domestic producing industry will supply about 9½ million barrels per day in 1967, up from about 7 million barrels a day now. In addition, there will be 1,300,000 barrels daily of natural gas liquids. At that time, the United States will probably be producing near capacity. It is likely that exploration and drilling activity will have reached its peak before this time. In order to satisfy the anticipated demand of 14,400,000 barrels a day a decade from now, net imports will have to approximately triple to about 3,600,000 barrels per day.

Canada, Venezuela and the Middle East are likely to more than double their production during the next ten years. This is because reserves are large relative to production, and output is capable of expansion at a rate much faster and at lower costs than in the United States. Canada's production should go up more than 2½ times to 1,300,000 barrels per day. In Venezuela, substantial new reserves and productive capacity have been developed in Lake Maracaibo. Venezuela should, therefore, be able to produce five million barrels per day ten years hence, nearly twice its present 2.6 million barrels daily. Middle Eastern production will continue to be utilized to balance world demand as most other areas approach capacity production. This will result in production rates approaching 9 million barrels per day in 1967, more than double the present 4 million daily rate.

Capital Expenditures: Capital outlays necessary to supply the world with the estimated demand for petroleum during the next ten years will reach the staggering total of $140 billion. This is nearly twice the expenditures of the past ten years. In the United States, expenditures will climb from a little over $6 billion to $9.3 billion in 1967 and total about $77 billion for the decade. Outside of the United States expenditures will more than double from $4 billion to $8.5 billion, and total outlays will reach $63 billion during the period. Expenditures in 1967 in the free world by the entire petroleum industry will be at the rate of $17.5 billion, of which 60% will be for production facilities.

Due to the relatively high cost of finding and developing production in the United States in recent years, as well as the rapid expansion of the search, the industry has been unable to provide all of its capital needs. Over the last five years, funds required by the United States petroleum industry from outside sources, both equity and debt, totaled $4.5 billion. This was equal to 15% of all expenditures. It is probable that over $6 billion was raised, through either equity or debt financing, by the worldwide industry during the past five years.

This dependence on outside funds is likely to continue for the foreseeable future and recourse to capital markets will have to be made by all segments of the industry. Capital contributions may exceed $15 billion during the next decade and would be much higher if the emphasis on exploration and production had not turned to foreign areas. Moreover, considering the other large demands for funds anticipated throughout the world, it is probable that the oil industry will have to raise its money in relatively "tight" capital markets.

Long Term Implications

Crude Oil Prices: Since supplies of crude oil are abundant throughout the world, and shut-in productive capacity is at least 4 million barrels per day, or approximately 25% of present producing rates, it is difficult to visualize an increase in the price of crude in the foreseeable future. In fact, the tendency is toward price erosion by discounts or isolated reductions for specific crudes. This is particularly true of heavy crudes yielding a large percentage of fuel oil. Because fuel oil has vigorous competition from natural gas within the Unted States, the wellhead price of low gravity crudes has suffered, and gravity price differentials have been increased.

Since the United States producing industry is relatively high cost compared with other major sources of crude in the world, it was necessary to impose voluntary import quotas to limit the supply of low-cost foreign crude entering the United States. This was done in order to maintain a healthy domestic industry for national defense purposes in the event of orthodox warfare. The Texas Railroad Commission also applied heavy proration during the past year, and these two supply-limiting actions succeeded in maintaining most of the increase in the price of crude instituted in January 1957. However, as a result of the surplus-producing capacity and the recession in demand, the pressure has been on the producer to justify the value of his crude to the refiner. This must take into account gathering and transportation costs and the net-back value of the products after processing. It appears that the producer is becoming more and more dependent on the refiner to take his crude; and, indeed, he must eventually think in terms of providing his own market.

This is particularly true of domestic operators with new foreign production and no marketing facilities outside the United States. Since voluntary import quotas are likely to be with us for some time, the new producer of foreign crude must sell most of his oil at a discount in world markets to companies with established refining and marketing outlets. In other words, the refiner and marketer throughout the free world, including the United States, is in a position to obtain ample supplies of crude from many alternative sources at a price level that allows him to maximize his refining and marketing profits.

Cost of Expanding Production—Exploration for oil in the United States during the past seven or eight years has become difficult and expensive. The capital cost of expanding domestic production has increased from 80c per barrel in the early postwar years to about $1.50 per barrel currently. However, in the free foreign areas, costs have been held fairly constant at about 60-70c per barrel during the entire postwar period. Consequently, the domestic exploration and producing segment of our industry is becoming relatively high cost. In fact, our capital cost is about 10 times that of the Middle East, five times that for Venezuela and, if Canada were producing near capacity, almost twice that for our neighbor to the north.

Because of the high cost of domestic production, the rate of return for solely producing companies in the United States has been declining during the post-war years, particularly since 1952. This process has rendered it difficult to generate enough funds internally to replace reserves now being produced which had been found many years previously at much lower costs. Consequently, most producing companies in the United States, both small and large, are in a semi-liquidating position. And this no doubt explains the recent upsurge in exploration activity outside the United States in recent years by many companies who previously operated only domestically.

This is not to imply that the United States is running out of oil. However, it is apparent that our domestic producing industry must become more efficient through cheaper drilling, wider spacing, air and gas drilling, etc. Although most companies will expand their foreign activities in order to try to find cheaper reserves, domestic operations will continue to receive the majority of their capital funds. This is because the United States is not only the largest consuming center in the world, but also its political stability justifies this attitude.

* * *

Natural Gas Demand

Demand for natural gas continues unabated in the United States and during the post-war period has been essentially depression-proof. Further above-average gains may be expected in such areas as the West Coast and the Midwest. In addition to the strong growth factor, prices have been rising steadily in spite of regulation by the Federal Power Commission. By 1967 the average wellhead price should reach 15c per Mcf as contrasted with the current level of 11.3c.

During recent years the United States industry has found an average of 20 trillion cubic feet annually, which is at least twice current production rates, and in Canada discoveries have been at a tremendous pace. Costs of finding reserves are only a fraction of selling prices now being negotiated under new long term contracts. Furthermore, operating costs are nominal.

Consequently, many companies are turning to exploration for natural gas within Canada and the United States, while at the same time confining much of their exploration for crude oil to areas outside the United States. Export of gas from Canada to the northern tier of states is almost a certainty under the pressure of more than ample supplies now available in Canada for its domestic market.

Financial Ability—The domestic industry is faced with the prospect of large and rising capital expenditures, even overlooking inflationary influences which might prevail. Added to this is the fact that internal cash generation will not cover completely these expenditures. Consequently, all units of the industry will find it necessary to go to the money market from time to time for equity or debt. It will be important for a company to have a good credit standing to obtain these funds on favorable terms.

Foreign Crude Production—Imports of crude into the United States will increase nearly threefold to about 3.6 million barrels daily within 10 years. The ratio of imports to demand will double from the present 12% to nearly 25% over the same period. Access to low-cost foreign crude production in amounts approximately equal to these ratios for each individual company is highly desirable. Otherwise, a company will find its ability to compete with those companies who do have access to foreign crude more difficult with the passage of time.

Conclusion

Having in mind the patterns which should become apparent within the world petroleum industry during the foreseeable future, it appears that integration will be desirable, if not necessary, to compete effectively.

Within the United States the small independent producer must attempt to replace reserves at competitive costs. And it may be necessary to supply a market for his crude. The independent refiner, on the other hand, has found it imperative to overcome the

Continued on page 44

Continued from page 43

Report of IBA Oil and Natural Gas Securities Committee

tendency for the price of his raw material, crude oil, to remain rather constant while product prices fluctuate often widely. This process erodes profits in recessions and impairs the credit standing of the company possibly enough to prohibit the raising of capital on sufficiently reasonable terms to finance expansion and modernization.

It therefore appears vital for a company to be fully integrated in its domestic operations, with gross crude production, refinery runs and controlled marketing outlets approximately equal. The level of operations should exceed 30,000 barrels per day to achieve efficient refining and marketing activities.

Furthermore, these economic forces will undoubtedly bring about merger and sale of many smaller producing and refining companies into larger, more efficient units. Aggressive, intelligent competition between these larger integrated companies, many of which will be world-wide in scope, will be commonplace, but destructive price wars in time should occur less frequently. Refining and marketing profits should be stabilized so that an adequate return can be realized on investments made in these segments of the industry.

The Growing International Character of the Domestic Oil Industry

One of the most significant changes which has taken place within the oil industry in the postwar period has been the large-scale expansion of domestic oil companies into foreign areas. Prior to World War II there were relatively few United States oil companies operating abroad, and because of the substantial capital requirements necessary to carry on foreign exploration and production such activities were concentrated in the hands of the larger oil firms—such as Gulf Oil, Socony Mobil Oil, Standard Oil of California, Standard Oil (New Jersey) and Texas Company. These companies extended their operations into foreign areas with the support and even encouragement of the United States State Department. At the end of the World War II only 13 American oil companies were active abroad. The expansion into foreign areas of operation has proceeded at an accelerated pace in recent years with the result that today there are no less than 200 American oil companies, or individuals, actively engaged in exploration and/or production in some 74 foreign countries.

* * *

The extent of investment participation by American oil companies in foreign operations has been estimated by the Chase Manhattan Bank. Based on gross investment in fixed assets at the end of 1955, of the $22.9 billion representing the entire foreign free world, United States oil companies contributed $8.0 billion, or 34.8%.

Reflecting the intensified search for oil in foreign areas over the past two decades, at tremendous increase in foreign crude oil reserves has occurred, as shown by the following table:

Comparison of Crude Oil Reserves Owned by United States Companies

As of December 31—1938 vs. 1957

Area	12/31/38 Billion Barrels	12/31/38 % Owned by U. S. Cos.	12/31/57 Billion Barrels	12/31/57 % Owned by U. S. Cos.
United States	17.3	96.0%	30.3	96.0%
Foreign Free World	12.4	35.0	205.3	57.6
Total Free World	29.7	70.4%	235.6	62.6%

SOURCE: Leonard M. Fanning, Foreign Oil and the Free World. (New York: McGraw-Hill, 1954); American Petroleum Institute; The Oil and Gas Journal; World Oil.

It is interesting to note that within the past 20 years there has been a significant shift of the world's petroleum supply from the United States to the Middle East. At the end of 1938, the United States possessed 59% of the free world's known oil reserves while the Middle East's share was only 17%. By the end of 1957, however, United States oil reserves represented only 13% of the free world's total and the Middle East position had climbed to 72% of the total. As a result of large expenditures by the American oil companies for oil exploration in foreign areas, United States interests have increased their ownership in foreign oil reserves from 35% at the end of 1938 to 58% at the end of 1957.

* * *

The second principal factor causing American oil companies to go abroad relates to the higher rate of growth of petroleum demand in the foreign free world. During the postwar period domestic oil demand has increased about 5½% per year whereas the rate of growth in the foreign free world has averaged about 11% per year. Although these rates of growth may diminish somewhat in the future, reasonable long term projections indicate a rate of growth for the United States of at least 3% per year over the next decade or so, with that in the foreign free world expected to continue averaging about twice the domestic rate.

Another lure for domestic oil companies to "go international" is the freedom to exploit a foreign discovery. In the United States, states having conservation laws frequently find it necessary to place sharp restrictions on crude oil output which results in a stretchout of the payout period on domestic properties. For example, during the recent period of over-supply in the oil industry Texas permitted only eight days of production in each of the months of March through June, 1958. As a result, producing oil wells in the United States in recent years have averaged only 12 to 13 barrels per day. In striking contrast, a good well in Venezuela can produce 2,000 barrels of oil daily, and in the lush fields of the Middle East yields soar to an amazing 6,000 barrels daily. Also, oil wells in many foreign areas are shallower and hence cheaper to drill. It is not surprising, therefore, that return on invested capital in foreign areas may be considerably higher than in the United States.

* * *

Despite the fast-growing demand for oil abroad, foreign oil operations may not be as profitable in the future as they have been in the past. This possibility is based not only on the likelihood of gradual liberalization of the 50-50 profit-sharing ratio in favor of the producing countries, but also on the likelihood of increased competition for markets and consequent price-cutting resulting from development of substantial crude reserves and production in foreign areas and the necessity of the companies, particularly the smaller operators, to recoup their investment as rapidly as possible and to meet concession obligations.

Most concession agreements in the principal producing countries provide for a 50-50 split of the profits from oil production. In recent months the Iranian Government oil company concluded a contract with the Italian Government oil company (commonly referred to as ENI) and the Saudi Arabs entered into a contract with a Japanese private company covering a new concession in the Saudi Arabian - Kuwait offshore areas. Although these two contracts differ from each other, both provide for an increased government share in profits. More recently Standard Oil (Indiana) worked out an agreement with Iran whereby future profits are split on a 75-25 basis in favor of the producing country although the government for the first time is required to provide a share of the capital for development work. These new agreements have caused considerable speculation as to the possible effect on the older as well as future concession agreements. However, the Saudi Arab government has stated that no revision in the 50-50 split included in the Aramco concession is envisioned. Nevertheless, revisions of the older concession agreements may be witnessed in the future to provide for at least some change in the 50-50 pattern and extension of the governments' participation in earnings from solely production today to include refining and marketing as well.

Another aspect of foreign oil is concerned with Soviet Russia's possible invasion of the world petroleum market by using its exportable surplus of oil as an economic weapon. The Soviet Union has in its confines the largest areal petroliferous potentiality in the world. If Russia's standard of living and per capita consumption of petroleum are ever raised to a level comparable with the United States and Canada, the Soviet's petroleum consumption would experience a tremendous increase. Crude production rose from 200 million barrels in 1948 to 700 million barrels in 1957, when surplus of oil available for export amounted to 50 million barrels. Recently the Soviet Union has made barter deals to supply petroleum to Argentina, Brazil and Uruguay. Although the possibility of a trade offensive in oil must be recognized, the real danger still appears to lie in Communist infiltration and other political moves to undermine the West's accessability to Middle East crude oil reserves.

Canadian Oil Developments

During the past 12 months all divisions of the Canadian Petroleum Industry, with the exception of natural gas, have been passing through a difficult period. Production and consumption for the first time in many years has declined moderately, both on a per capita and total volume basis, reflecting a lower rate of business generally and an exceptionally mild winter in nearly all parts of Canada. The overall decrease, however, has been moderate—being about 4% in the first six months of 1958 compared with the corresponding period of 1957. While full data are not yet available, preliminary figures for more recent months indicate that the downward trend has halted. There are signs that some degree of recovery has started.

The refining and finished products marketing operations may well be regarded as an integral part of Canada's whole economy and fluctuations in these activities reflect the prevailing state of business and of the weather. On the other hand, because of Canada exports crude oil to the United States, the Canadian oil industry is sensitive to the vicissitudes of the international crude market.

The Canadian petroleum industry's major difficulty is finding a market for its crude oil, especially in the export market. During the first half of 1958 consumption of domestically produced crude at 63.4 million barrels was only down 2.2% from the 64.9 million barrels consumed in the corresponding period of 1957. By comparison Western Canadian exports of crude in the same period of 1958 of 17.1 million barrels were down about 44% from the 30.4 million barrels exported in the first six months of 1957. Alberta suffered the greatest decline in exports from 23.8 million barrels in the first half of 1957 to 8.3 million barrels in the first half of this year. Saskatchewan, on the other hand, actually increased its exports by 2.2 million barrels while Manitoba remained almost unchanged. The sharp decline in exports, almost all of which are made to the United States, is the result of the complicated aftermath of the Suez Canal crisis.

It now appears almost certain that Canadian crude production in 1958 will be down moderately from the 182 million barrels produced in 1957. This will be the first year that production has failed to increase materially since the discovery of the now-famous Leduc field in 1947; the development which initiated the Canadian industry's startling postwar growth pattern. While the 10% decline in production does not in itself appear to serious, the decrease contains much greater significance as appraised against the fact that 1957 production was equivalent to only 50% of the potential output under strict conservation practices. Furthermore, during the 12 months ended June 30, 1958 there was a 10% increase in the number of producing oil wells.

The present situation in the Canadian petroleum industry as pictured above is, to say the least, disappointing. The condition, however, is regarded as temporary and the more immediate and longer term outlook is by no means gloomy. Predictions have ben made by major oil companies that the ground lost of this year will be more than recovered in 1959. At the same time it was not anticipated that the very rapid rate of growth in exploration and production during the past years could be maintained. It has been apparent for several years that the growth in producing capacity was saturating available domestic markets and, therefore, making the industry increasingly dependent upon the export market.

In many respects the western Canadian petroleum industry grew up "the hard way." The geographic isolation of the producing areas from the major industrial markets of Ontario and Quebec is a handicap. Even servicing the West Coast market necessitates traversing the very difficult terrain of the Rocky Mountains. From the first, the problem of marketing Western Canadian crude other than on the Prairies has involved the logistics of long distance land transportation in direct competition with oil from foreign sources.

* * *

The natural gas situation in Canada presents a sharp contrast to the oil picture. The Westcoast Transmission line was completed in 1957 and is now delivering gas to British Columbia and the United States Pacific Northwest—a large and rapidly expanding gas market. Trans-Canada Pipe Line will be completed late in the present year to transport natural gas from Alberta as far east as Toronto and Montreal. Applications have been made to government authorities to construct a pipeline southwest out of Alberta to supply additional gas to California consumers. Another application is pending before the United States and Canadian authorities to export gas south out of Manitoba to supply the north central states.

Proven recoverable natural gas reserves in Western Canada are now in the order of 30 trillion cubic feet. It should be noted, however, that until relatively recently the build-up in natural gas reserves has been almost incidental to and a by-product of the search for oil. There are few who will deny that a great deal more natural gas will be discovered and undoubtedly there will be ample reserves for export to the United States. Even the very conservative Albert Oil & Gas Conservation Board suggested in a report issued in September that during the next 30 years reserves of well over 51 trillion cubic feet will be discovered in that Province. In a submission to the Royal Commission on Energy (Borden Commission) The British American Oil Company Limited estimated ultimate reserves in western Canada recoverable by primary methods at 308 trillion cubic feet. Other submissions by major oil companies are in reasonably close harmony with this estimate. By contrast, U. S. gas reserves are currently estimated to be 247 trillion cubic feet.

Late in 1957 the Canadian Government named a Royal Commission on Energy known as the Borden Commission to undertake a complete study of the entire Canadian energy field, the objective being a more thorough under standing of Canadian energy resources and their appropriate use. While the Commission's task will take some years to complete, the urgency of the situation in the oil and gas industries dictated a policy of initial concentration of the enquiry into these fields and the preparation of an interim report of the Canadian Government. It has been indicated that this interim report and its recommendations will be presented before the end of 1958.

* * *

The 1959-60 outlook for the Canadian petroleum industry is a resumption of the growth trend that has characterized the past 11 years. It is not anticipated that the gradient of the growth curve will continue as steep as the industry grows in size. The excessive petroleum inventories in both the United States and Canada have already been reduced to more manageable proportions. As the 1957-58 business recession in North America fades into history, a resumption of normal increase in demand for petroleum is to be expected.

One factor which may tend to retard Canadian production expansion is the continuing oversupply of ocean tanker capacity accompanied by competitive tanker rates. While inland demand for Canadian crude is growing steadily, the fact remains that the most attractive target markets are located in areas tributary to Pacific and Atlantic ports which can be served by Canadian crude only via long pipelines, a more expensive method of transportation than by ocean tankers carrying Eastern Hemisphere crude oil.

For the longer term, projections by major oil companies indicate a minimum production rate for Western Canada of 1¼ million barrels daily before the end of 1965. The Gordon Royal Commission on Canada's Economic Prospects a few years ago suggested a production level of 3 million barrels daily by 1980. If proven oil reserves are to be adequate the support production at these rates, the crude discovery rate will have to be increased from an average during the past 10 years of 400 million barrels annually to roughly one billion barrels a year.

Respectfully submitted,

OIL AND NATURAL GAS SECURITIES COMMITTEE

Edmond N. Morse, Chairman
Smith, Barney & Co., New York

Ralph D. Baker
James Richardson & Sons
New York

Bayard Dominick
Dominick & Dominick
New York

Joseph P. Downer
Wertheim & Co., New York

G. Shelby Friedrichs
Howard, Weil, Labousisse
Friedrichs & Company
New Orleans

L. Emery Katzenbach, 2nd
White, Weld & Co., New York

William G. McKnight, Jr.
Eastman Dillon, Union Securities & Co., New York

Frederick L. Moore
Kidder, Peabody & Co.,
New York

Joseph R. Neuhaus
Underwood, Neuhaus & Co., Inc.
New York

Allen J. Nix
Riter & Co., New York

Paul A. Sellers
The Illinois Co., Inc., Chicago

With First California

(Special to THE FINANCIAL CHRONICLE)

RENO, Nev.—Leland G. Smith is now with First California Co. Inc., 224 West First Street. Mr. Smith was formerly with Harris, Upham & Co. and Hooker & Fay in San Francisco.

Wholesome Food for Thought

"While I think the intensity of the Soviet system will decline in time, I see little hope for early change. On the other hand, there is the constant danger that we will fall asleep again.

"If we can't do much with Moscow, we can do a lot with ourselves.

Adlai Stevenson

"The free world must set its house in order and keep it in order, and not just sit around, bickering, postponing and waiting for total peace to break out. Moscow will be more likely to talk seriously if the Western alliance is vital and viable, the residual colonial problems being dealt with (while Soviet imperialism becomes more obvious), and above all the free world making a concerted effort to unite the advanced and retarded areas in common economic enterprises.

* * *

"I have seen the Russians close up. They are tough, fearful and going places. But they are also very human. Their hopes and desires are for peace and an apartment. Even Mr. Khrushchev wants to attain the American standard of living! And we still have the supreme advantage of living under the system most people want if they can get it and afford it." — Adlai E. Stevenson, in the New York "Times."

Just what Mr. Stevenson would have us do "with ourselves" we are not certain, but there is much wholesome food for thought in what he says here.

Continued from page 18

Economic Recovery Will Be Sustained

ercising control over the money supply. Despite the mysteries of the central banking mechanism, this educational problem should not be insurmountable.

Everyone can understand the need for controlling the growth of the money supply, and everybody should be able to understand that when the money supply is kept within appropriate bounds, two things will happen: First—some people are not going to be able to get all of the credit which they think they deserve; and second—as the demand for credit exceeds the supply, the price of credit in a free market, the interest rate, must necessarily rise. Even those who are frustrated by failing to have all of their credit demands met, and those who feel aggrieved at having to pay a higher rate of interest than they think they ideally should have to pay, can be educated to accept these restraints as necessary if the greater evil of inflation is to be avoided. To the extent that we can promote a better understanding of these simple monetary facts of life, we can do a real service for the economy and the nation.

Economic Outlook

Although some figures show a rather sluggish performance for the economy in October, I believe this is a temporary phenomenon . . . that the recovery is well founded and will be sustained. Strikes and work stoppages held October automobile production to less than half of the volume of October 1957, seasonal factors considered. This was the principal reason for the declines in employment and personal income in October, which have caused much concern. With automobile production on the rise, these temporary declines should soon be reversed.

If we look at the various sectors of the economy, I think I can show you why the prospects for the economy are good. Looking at the consumer sector, we find that consumer incomes are at an all-time high level, and rising. Furthermore, the total of consumer installment credit outstanding is almost $1 billion lower than it was last December. These factors have produced a rising trend in retail sales, a trend which should continue at an accelerated pace in the months ahead. We still don't know what the demand for automobiles is going to be, but consumers have more money, less debt, and a brighter outlook than a year ago at this time, so I think automobiles are bound to have a much better year than last year.

Residential construction has already had a vigorous revival, with October housing starts at the highest rate in more than three years. With tighter mortgage money in prospect, residential housing may not substantially exceed its present level. It seems likely, however, that the new Congress will take steps to forestall any slackening from the present pace of housing construction. In any event the construction industry will be well supported by the great upsurge in prospect for non-residential construction, of which highway construction will be prominent. Contract awards for non-residential and heavy engineering construction have been running at record levels in recent months.

Inventory Liquidation Halted

We are approaching a turnaround in the business inventory picture. Inventory liquidation, which accounted for two-thirds of the decline in the Gross National Product during the recession, has been slowing down, and we can expect a shift to net inventory accumulation in the coming months. The shift in the inventory picture has been and will continue to be one of the most important stimulants to the economy. The recovery picture was made complete when it was announced that plant and equipment expenditures could be expected to rise slightly in the fourth quarter. Evidence indicates that we are not going to have another major capital goods boom during the next year or so, but at least the capital goods sector is not going to continue to be a net drag on the economy.

On top of all this evidence of revival in the private economy, Government expenditures are expected to rise substantially during the coming year. So all told, the recovery in our economy looks to be solidly based, and there appear to be no good reasons for expecting a relapse.

Even though I think we are going to enjoy a sustained rise in the level of economic activity, it will probably be a good many months before we again find ourselves pressing against capacity. We are likely to see a period of relative price stability during the months immediately ahead, but this should not lull us into forgetting that inflation is likely to be our chronic problem in the future, at least until such time as the cold war can be declared at an end, if such a happy time ever comes.

I have run into a great many people who have beei indulging in pessimistic thoughts as to the future of our economy . . . thoughts that are somewhat reminiscent of the "mature economy" thinking of the 1930's. These people who are so concerned about excess capacity in our economy are in danger of missing the boat on the great period of expansion that lies ahead of us. For, except in a very short run sense, and with the exception of a hand full of industries, we have no real problem of excess capacity. Though we may see periods of turbulence and wide fluctuations in production, profits, commodities, stocks and bonds, the slope of our economic growth is certain to be sharply upward.

Reasons for Continued Growth

I have three reasons for believing that a great period of growth lies ahead of us:

First—There is the fact that we are spending close to $10 billion per year in research and development, which, in my opinion, will provide a base for the most stimulating revolution in business technology in all history. The new products and the new techniques which are certain to flow from this unprecedented level of research expenditures are going to require capital investment on a very large scale.

Second—It seems foolish to me to talk of excess capacity when so much of our present productive capacity reflects an obsolete technology. The pressure of competition and the pressure of rising labor costs is going to force most American firms to scrap or modernize much of their existing plant and equipment.

The **third** reason is our rapidly growing population. Ten years from now we will have 15% more people than we have now. Eighteen years from now, in 1976, we will have almost 30% more people, and these people will have substantially more purchasing power at their command than we do. We are going to be a younger country too. For example, incredible as it may seem, in 1976 we are going to have almost 50% more people in the 18 to 35 year age group than we have today. This is not conjecture . . . these people have already been born and can be counted. As a consequence of this sharp increase in the early married age group, we will have a market for consumer durable goods and many other things much larger than anything we have imagined heretofore.

Someone once defined an optimist as one who says his glass is still half full, while the pessimist is saying his glass is already half empty. I am not worried about the glass running dry. I think our future opportunities will fill the glass just about as fast as we can drink it. Being human, we are likely to have periods of mild indigestion and we may suffer from growing pains, but we are not going to suffer from stagnation.

The Progress of Our Association

It is most encouraging when one reviews the progress of our Association over the past decade. We have come a long way and have grown considerably in stature, which is due to the vision and able leadership of my predecessors, to the time and effort of the various committees of the Association, and the work of the very capable and efficient staff in Washington. Evidence of this growth in stature is the increasing tendency on the part of various departments of the Government and Congress to seek assistance from our Association in matters which not only affect us, but affect our economy and general well-being. Further, I think it is significant that other associations depend upon us for information and assistance on fiscal and monetary problems. During the past year, the various committees of the Association have worked diligently and effectively. The reports which you will hear from the Chairmen of the various committees over the next four days will acquaint you with the fine work of each committee.

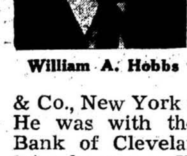
As most of you know, we will view the Association's new motion picture, "The Richest Man in Babylon." I think you will agree that it delivers a powerful and timely message in a simple and understandable manner. It tells a story of thrift and financial success from which all can learn and benefit and which is true today as it was in ancient times. We are greatly indebted to Robert O. Shepard, Chairman of our Education Committee, members of his committee, and to Erwin W. Boehmler, our Educational Director, for their vision and efforts which have made this fine picture possible.

We, as an Association, may justifiably be proud of our accomplishments, but here let me repeat something I heard not long ago. I do not know the author, but it goes something like this—"On the plains of hesitation lie the bones of countless millions, who—on the dawn of victory—paused to rest—and resting died." We have come a long way, but there is still much to be done.

I am indeed most grateful and appreciative of the splendid work of our Board of Governors, our various committees, our Group Chairmen, and our Staff in Washington for their contribution to whatever progress our Association has made during the past year. It has been a most challenging and stimulating year to me.

Hobbs Named Fin. V.-P. Of M. A. Hanna Co.

The election of William A. Hobbs as Financial Vice-President of The M. A. Hanna Company, Cleveland, Ohio, has been announced by Joseph H. Thompson, President of the company. Mr. Hobbs will assume his new position in February, 1959.



William A. Hobbs

Since January, 1951, he has been a partner in charge of securities research for Clark, Dodge & Co., New York investment firm. He was with the National City Bank of Cleveland in 1941 and later became a Vice-President in the trust department. From 1934 to 1941 he was associated with the Bankers Trust Company of New York.

Now Provident Investors

BROOKLYN, N. Y.—The investment business of Allan L. Wynne, 66 Court Street, is now being conducted under the firm name of Provident Investors Company of N. Y. The firm also maintains an office at 2174 Clarendon Road.

Continued from page 24

Space Strategy and Economic Growth

heard about all of these, for there isn't a week in which our newspapers and magazines do not mention new information about the effects of weightlessness, or acceleration or of stimulus deprivation on the human being.

This war of research is expensive. Technical development is not only expensive in capital. It is time consuming. We no longer kid ourselves that the Russians are lagging behind, but we probably have less time than we care to admit. There has been a long period of quiet since the last sputnik. Possibly, the long delay in putting up another satellite means that the Russians have the reentry problem licked and intend to send a man up in their next one.

Strategy of Technological Integration

This means that time is short. However, the best strategy is not a move-for-move competition. It is not by concentrating all our efforts on putting a man into space that we will win the long run space war. I honestly believe that we will enter space more rapidly as our whole economy benefits from the technological advances in our space programs. We are beginning, just beginning, to utilize benefits from missiles in civilian commerce.

While developing the missile industry we have created new materials, and a new technology. Transferred to civilian industry, these developments can contribute to the more rapid growth of our economy of which I have already spoken. The New York "Times" issue of Nov. 26 told about a good example of this sort of thing: a plasma arc torch developed by Linde Company for fabricating ultra-hard materials and coatings by mass production methods. The torch, an outgrowth of plasma technology, develops heats to 30,000 degrees and can work within tolerances of two-thousandths of an inch. Another application from the missile field, which shows real possibilities is a reliable flow meter that has no packings or bearings. This was first developed for measuring liquefied gases and should have a very wide industrial usefulness. It may even lead to improvements in marine devices for measuring distance and velocity.

New plastics are evolving from missile research.

Let me list a few more of these contributions from missiles to industry.

Ground-to-air missiles that ride a beam to their targets must measure the distance to the target plane with an accuracy of a few feet in several miles. This principle, now being applied to surveying techniques, has revolutionized the surveying industry.

The solenoid valve, which seats itself softly enough to eliminate vibration, has been applied very satisfactorily to home-heating systems.

The use of the jet drilling for mining is another, and worthy of amplification. Missiles are already working the economically-unmineable taconite ore of the Mesabi range, have helped build the St. Lawrence Seaway, and are bringing down costs in quarrying.

Taconite's Important Role

It is estimated that taconite will be supplying about a third of our ores in less than 20 years. Until 1947 we were unable to mine this very hard rock, and then suitable rotary and churn drills were produced. Jet drilling, now available, cracks and crumbles stone layers by thermally induced expansion and is somewhere between three and five times faster than rotaries.

Jet piercing can take us far deeper into the earth than we have been able to go so far, to new sources of ore and hydrocarbons.

According to this month's "Scientific American," the Soviets are developing jet blast equipment extensively for drilling.

In stone quarrying jet spalling and channeling are proven techniques. Stone quarrying has been expensive and wasteful heretofore. Rocket flame equipment allows cutting along the natural cleavage planes, or crystal boundaries—hence cuts stone thin without danger of cracking and, in addition, produces a fine finish that cannot be obtained when cutting by steel or abrasive tools.

Scientific literature is beginning to contain speculations on using the principle of the missile engine to save unstable intermediate products of chemical processes. The high heats achieved in the rocket engine can, perhaps, be utilized to produce desired products that would be lost by slow cooling. But the high rate of cooling accomplished by expanding gases through the engine nozzle, it is thought, would save these unstable compounds.

Exploration in this direction is worth pursuing.

Products of Missiles Program

In the course of testing missiles, a "rough combustion cut-off device" was created. It measures vibrations, and cuts off the operations before the vibrations reach destructive proportions. Although destined for this particular use, the cut-off device could be modified for many industrial applications.

Infra-red has come into its own through missile electronics. Infra-red, which—since it cannot be jammed—appears to be challenging radar for use in guidance devices, tracking systems, and reconnaissance vehicles. Infra-red is being used industrially to measure the compositions of fluids in complex processes of chemical petroleum refining and distilling. Infra-red cameras are used in analyzing metallurgical material processing operations—to aid in accuracy and quality control. The entire infra-red field should be significantly assisted in its growth and application through our missile-space programs.

Another very promising outcome from missile development is a computer converter that can quickly transform analogue signals — such as pressure measurements—into digital form.

In the near future—when guidance devices permit soft landing, rocket cargo and passenger transport will become feasible. Mail may become almost as swift as telephone.

We are making rapid progress in the economics of space travel: payload costs for Vanguard were about one billion dollars a pound; for the near future launchings, pay load cost should be about one thousand per pound. When payload costs are about $100 a pound we may expect commercial space flight.

Usefulness of Satellites

About the usefulness of satellites we have heard much talk. They will play a crucial part in meteorological studies, in reconnaissance, and probably in communications. A communications satellite promises to provide worldwide TV more reliably and less expensively than our present best networks. I could go on at length about the benefits our space programs will bring to life on earth.

Already the contributions have been felt in unforeseen areas—you may have read, that an extract from rocket fuel was developed as a medicine for mentally depressed patients. This is a significant thing about scientific research and technology. Looking back at the history of defense developments, we see that the concentration of manpower and funds solves problems in giant technological strides. Witness the impetus given the aircraft industry in World War I and the development of atomic energy in the Second War. Progress in the military field is closely related to progress in the civilian. The greatest incentive we can give our defense—our space program — will come from awareness of the manifold peacetime applications of missile and space technology. These in turn will stimulate growth in other technologies.

Our strategy requires utilizing our research resources more efficiently. It is of utmost importance that we integrate our scientific effort. For reasons characteristic of our economy and sometimes out of an understandable concern for national security, we tend to compartment our work. This can mean a wasteful duplication of scientific and engineering effort. One facet of this problem is the great need for more adequate communication in the scientifc community, less concern with security and more rapid dissemination of current information.

Russian Integration

The Russians have integrated their scientific endeavors, beginning with their children's education. Central direction of their total technological work toward centrally determined goals has its advantages. They collect scientific information from all over the world and make it available to their people. But few of us in the free world would care to submit to such mobilization from on high. The challenge we face is to achieve these results by cooperative action. We must, for example, work out means to translate defense-developed technology more effectively into civilian uses.

Integrated Economic Strategy

I suggest that integration is a key to our competition for space. It has relevance, too, in the struggle for the international marketplace. Your opponent in the Kremlin, Deputy Premier Mikoyan, works with an integrated economy, however haltingly it may operate. How many investment bankers are there in your Association? And how many men in Russia direct the use of that country's capital? The competition is not easy under these conditions. We believe that our strength lies in our very lack of total integration, in the freedom of many men to make their own decisions. How do we compete in this theater, then?

Conditions are not too different in the race for space, and we are solving some of these problems. Hard thinking, imagination, and determination can bring victory in the marketplace. This is your theater and your war. Assistant Secretary Douglas Dillon is waging this war with all his strength, but he cannot do it alone. It will take creative talents to keep our freedom of action—for none of us wants to submit to a totalitarian organization.

It seems to me that we can achieve a successful economic integration through cooperation. Several examples come to mind. The Marshall Plan was a move in this direction that succeeded in its objective. The Common European Market is another development in this direction. For that matter, 170 years ago, this nation was founded because men realized that they could survive better through a united effort than the 13 separate states could do alone.

The Long View

We can no longer be satisfied with making day-to-day decisions and leaving the long-run outcome to others. We must take time to lift our eyes from the papers on our desks and look ahead to see where we are going and how we are going to get there. We face an opponent in two theaters of war. He can focus his efforts to move most effectively in both. We must each of us see that our daily decisions lead to the same kind of focus. It is possible to do this because, as I have tried to indicate, they are interrelated campaigns. We will not succeed if we follow the same, old, traditional lines of thought. We can win if we know what we believe—that is to say, what kind of world we want to preserve, what are the basic values that must be fought for—and work creatively, determinedly to keep them.

Considering the need for integrated action in both these theaters, I can do no better than to remind you of the remark attributed to Ben Franklin: "We must indeed all hang together, or most assuredly we shall all hang separately."

Continued from page 37

In Attendance at Convention

DAWSON, DUDLEY*
Dawson, Hannaford Ltd., Montreal
DAY, JAMES E.
Midwest Stock Exchange, Chicago
DEAN, HOWARD B.
Harris, Upham & Co., New York
DeBOLT, RICHARD H.
Indianapolis Bond & Share Corporation, Indianapolis
de BAGANCA, JOHN
Winslow, Cohu & Stetson, New York
DeGROFF, RALPH L.*
Robert Garrett & Sons, Baltimore
DeGROOT, WILLARD G.*
Bateman, Eichler & Co., Los Angeles
de HAVEN, WALTER T.*
DeHaven & Townsend, Crouter & Bodine, New York
DELFINO, JOSEPH T.
H. Hentz & Co., New York
de MILHAU, JOHN W.
The Chase Manhattan Bank, New York
DEMPSEY, L. WALTER*
B. J. Van Ingen & Co., New York
De SELDING, EDWARD B.
Spencer Trask & Co., New York
DeSTAEBLER, EUGENE L.
Winslow, Cohu & Stetson, New York
DEVLIN, WILLIAM A.
Reynolds & Co., New York
DEWITZ, HERBERT*
J. A. Hogle & Co., Salt Lake City
DIECKMAN, ELMER F.
Glore, Forgan & Co., New York
DIEHL, ROBERT D.
Paine, Webber, Jackson & Curtis, Los Angeles
DIKEMAN, Jr., EDWIN J.
Bankers Trust Company, New York
DIMASSIS, MRS. STANLEY
Investment Bankers Association, Washington
DIXON, JOSEPH W.
American Securities Corporation, New York
DOERGE, JACK O.*
Saunders, Stiver & Co., Cleveland
DOMINICK, BAYARD*
Dominick & Dominick, New York

*Denotes Mr. and Mrs.

DOOLITTLE, ROY W.*
Doolittle & Co., Buffalo
DORBRITZ, ERNEST O.
Moore, Leonard & Lynch, Pittsburgh
DROBNIS, GEORGE J.
30 W. Washington St., Chicago
DuBOIS, ALLEN C.
Wertheim & Co., New York
DUFFY, SYDNEY
Blyth & Co., New York
DUMPER, WILLIAM J.
Harris Trust & Savings Bank, New York
DUNN, STEWART A.*
C. J. Devine & Co., New York
DUNNE, NEWMAN L.*
Robert W. Baird & Co., Milwaukee
DUSON, C. PHARR*
Rotan, Mosle & Co., Houston
EARLE, HENRY
First of Michigan Corporation, Detroit
EATON, Jr., CHARLES F.
Eaton & Howard, Boston
EBBITT, KENNETH C.
Shelby Cullom Davis & Co., New York
EBERSTADT, ANDREW*
F. Eberstadt & Co., New York
EDWARDS, WILLIAM N.*
William N. Edwards & Co., Fort Worth
EGAN, JOHN F.
First California Company, San Francisco
EGBERT, RICHARD D.
Estabrook & Co., New York
ELLIS, JOHN B.
Courts & Co., Atlanta
EMPEY, LESTER H.*
American Trust Company, San Francisco
EPPLER, WILLIAM B.
Eppler, Guerin & Turner, Dallas
ERGOOD, Jr., RUSSELL M.*
Stroud & Co., Philadelphia
ERTINGER, WOLFRAM L.
Laird, Bissell & Meeds, New York
EVANS, CARNOT W.*
Clark, Dodge & Co., New York
EVANS, CLEMENT A.
Clement A. Evans & Co., Atlanta
EVANS, THOMAS W.*
Continental Illinois National Bank, Chicago
FAHEY, LESLIE J.
Fahey, Clark & Co., Cleveland

FAIRCHILD, PAUL W.*
The First Boston Corporation, Chicago
FALSEY, WILLIAM J.*
Chas. W. Scranton & Co., New Haven
FARRELL, F. D.
City National Bank, Kansas City
FERRIS, Jr., GEORGE M.
Ferris & Co., Washington
FINNEY, Jr., HOWARD
Bear, Stearns & Co., New York
FIRSTBROOK, BRADSHAW*
Greenshields & Co., New York
FISHER, CHARLES N.*
Singer, Deane & Scribner, Pittsburgh
FITTERER, Jr., JOHN C.
Wertheim & Co., New York
FLACK, GENE
Sunshine Biscuits, Inc., Long Island City
FLEMING, CHARLES J.*
Hanrahan & Co., Worcester
FLEMING, ROBERT W.
Folger, Nolan, Fleming-W. B. Hibbs & Co., Washington
FLINN, EMERY
Oscar E. Dooly & Co., Miami
FLYNN, GEORGE T.
Hornblower & Weeks, New York
FORDON, RALPH
Fordon, Aldinger & Co., Detroit
FOSTER, ALBERT O.*
Foster & Marshall, Seattle
FOX, ABE B.*
Stern, Frank, Meyer & Fox, Los Angeles
FOX, P. FRED*
P. F. Fox & Co., New York
FRANKLIN, E. W.*
Dittmar & Co., Dallas
FREDERICK, PAUL O.*
Baxter & Co., New York
FREELAND, H. THEODORE*
American Securities Corporation, New York
FREEMAN, MERRILL D.*
Salomon Bros. & Hutzler, New York
FRENZEL, HERMAN E.
Bankers Trust Company, New York
FRIDLEY, EARL G.*
Fridley & Frederking, Houston
FRIEND, ARTHUR S.*
Folger, Nolan, Fleming-W. B. Hibbs & Co., Washington
FROEHLICH, JOHN E.*
Walter, Woody & Heimerdinger, Cincinnati
FROST, HARRISON C.*
Hayden, Miller & Co., Cleveland
FUGLESTAD, ARNE*
Burns Bros. & Denton, New York
FULLER, STEPHEN D.*
S. D. Fuller & Co., New York
FULTON, WALLACE H.
National Association Securities Dealers, Washington
FUNK, CRESTON H.
Creston H. Funk, Hobbs & Co., San Antonio
FUNSTON, G. KEITH*
New York Stock Exchange, New York
GABLE, CHARLES J.*
Department of the Treasury, Washington
GADSBY, HON. EDWARD N.*
Securities and Exchange Commission, Washington
GALLAGHER, FRANCIS P.
Kidder, Peabody & Co., New York
GALLAGHER, WILLIAM G.
Vance, Sanders & Co., New York
GALLIVAN, JAMES F.
Alester G. Furman, Greenville
GONNETT, THOMAS B.
Hornblower & Weeks, Boston
GARDINER, ROBERT M.*
Reynolds & Co., New York
GARDNER, JOHN R.
Reinholdt & Gardner, St. Louis
GATCHELL, EARLE
Hayden, Stone & Co., New York
GAVIN, GENERAL JAMES M.*
Arthur D. Little, Inc., Cambridge
GEDDES, EUGENE M.
Clark, Dodge & Co., New York
GENACHTE, PAUL F.*
The Chase Manhattan Bank, New York
GIBBONS, Jr., GEORGE B.
Geo. B. Gibbons & Co., New York
GIBSON, RICHARD D.
Lehman Brothers, New York
GINGRAS, GERARD
Rene T. LeClerc, Inc., Montreal
GLASSMEYER, EDWARD
Blyth & Co., New York
GLOVER, W. WAYNE*
California Bank, Los Angeles
GODSHALL, R. ELLIS*
Clement A. Evans & Co., Atlanta
GOLDSMITH, CHARLES G.
A. G. Becker & Co., New Work
GRADY, HENRY W.
The Robinson-Humphrey Company, Atlanta
GRAHAM, T. E.*
The First National Bank, Forth Worth
GRAM, Jr., HARVEY B.*
Johnston, Lemon & Co., Washington
GRANT, Jr., HUNTER B.
Winslow, Cohu & Stetson, New York
GREGORY, Jr., WILLIAM H.
Gregory & Sons, New York
GREGORY, III, WILLIAM H.
Gregory & Sons, New York
GREEN, GEORGE H. C.*
The Liberty National Bank, Oklahoma City
GREEN, J. BRADLEY*
Guaranty Trust Company, New York
GREEN, SHELDON R.*
The Chase Manhattan Bank, New York
GRIBBEL, 2nd, JOHN
Elkins, Morris, Stokes & Co., Philadelphia
GRUNEBAUM, KURT H.*
New York Hanseatic Corporation, New York
GRUNER, GEORGE J.*
John Nuveen & Co., New York
GUERNSEY, DAVID T.*
B. J. Van Ingen & Co., New York
GUNN, EDWARD H.*
Midland Securities Corp., Toronto
HABAS, EUGENE J.
Hugh W. Long & Co., Elizabeth
HAGAN, Jr., JOHN C.*
Mason-Hagan, Inc., Richmond
HAIGHT, Jr., C. M.
Tripp & Co., New York
HAIRE, JOHN R.*
New York Stock Exchange, New York
HALEY, DAVID A.
Harkness & Hill, Boston

HALL, DENTON D.
Spencer Trask & Co., New York
HALLOWELL, HENRY R.*
Hallowell, Sulzberger, Jenks, Kirkland & Co., Philadelphia
HAMMOND, W. H.*
Braun, Bosworth & Co., Chicago
HANSEL, DOUGLAS R.*
Shields & Co., New York
HANSON, MURRAY
Investment Bankers Association, Washington
HARDING, WILLIAM G.*
Coffin & Burr, Boston
HARDY, Jr., EDWARD K.
The Illinois Company, Chicago
HARKINS, CHARLES B.
Blyth & Co., San Francisco
HARKNESS, ROBERT B.
Harkness & Hill, Boston
HARPER, DICKINSON C.
Wm. P. Harper & Son, Seattle
HARRINGTON, FULLER A. (GUS)*
Harrington & Co., Jackson
HARRIS, DAVID J. (JACK)
Bache & Co., Chicago
HARRIS, HENRY*
Goldman, Sachs & Co., New York
HARRIS, WILLIAM C.
Harris & Partners, Toronto
HARVEY, Jr., F. BARTON*
Alex. Brown & Sons, Baltimore
HASKELL, CHARLES G.
World-Telegram & Sun, New York
HASSMAN, ELMER G.
A. G. Becker & Co., Chicago
HATCHER, III, CLIFF C.
Alester G. Furman Co., Greenville
HATCHER, LLOYD B.*
White, Weld & Co., New York
HATCHER, MAURICE*
First National Bank, Dallas
HATTIER, Jr., GILBERT
White, Hattier & Sanford, New Orleans
HAWES, HARDIN H.
Harris Trust & Savings Bank, Chicago
HAYES, MILTON J.
American National Bank, Chicago
HAYES, PHILIP E.
Wall Street Journal, New York
HAYS, EDDE K.
Dean Witter & Co., Chicago
HEALY, GEORGE P.*
Admiex Securities Corporation, New York
HECHT, JOHN C.
Dempsey-Tegeler & Co., Los Angeles
HEFFERNAN, PAUL
New York Times, New York
HEGAMASTER, Jr., DONALD Z.
Anderson & Strudwick, Richmond
HEMPHILL, GEORGE W.
First Pennsylvania Banking & Trust Co., Philadelphia
HENDERSON, TED C.*
T. C. Henderson & Co., Des Moines
HENDRIX, JAMES R.*
Hendrix & Mayes, Birmingham
HENSLEY, Jr., LOUIS S.
Indianapolis Bond & Share Corporation, Indianapolis
HERBERT, THOMAS J.
Hugh W. Long & Co., Elizabeth
HERZOG, EDWIN H.*
Lazard Freres & Co., New York
HESS, ARLEIGH P.*
Woodcock, Hess, Moyer & Co., Philadelphia
HESS, Jr., WALTER W. (TOM)*
L. F. Rothschild & Co., New York
HEWARD, JAMES W.*
Butcher & Sherrerd, Philadelphia
HEWITT, CHARLES L.
Francis I. duPont & Co., New York
HEWITT, MAX A.
Johnston, Lemon & Co., Washington
HIBBERD, WILLIAM W.
Trust Company of Georgia, New York
HICKEY, III, MATTHEW J.
Hickey & Co., Chicago
HILDRETH, WILLIAM S.*
Peoples National Bank, Charlottesville
HILL, MALVERN
Malvern Hill & Co., New York
HILLIARD, HENNING*
J. J. B. Hilliard & Son, Louisville
HILSON, JOHN S.*
Wertheim & Co., New York
HINDS, TOM E.*
Hollywood Sun-Tattler, Hollywood
HINSHAW, Jr., JOSEPH
Watling, Lerchen & Co., New York
HOBAN, EDWARD F.
McMahon & Hoban, Chicago
HOBBS, Jr., WILLIAM G.
Creston H. Funk, Hobbs & Co., San Antonio
HODGE, GERALD T.
Glore, Forgan & Co., New York
HOLLAN, JOHN V.
Barr Brothers & Co., New York
HOLMES, JENTRY S.
International Finance Corporation, Washington
HOLMES, MRS. JENTRY S.
Investment Bankers Association, Washington
HOPKINS, W. CABELL
First Southeastern Corporation, Columbus, Ga.

HORNER, EDWIN B.*
Francis I. duPont & Co., Lynchburg
HORNING, BERT H.
Dempsey-Tegeler & Co., St. Louis
HORTON, ARTHUR
Penington, Colket & Co., Philadelphia
HOUGH, WILLIAM R.*
Bell & Hough, St. Petersburg
HOUSMAN, RUSSELL J.*
New York Herald Tribune, New York
HOUSTON, B. F.
Dallas Union Securities Company, Dallas
HOUSTON, JOSEPH C.
Calvin Bullock, Ltd., Chicago
HOWARD, C. EDWARD*
Piper, Jaffray & Hopwood, Minneapolis
HOWARD, Jr., GEORGE H.
Harris, Upham & Co., Chicago
HOWE, JAMES M.
Farwell, Chapman & Co., Chicago
HUDSON, FRED W.
Bali, Burge & Kraus, Cleveland
HUGHES, Jr., ALBERT R. (BUD)
Lord, Abbett & Co., New York
HUGHES, Jr., ALBERT R.
Lord, Abbett & Co., Los Angeles
HUGHES, W. SHANNON
Raffensperger, Hughes & Co., Indianapolis
HUGHES, WILLIAM S.
Wagenseller & Durst, Los Angeles
HUGUENIN, A. BRYCE*
Dumas, Huguenin & Boothman, Dallas
HULME, MILTON G.*
Glover & MacGregor, Pittsburgh
HUNT, E. JANSEN
White, Weld & Co., New York
HUNTER, DAVID W.
McKelvy & Co., Pittsburgh
HUNTER, FRANK H.
McKelvy & Co., Pittsburgh
HURLEY, WILLIAM L.
Baker, Simonds & Co., Detroit
HUTCHINSON, Jr., WILLIAM N. L.
Mitchum, Jones & Templeton, San Francisco
HUTTLINGER, KURT J.
F. P. Ristine & Co., Philadelphia
HUTTON, Jr., JAMES M.
W. E. Hutton & Co., Cincinnati
IJAMS, MAITLAND T.
W. C. Langley & Co., New York
ILLOWAY, LAWRENCE B.
Penington, Colket & Co., Philadelphia
JACKSON, Jr., JAMES*
White, Weld & Co., Boston
JACKSON, Jr., WILLIAM C. (DECKER)
First Southwest Company, Dallas
JACOBS, ALGER J.*
Crocker-Anglo National Bank, San Francisco
JACOBY, Jr., LEWIS P.*
Thayer, Baker & Co., Philadelphia
JACQUES, JAMES F.*
First Southwest Company, Dallas
JAMIESON, JAMES P.
Glore, Forgan & Co., Chicago
JARDINE, Jr., J. EARLE*
William R. Staats & Co., Los Angeles
JENNETT, EDWARD J.
The First National Bank, Chicago
JESUP, NELSON R.
Clark, Dodge & Co., New York
JOHNSON, DAVID T.*
Johnson, Lane, Space & Co., Savannah
JOHNSON, JOSEPH T.*
The Milwaukee Company, Milwaukee
JOHNSON, MARSHALL H.*
McDaniel Lewis & Co., Greensboro
JOHNSON, ROBERT C.*
Kidder, Peabody & Co., New York
JOHNSON, THOMAS M.*
Johnson, Lane, Space & Co., Savannah
JOHNSTON, DOUGLAS E.*
Moreland, Brandenberger, Johnston & Currie, Houston
JONES, EDWARD D.
Edward D. Jones & Co., St. Louis
JONES, II, HARRY H.*
Kenower, MacArthur & Co., Detroit
JONES, RICHARD W.
Mitchum, Jones & Templeton, Los Angeles
JONSSON, J. ERIK
Texas Instruments, Inc., Dallas
JOSEPH, HERMAN B.
Joseph, Mellen & Miller, Cleveland
KALBACH, C. ELLWOOD
Hugh W. Long & Co., Elizabeth
KARR, ARTHUR C.*
A. C. Karr & Co., Los Angeles
KEENE, FRANK E.*
Stranahan, Harris & Co., Toledo
KELLEY, ROBERT I.
Harriman Ripley & Co., Chicago
KEMP, Jr., GEORGE S. (STEVE)*
Abbott, Proctor & Paine, Richmond
KERESEY, JAMES F.*
Baker, Weeks & Co., New York
KERR, KENNETH
E. F. Hutton & Co., New York
KERR, WILLIAM D.*
Bacon, Whipple & Co., Chicago
KEUSCH, ERNEST E.
W. E. Hutton & Co., New York
KILROY, CHARLES J.
McDonald & Co., Cleveland

Continued on page 73

Continued from page 25

Report of IBA Municipal Securities Committee

public construction during coming months.

(c) **Federal Aid for School Construction Defeated**

Bills proposing Federal financial assistance in the construction of public elementary and secondary schools, through Federal loans, grants and guaranty of bonds, did not pass.

Statements were submitted by the IBA **opposing** Federal aid for the construction of public elementary and secondary schools when hearings were held by the Subcommittee on General Education of the House Committee on Education and Labor and by the Subcommittee on Education of the Senate Committee on Labor and Public Welfare. In general, the IBA pointed out that:

(i) The number of additional classrooms needed in public elementary and secondary schools has been decreasing steadily during the past five years. From an estimated 312,000 additional classrooms needed in 1952, the need decreased to an estimated 140,400 additional classrooms needed in 1957 (63,000 to accommodate excess enrollment and 77,200 to replace unsatisfactory facilities).

(ii) The rate of growth in public school enrollments is decreasing because the school age population will not be increasing as rapidly as it has been in recent years. The rate of growth in enrollment in elementary and secondary schools combined in the 1958-1964 period is estimated to be 15.7% less than during the 1952-1958 period.

(iii) Record classroom construction programs are continuing, with sales of school bonds by state and local educational agencies to finance public elementary and secondary schools aggregating over $2,360,690,000 in 2,898 issues in 1957 and sales of such bonds during the first 10 months of 1958 aggregating over $1,968,338,000 in over 2,443 issues.

The National Defense Education Act of 1958 provides other types of Federal aid to education, principally: (1) $295,000,000 over the next four years for the establishment of funds at colleges for low interest loans to college students, with provision that up to 50% of a loan may be canceled for service as a full-time teacher in a public elementary or secondary school (10% of the loan for each complete academic year of service); (2) $300,000,000 over the next four years for grants to state educational agencies for the acquisition of equipment to provide education in science, mathematics and modern foreign languages; (3) funds for graduate education fellowships; (4) $88,000,000 for establishment of programs for guidance, counselling, and identifying able students; and (5) $18,000,000 (for grants or contracts) for research and experimentation in more effective utilization of television, radio, motion pictures and related media for education purposes.

(d) **Area Redevelopment Act Vetoed**

S. 3683 proposed the "Area Redevelopment Act" to "alleviate conditions of substantial and persistent unemployment and underemployment in certain economically depressed areas." It would authorize (a) the Commissioner to designate "industrial redevelopment areas" and "rural redevelopment areas" in which there has been persistent unemployment. (b) $100,000,000 of Federal loans in industrial redevelopment areas and $100,000,000 of Federal loans in rural redevelopment areas to aid in financing any project for the development of lands or facilities for industrial usage provided among other conditions that no such assistance should not exceed 65% of the aggregate cost of the applicant. (c) $75,000,000 of Federal grants to states, political subdivisions, or public organizations or associations representing any redevelopment areas for the construction or improvement of public facilities within a redevelopment area.

This bill passed the Senate and the House but was vetoed by President Eisenhower on Sept. 6.

(e) **Municipal Investment Companies**

The proposal, to permit regulated investment companies which hold the bulk of their assets in tax-exempt bonds to pass tax-exempt interest through to their shareholders in "exempt interest dividends," passed the Senate as an amendment to the Technical Amendments Act; but the provision was eliminated in conference committee and it was not adopted.

(f) **Federal College Housing Loans**

S. 4035 would have increased the authorized funds for Federal college housing loans by $400,000,000 (from $925,000,000 to $1,325,000,000) and would have authorized a new program of Federal loans for college classroom facilities with an initial authorization of $250,000,000. This bill passed the Senate and was reported favorably by the House Committee on Banking; but it did not pass the House.

(g) **Bank Underwriting of Revenue Bonds**

No action was taken on the bills pending in Congress to authorize banks to underwrite revenue bonds.

III
Model Revenue Bond Law

A Model Revenue Bond Law is now available for states desiring to adopt such a law. This model law was prepared under the sponsorship of the National Municipal League and copies are available from the League. The model law was drafted by Frank Curley (Hawkins, Delafield & Wood, New York) after subjecting preliminary drafts to comment by municipal officials, investment bankers and other bond attorneys.

IV
Metropolitan Area Problems

Recognition of the vital importance of metropolitan area planning and organization for the performance of area-wide functions is reflected in the growing number of metropolitan area studies which have been undertaken during recent years. Many of these studies initially include numerous metropolitan area problems, but other studies are directed to a specific function such as transportation, water supply and pollution, or sewage disposal.

The report of the Subcommittee on Metropolitan Area Problems, under the Chairmanship of John S. Linen (The Chase Manhattan Bank, New York) is available as a separate report. Last year, the report of this Subcommittee reviewed developments in a few of the principal metropolitan areas where steps had been taken to provide an area-wide approach to one or more metropolitan area problems. The report of this Subcommittee this year reviews recent developments in some of those areas and also new developments in some other metropolitan areas. The Chairman of the Subcommittee recently participated in the "National Conference of Metropolitan Growth" in Washington, Nov. 24-25, sponsored by the Chamber of Commerce of the United States.

V
Liaison With American Bridge, Tunnel and Turnpike Association

A Subcommittee for Liaison with the American Bridge, Tunnel and Turnpike Association, under the Chairmanship of Walter Steel (Drexel & Co., New York), has continued to cooperate with that Association and assisted in planning part of the program at its last Convention. A member of the Subcommittee participated in a panel discussion of various problems in connection with toll facilities and also arranged for the appearance on the panel of a representative of one of the major institutional holders of revenue bonds.

VI
Industrial Revenue Bonds

Although the Committee has repeatedly directed attention to resolutions adopted by the IBA, the Municipal Finance Officers Association and the Municipal Law Section of the American Bar Association, all of which direct attention to the dangers in using public credit to finance the construction of facilites for use by private companies, the Committee has been requested again to direct attention to those resolutions.

There has been relatively little industrial revenue bond financing, but occasional proposals for such financing make it desirable to emphasize repeatedly the dangers in such financing.

VII
Legislation and Court Decisions

Attached as Appendix B is a summary of state legislation in 1958 of particular interest in municipal financing, and attached as Appendix C is a summary of court decisions in 1958 of particular interest in municipal financing.

The Committee would particularly note that Proposition 17 on the November, 1958, ballot in California was **defeated.** This Proposition would have reduced the state sales tax by one-third and would have increased state income tax rates in certain brackets. The net effect of the Proposition would have been to impair seriously the state's credit. The California Group of the IBA at its Annual Convention this year adopted a statement strongly opposing Proposition 17. The Committee commends the California Group for its strong stand in opposition to the proposal which would have impaired the credit of the State of California.

Respectfully submitted,

MUNICIPAL SECURITIES COMMITTEE

John M. Maxwell, Chairman
The Northern Trust Company, Chicago

William M. Adams
Braun, Bosworth & Co., Incorporated, Detroit

Alonzo C. Allen
Blyth & Co., Inc., Detroit

Eugene Arnold
Harriman Ripley & Co. Incorporated, Philadelphia

James T. Beeson
Clement A. Evans & Company, Inc., Augusta

James W. Chandler
W. L. Lyons & Co., Louisville

Harold W. Clark
Clark, Landstreet & Kirkpatrick, Inc., Nashville

John C. Clark
Wachovia Bank and Trust Company, Winston-Salem

Byrd P. Crist
The J. K. Mullen Investment Co., Denver

Carlton R. Cronin
Allison-Williams Company, Minneapolis

Lester H. Empey
American Trust Company, San Francisco

Milton S. Emrich
Julien Collins & Company, Chicago

Russell M. Ergood, Jr.
Stroud & Company, Incorporated, Philadelphia

Arthur S. Friend
Folger, Nolan, Fleming-W. B. Hibbs & Co., Inc., Washington

W. Neal Fulkerson, Jr.
Bankers Trust Company, New York

Francis P. Gallagher
Kidder, Peabody & Co., New York

William G. Harding
Coffin & Burr Incorporated, Boston

Lloyd B. Hatcher
White, Weld & Co., New York

Oscar W. Hirschfeld
Stranahan, Harris & Company, Cincinnati

George E. Lestrange
Arthurs, Lestrange & Co., Pittsburgh

Continued on page 50

Continued from page 49

Report of IBA Municipal Securities Committee

Donald S. MacFadden
Eastman Dillon, Union Securities & Co., New York

Harold M. Martin
Murphey Favre, Inc., Spokane

Willard Maxwell
The Pacific National Bank of Seattle, Seattle

Cushman McGee
R. W. Pressprich & Co., New York

Andrew S. Mills
Newhard, Cook & Co., St. Louis

Sidney J. Mohr, Jr.
Thornton, Mohr & Farish, Montgomery

Richard Morey
A. G. Edwards & Sons, St. Louis

William S. Morrison, Jr.
Harris Trust and Savings Bank, Chicago

Dennis E. Murphy
The Ohio Company, Columbus

William F. Parvin
Austin, Hart & Parvin, San Antonio

Donald C. Patterson
Chemical Corn Exchange Bank, New York

Delmont K. Pfeffer
First National City Bank of New York, New York

Marson B. Pratt
Estabrook & Co., Boston

Milo O. Osborn
Paine, Webber, Jackson & Curtis, Detroit

Richard N. Rand
Rand & Co., New York

J. Creighton Riepe
Alex. Brown & Sons, Baltimore

Francis R. Schanck, Jr.
Bacon, Whipple & Co., Chicago

Walter H. Steel
Drexel & Co., New York

Franklin Stockbridge
Security-First National Bank, Los Angeles

Fred D. Stone, Jr.
The Marine Trust Company of Western New York, New York

Thomas B. Summers
Fahey, Clark & Co., Cleveland

Eugene D. Vinyard
Central Investment Company of Texas, Dallas

William J. Wallace
Mellon National Bank & Trust Company, Pittsburgh

George B. Wendt
The First National Bank of Chicago, Chicago

Paul E. Youmans
Bosworth, Sullivan & Company, Inc., Denver

Victor H. Zahner
Zahner and Company, Kansas City

APPENDIX A

Report of the Subcommittee on Printing Legal Opinions on Bonds follows:

The large volume of state and municipal financing during recent years has prompted a review of various steps which would facilitate the mechanical details of handling municipal bonds by dealers and investors.


Francis R. Schanck, Jr

Under present business practice a legal opinion of competent bond counsel (whose opinions are recognized by both dealers and investors as marketable) is prepared in connection with the issuance of municipal bonds, to confirm the legality of the bonds and their enforceability by purchasers, and a copy of the legal opinion is delivered to each purchaser of the bonds. It is customary to deliver a manually executed copy of the legal opinion with the original delivery of the bonds to initial purchasers buying the bonds direct from the issuer. It has also been customary, until recent years, to deliver a certified copy of the legal opinion with subsequent deliveries of the bonds to purchasers; but in 1954 the Investment Bankers Association of America and the Municipal Forum of New York recommended that photo-offset copies of an original legal opinion be accepted and photo-offset copies have been accepted, in lieu of certified copies, by most investors and, we believe, by all bond dealers. This procedure has minimized a great deal of clerical work.

Dealers and investors still have a general problem in storing copies of the legal opinion for each issue of bonds held by them, and particular difficulties arise when the holder's only copy of the legal opinion is lost or is delivered to a purchaser upon the sale of a part of a block of bonds leaving the holder without copies for delivery with the balance of the bonds held.

In 1957 it was proposed that the legal opinion be printed on the municipal bond to which it pertained. This proposal was discussed at the I.B.A. convention in 1957 but no action was taken at that time, largely because several bond attorneys expressed concern about certain aspects of the procedure. At the Spring Meeting of the I.B.A. in 1958 there was further discussion of the proposal; and it appeared that most of the concern previously expressed, with respect to printing the legal opinion on a bond with a manual or facsimile signature of the bond attorney (so that the legal opinion would, in effect, be an original opinion on each bond), was not applicable with respect to printing on each bond a **copy** of the legal opinion (including the name of the bond attorney) covering the entire issue. A Subcommittee consisting of the undersigned was appointed to consider this proposal and make appropriate recommendations to the Municipal Securities Committee.

This Subcommittee has carefully considered the new proposal, has discussed it with a representative group of bond attorneys, institutional investors and dealers across the country, and has reached unanimously the conclusions stated in this report. The proposal, to print a **copy** of the legal opinion on bonds, would further facilitate the handling of municipal bonds by materially reducing the work and expense of obtaining and storing copies of legal opinions.

We recommend that, whenever possible and practical, a copy of the complete final legal opinion, with the name of the attorney, should be printed in a legible manner on the back of municipal bonds and the copy should be certified, including a statement to the effect that the legal opinion was dated as of the date of delivery and payment of the bonds, by including with the copy of the legal opinion on the back of the bond a certification signed (with a facsimile or manual signature) by the paying agent or an official of the issuer to the effect that the copy is a true and correct copy of the original opinion.

We recommend that in the initial sale of municipal bonds by the issuing body there should continue to be delivered to initial purchasers, at the time of initial delivery, a manually executed copy or copies of a final unqualified legal opinion.

We also recommend that in subsequent transactions in such bonds good delivery may be made with either (a) a copy of the complete final legal opinion printed legibly on the back of the bonds, unless the purchaser of such bonds specifically requests a certified or photo-offset copy of the legal opinion, or (b) a certified or photo-offset copy of the legal opinion.

The printing of such copies of legal opinions upon the reverse side of the bonds, with the name of the attorney, should be in type of sufficient size to be legible.

While recommending that the practice of printing legal opinions in this manner should be adopted as widely as possible and practical, we recognize that in some cases the length of the legal opinion (such as those concerning certain revenue bonds) and/or the need to use blank spaces on the bonds for registration or other legal requirements might make it impossible to print in legible type a complete copy of the legal opinion on bonds.

Also, in some cases where there is more than one legal opinion for a single issue, that is the opinions of two or more bond attorneys cover the same issue, the presentation of only one opinion on the bond may not be desirable.

In considering various questions which had been raised from time to time concerning the printing of copies of legal opinion on bonds, the Subcommittee concluded that the practice of printing copies of legal opinions on some bond issues would not adversely affect the marketability of bonds which do not have legal opinions printed upon them, because bonds which did not have copies of legal opinions printed upon them would be delivered to subsequent purchasers with a certified or photo-offset copy as is present practice; that there is no question of mutilation, inasmuch as the copy of the opinion would appear on the back of the bonds when they were delivered by the issuer to the initial purchaser; and that there is no more possibility of forgery or other fraudulent practice in the issuance of bonds where copies of opinions appear on the back than presently obtains.

We feel that suggestions to print excerpts of the legal opinion, or a statement that a legal opinion is on file in an indicated depository, would not be acceptable to a large section of the industry.

We emphasize that it is essential and desirable that the copies of legal opinions printed on bonds should be complete copies, and that abbreviations or deletions of material therefrom would not conform to desirable practice.

We also emphasize that the adoption of the practice of printing a copy of legal opinions on bonds should not preclude any dealers or investors from requesting, as a matter of right when municipal bonds are delivered to them, that the bonds be accompanied by a certified copy or a photo-offset of the original legal opinion, if the purchaser prefers such a separate copy.

During the development of this report considerable interest in its progress has been expressed by several organizations and associations in closely allied fields. The tenor of these inquiries indicates general support of the conclusions of the Subcommittee.

The Subcommittee wishes to acknowledge the substantial, and in some instances vital, contribution made to its work by several bond attorneys, as well as representatives of printing firms and institutional investors. Much credit also is due to Mr. Gordon L. Calvert, Municipal Director and Assistant General Counsel of the I.B.A., whose constant coordination and active participation made the final results possible.

A proposed resolution in accordance with the foregoing conclusions is attached to this report.

Respectfully submitted,
SUBCOMMITTEE ON PRINTING LEGAL OPINIONS ON BONDS

Francis R. Schanck, Jr., Chairman
Bacon, Whipple & Co., Chicago

W. Neal Fulkerson
Bankers Trust Company, New York

Cushman McGee
R. W. Pressprich & Co., New York

Richard Morey
A. G. Edwards & Sons, St. Louis

Marsom B. Pratt
Estabrook & Co., Boston

Franklin Stockbridge
Security-First National Bank of Los Angeles

Text of resolution regarding printing copies of Legal Opinions on state and municipal Bonds as adopted by the Municipal Securities Committee of the Investment Bankers Association of America, November, 1958.

WHEREAS, it is proper and commonly accepted practice in the initial sale of state and municipal bonds by the issuing body to deliver to the initial purchasers, at the time of delivery of and payment for such bonds, a manually executed copy or copies of a final, unqualified legal opinion of a recognized bond attorney whose opinions are widely and generally accepted by purchasers of such bonds:

WHEREAS, in subsequent transactions in such bonds it is desirable to deliver to each purchaser a copy of the legal opinion to assure that the information in such opinion is disclosed to each purchaser;

WHEREAS, the present practice in subsequent transactions of delivering as a separate document a certified copy or photo-offset copy of the legal opinion involves considerable work, expense and inconvenience in obtaining and storing such copies;

WHEREAS, the printing of a copy of the complete final legal opinion, with the name of the attorney, on the back of a state or municipal bond would disclose to purchasers of such bonds all information in the legal opinion and would materially reduce the work, expense and inconvenience of obtaining and storing additional copies of legal opinions;

NOW, THEREFORE, BE IT RESOLVED:

(1) That, whenever possible and practical, a copy of the complete final legal opinion, with the name of the attorney, should be legibly printed on the back of municipal bonds and the copy should be certified, including a statement to the effect that the legal opinion was dated as of the date of delivery and payment of the bonds, by including with the copy of the legal opinion on the back of the bond a certification signed (with a facsimile or manual signature) by the paying agent or an official of the issuer to the effect that the copy is a true and correct copy of the original opinion.

(2) That in the initial sale of state and municipal bonds by the issuing body there should continue to be delivered to the initial purchasers, at the time of initial delivery a manually executed copy or copies of a final unqualified legal opinion.

(3) That in subsequent transactions in such bonds good delivery may be made with either (a) a copy of the complete final legal opinion, with the name of the attorney, printed legibly on the back of the bonds, unless the purchaser of such bonds specifically requests a certified or photo-offset copy of such legal opinion or (b) a certified or photo-offset copy of the legal opinion.

APPENDIX B

State Legislation

This appendix contains summaries of some State legislation adopted in 1958 which is believed to be of interest to persons engaged in the municipal securities business.

CALIFORNIA

Assembly Bill 59 authorized the sale of $220,000,000 of bonds for the State School Building Aid Program (State School Building Aid Bond Law of 1958), and this authorization was approved at the election on Nov. 4.

Assembly Bill 93 authorized the sale of $200,000,000 of bonds for the State Building Program (State Construction Program Bond Act of 1958), and this authorization was approved at the election on Nov. 4.

Assembly Bill 104 authorized the financing of hospitals under the Hospital District Act, by lease-purchase methods, funds for the lease payment to be outside of the tax limit. Certain restrictions in the Bill appear to restrict the applicability of the Act to certain hospital districts.

Assembly Bill 116 authorized the sale of $50,000,000 of San Francisco Harbor Bonds, obligations of the State of California, and also authorized the sale of $10,000,000 of bonds of the State for development of local small boat harbors (Harbor Development Bond Law of 1958), and this authorization was approved at the election on Nov. 4.

Senate Bill 7 authorized the sale of not to exceed $300,000,000 of bonds for the Veterans' Farm and Home Program, and this authorization was approved at the election on Nov. 4.

A proposed amendment to the Constitution of California, Proposition 17 on the 1958 November ballot, proposed to reduce the State sales tax by one-third, and to increase the state income tax rates in certain brackets. The I.B.A. California Group adopted a statement opposing Proposition 17 because it would seriously impair the State's credit in the bond market. This proposal was defeated at the election on Nov. 4.

NEW JERSEY

Chapter 127 of the Pamphlet Laws of 1958 of New Jersey, effective July 17, 1958, amended the School Building Aid Act to provide:

(1) That on certification to the State Treasurer by the State Commissioner of Education and the Director of the Division of Local Government that any school district or municipality anticipates that it will be unable to pay the principal or interest of any bonds hereafter issued for school purposes, or on proper notice and verification of such inability, the State Treasurer shall withhold from sums then or thereafter available as building aid under such act, a sum sufficient to pay the principal and interest on such bonds, paying ratably to the holders of such bonds first the interest and then the principal up to the amount of the building aid allowance then or thereafter available to the district or municipality.

(2) That all sums received or set aside for a board of education or a municipality under said school building aid act shall be applied in the first instance to debt service on bonds issued by such board of education or municipality for school purposes, then to capital outlay for school purposes and finally to the capital reserve fund of the school district created under said act.

Chapter 126 of the Pamphlet Laws of 1958 of New Jersey was adopted contingent upon the approval of a proposed constitutional amendment. The proposed constitutional amendment was approved at the election on Nov. 4 and provides that the bonds of any school district of the State of New Jersey, issued according to law, shall be proper and secure investments for the Constitutional fund for the support of free public schools and the fund and the income therefrom or other moneys appropriated in support of free public schools may be used in such manner as the Legislature may provide by law to secure payment of principal and interest on bonds or notes issued for school purposes by counties, municipalities or school districts, or for payment or purchase of such bonds or notes or claims for interest thereon.

Chapter 126, effective Dec. 4, 1958 provides that the income of the fund for the support of public schools, in addition to its use for the support of such schools, payment of salaries of county superintendents of schools and payment of accrued interest on bonds purchased by the fund, shall be used for the payment of interest on and the purchase of bonds issued locally for school purposes. The legislation also provides that in event that a school district or municipality anticipates that it will be unable to meet the payment of principal or interest on any of its bonds issued after the effective date of the legislation and upon certification of such inability to the Trustees of said fund by the Commissioner of Education and the Director of the Division of Local Government, or upon notice and verification of such inability, the Trustees of said fund shall, within the limits of available moneys, use said fund and the income therefrom to purchase any such bonds at the face amount thereof, or to pay to the holder of any such bond the interest due or to become due thereon. All of such purchases and payments are to continue for so long as the district or municipality is unable to make such payments, but no such purchase or payment of interest is to be made unless the sums available to the district as State building aid shall be insufficient for the purpose. The fund will initially consist of about $16,000,000.

NEW YORK

A proposed State constitutional amendment, which passed the New York Senate and Assembly in 1958 and must be referred to the first regular legislative session convening in 1959 for approval, would provide for State guaranty of the payment of principal and interest on bonds and other obligations issued by school districts after the effective date. The proposal would provide for recovery of any payment of such principal or interest by the State from the school district primarily liable on the bonds or other obligations.

The New York Legislature adopted a bill to create a New York-New Jersey Transit District with power to build and operate a bi-state transit loop, but it also requires the approval of the New Jersey legislature. The bill carries out the recommendations of the Metropolitan Rapid Transit Commission. Provision was made for the inclusion of Connecticut if it wishes to join. Under the bill New York and New Jersey would appropriate $150,000 each annually for the first five years to cover operating expenses. The proposed rail loop estimated to cost about $500,000,000 would link New Jersey commuter railroads with Manhattan through new tunnels at 50th Street and the Battery.

APPENDIX C

Court Decisions

This appendix contains summaries of some recent court decisions which are believed to be of interest to persons engaging in the municipal securities business.

U. S. SUPREME COURT

In March the Supreme Court of the United States sustained the authority of the State of Michigan to tax personal property and real property owned by the Federal Government but used by private corporations in the course of their business.

In *City of Detroit* v. *The Murray Corporation*, the Court sustained the levy of a personal property tax by Detroit and Wayne County on all the parts, materials, and work in process acquired by the Murray Corporation in performing a government sub-contract for airplane parts. Under the contract, title to the items acquired by Murray in performance of the sub-contract passed to the Federal Government, though Murray retained possession. The Supreme Court concluded that the tax was a "levy on a private party possessing government property which it was using or processing in the course of its own business."

In *U. S. and Borg-Warner Corporation* v. *City of Detroit*, the Court sustained a real property tax on property owned by the Federal Government but leased to a corporation for its own use, and concluded that the tax was one imposed "on a party using tax-exempt property for its own beneficial personal use and advantage."

KENTUCKY

Henderson, Kentucky v. *Robert E. Todd.* An act adopted in Kentucky in 1946 (KRS 103.200-103.280) authorizes the issuance of bonds by cities for industrial building in order to relieve unemployment and certain kindred conditions. Another law adopted in 1946 (KRS Ch. 58) is a comprehensive statute authorizing (as stated in the title) "the acquisition, construction, maintenance, extension and improvement of **public projects**, and the renting or leasing thereof, by governmental units, agencies and instrumentalities; providing for the acquisition of property for a public project by condemnation; and

Continued on page 52

Continued from page 51

Report of IBA Municipal Securities Committee

authorizing the issuance of tax free revenue bonds for public projects, and the use of tax revenues and other funds for such projects." (emphasis supplied)

The City of Henderson adopted an ordinance authorizing the acquisition of an existing industrial plant and the issuance of bonds to finance the purchase. The ordinance provided for the pledge of the surplus revenue from the City's gas distributing plant to the payment of the bonds if it should be needed. A suit filed by the City sought a declaratory judgment to validate the plan and the bonds. The Trial Court concluded that the factual conditions and the contemplated transactions were so indefinite and economically unsound that the Court was not authorized to approve the venture as being for a public purpose, that the proposed plan was not a "public project" within the purview of Chapter 58 under which the procedure was taken, and that the City had no power to pledge the surplus revenue from its gas distributing plant to the payment of such bonds. The City appealed.

The Court of Appeals of Kentucky on July 11, 1958 *affirmed* the decision of the lower Court. The Court pointed out that the first statute "relating specifically and alone to industrial buildings does not authorize the use of tax revenues or other funds for the liquidation of the bonds to be issued," and that the second statute authorizing the use of funds or tax revenues available for general purposes deals with "public projects." The Court stated that, while acquiring or aiding to acquire industrial property for the relief of conditions of unemployment is, in a broad sense, a "public project," it cannot be regarded as such when it comes to financing of same by the issuance of revenue bonds. The Court concluded that the second statute (Chapter 58) in the term "public project" comprehends "property which is or may be owned by and connected with the administration of government agencies and which is within their respective governmental or proprietary sphere of action," and that it was sufficient to hold simply "that the proposed venture is not authorized by the statute under which it was being undertaken."

City of Corbin v. *J. D. Johnson*. The City of Corbin brought an action against a representative taxpayer for a declaratory judgment that a proposed plan for relieving unemployment in the City would be for a public purpose and that bonds proposed to be issued by the Corbin Industrial Building Corporation would be legal and valid. Under the plan the City would deed certain property which it owned to the Corporation and the Corporation would issue $75,000 of bonds secured by a mortgage on the property and use the proceeds for the acquisition, remodeling and improvement of the property. The Corporation would lease the property to the City for the period of one year with an option to renew from year to year for a period of years at such rentals as would be sufficient to retire the principal and interest of the bonds. It was hoped that some industry would sub-lease the property from the City and use it during the 20-year life of the bonds and thereby reduce unemployment in the City.

The plan set up in the several instruments proposed to be executed would obligate the City of Corbin to pay an annual rental as the option may from year to year be automatically renewed out of the revenues it might obtain from an industry as its sublessee. While the contemplated lease specified that nothing therein shall be construed as binding the City for the annual rentals beyond the current year, there is no such limitation upon the other obligations the City would be assuming. In addition, the City would obligate itself (1) to pay all taxes assessed against the property; (2) to pay all income and ad valorem taxes which the Corporation would refund to the bondholders; (3) to pay premiums upon fire and windstorm insurance; (4) to furnish $6,000 in cash prior to or at the time the bond proceeds might be received from the purchaser of the bonds; (5) to take good care of the property and in the event of its destruction, to continue its obligations of paying the annual rentals; and (6) in event of destruction to reconstruct the building. Moreover, the City would enter into a pledge that to fulfill all its obligations under the lease contract it would use, to the extent necessary, all surplus revenues it may have or would obtain from its municipally owned electric system not already required by contract or by law to be used, and also to apply to the same purposes "all other funds or tax revenues available for general purposes of the City and not required by contract or by law to be devoted to some other purpose."

The Court of Appeals of Kentucky on July 11, 1958, noted that it did not appear that an actual controversy existed and that the case was upon an indefinite and hypothetical state of facts. The Court then affirmed the decision of the Trial Court holding that the scheme would be **illegal**. The Court pointed out that the use of revenues, such as pledged by the City from its electorate system and other funds, is authorized by Chapter 58 (referred to above in the Henderson case) where a "public project" is financed under that statute, and the Court concluded:

"It seems to us that this proposed scheme would be beyond the powers of a municipality to enter into a contract with a private corporation for the joint acquisition and operation of a public enterprise" and that it would also "in many particulars violate the constitution and statutes relating to the obligations and commitments by a municipality of future revenues, or even revenues for the current year, for it is not shown that the sums pledged will or would be available without plunging the city into a maelstrom of illegal debt."

MINNESOTA

Acts adopted in Minnesota in 1955 and 1957 appropriated money from the State Building Fund for the construction, remodeling and repair of a variety of public buildings and provided that certificates of indebtedness may be issued as funds are needed, subject to the limitation that the certificate cannot exceed the authorized aggregate appropriation. The Acts provided a detailed plan for replenishing the building fund by imposing a tax levy over a period of 20 years in an amount sufficient to equal the amount of expenditures plus interest on the certificates of indebtedness authorized by the Act. Proceeds of the tax levies are to be paid into the State Building Fund. The certificates are to be a charge and a lien upon the tax levy authorized in each Act, with principal and interest payable only from such taxes, except that payment of interest may be made from the general revenue fund subject to reimbursement from the proceeds of the taxes levied under the Acts. After providing for tax levies in a fixed amount, the Acts provide that the state auditor shall levy additional amounts sufficient to produce such sums as may be necessary to pay the interest upon certificates of indebtedness and, in case of a deficiency in the proceeds of such tax levy for any year, the auditor shall levy sufficiently additional amounts in succeeding years to compensate therefor until the full amount authorized has been raised.

In Naftalin, Commissioner of Administration of the State of Minnesota v. *Stafford King, State Auditor of the State of Minnesota*, the Commissioner of Administration sought to compel the State Auditor to issue and sell the certificates of indebtedness authorized by the two Acts. The defendant challenged the constitutionality of the Acts and refused to sell the certificates.

The Supreme Court of Minnesota in its decision on May 9, 1958 granted judgment on the pleadings for the Commissioner of Administration, holding:

(1) A state indebtedness is not created within the meaning of the constitution when certificates of indebtedness are authorized and issued pursuant to a legislative act which makes them exclusively payable from a special fund, the proceeds of which are derived from the levy and collection of a tax authorized for that particular purpose. In connection with this holding, the State Supreme Court suggested that "a word of caution as to future state financing is in order" and commented that the special-fund type of financing may be so abused that it becomes merely a subterfuge for evading the purpose of constitutional state debt limitations and that a constitutional provision which has become so outmoded that only an ever-increasing application of legal ingenuity makes it workable in meeting the modern needs of state finance should be amended.

(2) Although the legislature may not surrender, suspend, or contract away the state's power of taxation, there is nothing in the state constitution which prohibits the legislature from irrevocably binding its taxing power to provide the funds necessary to fulfill the state's contractual obligations to pay money.

(3) While the state constitution prohibits the state from contracting any debts for works of "internal improvements," works which are reasonably essential to the performance of the state's governmental functions do not lose their governmental status or character because they incidentally embrace some activity which may possibly be operated as a proprietary undertaking for profit, such as a parking lot, and this holds true as long as the primary purpose of such incidental activity is not to obtain revenue but to

further the discharge of a governmental function.

The Report of Liaison Subcommittee follows:

The general purpose of this Subcommittee is to work with other organizations on problems of mutual interest in municipal financing, principally the Municipal Finance Officers Association, the Municipal Law Section of the American Bar Association, and the Municipal Forum of New York.

Walter W. Craigie

On Feb. 12 a joint meeting of the liaison committees was held in New York City attended by five representatives of the IBA Liaison Subcommittee, five representatives of the M.F.O.A., eight representatives of the Municipal Law Section of the American Bar Association, four representatives of the Municipal Forum of New York, and five other guests. The principal topic of discussion at this meeting was no-litigation certificates regarding municipal bonds.

On June 9 at the Annual Conference of the M.F.O.A. in Milwaukee there was another joint meeting of the liaison committees and a panel discussion of "no-litigation certificates." The panel members included the Chairman and four members of this Subcommittee (Messrs. Browne, Calvert, Ergood and Linen). The statement presented at the panel by the Chairman of this Subcommittee (attached as Appendix I) recommended (in accord with recommendations of the Municipal Securities Committee of the IBA) that, to obtain the best bids on municipal bonds by assuring bidders that they will be obligated to take delivery of only marketable bonds: (1) legislation be adopted in the states to provide for a final judicial determination of the validity of municipal bonds and (2) the contract of sale between the issuer and the underwriter provide (by a provision in the notice of sale or in the bid form) that the obligation of the underwriter to take delivery of the bonds is subject to delivery of a no-litigation certificate, in addition to delivery of an unqualified approving legal opinion by a specified bond attorney.

In this connection, the Subcommittee directs attention to the fact that a large percentage of notices of sale for municipal bonds now include a specific statement that a no-litigation certificate will be furnished to the purchaser of the bonds. We appreciate the cooperation of the municipal officers and bond attorneys in this desirable practice.

On Aug. 24-26 at the Annual Meeting of the Municipal Law Section of the ABA in Los Angeles, the Chairman and two members of the Subcommittee attended another joint meeting of the liaison committees. There was brief discussion of no-litigation certificates at the general meeting of the Municipal Law Section, but it was concluded to make no change in the resolution adopted on that subject by the Municipal Law Section in New York in 1957. The IBA Liaison Committee of the Section recommended some minor changes in (a) the model form of bill providing for a final judicial determination of the validity of municipal bonds and (b) the model form of bill authorizing the use of facsimile signatures and seals in the execution of public securities. The recommended changes have been approved by the Municipal Securities Committee of the IBA and copies of the two model forms of bill as changed are attached as Appendix II of Appendix A and as Appendix III.

In conclusion, this Subcommittee expresses its sincere appreciation for the friendly and close cooperation it has received throughout the year from members of the staff and liaison committees, as well as the general membership, of the M.F.O.A., the Municipal Law Section of the ABA, and the Municipal Forum of New York. We believe that continued cooperation between the liaison committees of these organizations can do much to facilitate successful municipal financing.

Respectfully submitted,

LIAISON SUBCOMMITTEE

Walter W. Craigie, Chairman
F. W. Craigie & Co.,
Lynchburg, Va.

Alan K. Browne
Bank of America, N. T. & S. A.,
San Francisco

Lester Empey
American Trust Company,
San Francisco

Russell M. Ergood, Jr.
Stroud & Company,
Incorporated, Philadelphia

John S. Linen
The Chase Manhattan Bank,
New York

Cushman McGee
R. W. Pressprich & Co.,
New York

Pat G. Morris
The Northern Trust Company

Paul E. Youmans
Bosworth, Sullivan & Company,
Inc., Denver

APPENDIX I

Statement by Walter W. Craigie, Chairman, Liaison Committee, Municipal Securities Committee, Investment Bankers Association of America, at the 52nd Annual Conference of the Municipal Finance Officers Association, Milwaukee, Wisconsin, June 9, 1958.

No-Litigation Certificates

The Municipal Finance Officers Association, the Municipal Law Section of the American Bar Association and the Investment Bankers Association of America have for many years cooperated in efforts to adopt sound practices and procedures in municipal financing. Even more effective cooperation should result from joint meetings of the liaison committees of the three organizations which were initiated in 1957 to discuss problems of mutual interest.

Since one of the primary problems of municipal finance officers is to obtain the lowest possible net interest cost in the sale of the bonds of their municipalities, they have always been receptive to suggestions from investment bankers for practices and procedures which would be helpful in providing lower net interest costs to issuers and better protection for purchasers of municipal bonds. This discussion of no-litigation certificates is directed toward that objective.

A municipal bond underwriter buys municipal bonds to resell them to customers, just as any merchant buys and sells his stock-in-trade. A municipal bond underwriter preparing to bid on an issue of municipal bonds (in addition to consideration of many factors in the credit of the issuer, the nature of the particular bond, the market for such bonds at the time and the current money rate, all of which affect the bid of the underwriter) wants assurance that he is buying bonds which are valid binding obligations of the issuer. Any challenge of the validity of the bonds, even though it be without apparent merit, raises a possibility that the bonds may be invalidated and may impair or ruin the marketability of the bonds. Therefore, the underwriter will obviously bid a better price if, and in some cases an underwriter will not bid unless, the contract with the issuer makes it clear that the underwriter will not be obligated to take delivery of the bonds if there is litigation at the time of delivery affecting the validity of the bonds.

There are two methods to provide to bidders assurances that they will be obligated to take delivery of only marketable bonds:

(1) Adopt Legislation Providing for a Final Judicial Determination of the Validity of Municipal Bonds

The IBA Liaison Committee of the Municipal Law Section of the American Bar Association a few years ago prepared a model form of bill which establishes a bond validation procedure (in which there may be consolidated all actions or proceedings contesting the validity of the bonds and related matters) which provides that the final decree of the court constitutes a permanent injunction against the institution by any person of any action or proceeding contesting the validity of the bonds or the validity of the taxes, assessments, tolls, rates or other levies authorized to be made for payment thereof or the interest thereon or the validity of any pledge of revenue or property to secure such payment. This procedure would permit any person to raise any question regarding the validity of the bonds and related matters; but the final decree of the court would be conclusive and would constitute a permanent injunction against further litigation (including "nuisance suits") attacking the validity of the bonds and related matters. A copy of this model form of bill is attached as Appendix 1.

We recommend adoption of this type of legislation. The model form of bill must be adapted to circumstances in each state and it may be desirable to omit some sections of the bill in some states, but those changes can be made without impairing the effectiveness of the general procedure or the achievement of the desired result. For example, a simplified version of the model form of bill was adopted in Virginia and a copy is attached as Appendix 2.

Where such legislation is adopted it will be possible to obtain a final conclusive validation of the bonds prior to issuance which will assure underwriters and investors that they are buying valid obligations of the issuer.

(2) Provide in the Contract of Sale Between the Issuer and the Underwriter that the Obligation of the Underwriter to Take Delivery of the Bonds is Subject to: (a) Delivery of an Unqualified Approving Legal Opinion by a specified bond Attorney and, (b) Delivery of a No-Litigation Certificate

In most cases the municipal bond attorney will not issue his unqualified approving legal opinion when there is litigation challenging the validity of the bonds and in these cases the underwriter is ordinarily relieved of his obligation to take delivery of the bonds because the contract with the issuer specifically provides that the purchase is contingent upon delivery of an unqualified approving legal opinion by the indicated bond attorney. Many bond attorneys recognize that they have an obligation to the purchasers of the bonds and state that when there is litigation at the date of delivery, even though they believe that the litigation is without merit, they will not issue an unqualified approving legal opinion if the underwriter believes that the litigation impairs the marketability of the bond.

However, in a few situations where there was pending litigation challenging the validity of the bonds, which the bond attorney believed to be without merit at the time of delivery, the bond attorney proposed to deliver his unqualified approving legal opinion; and in these cases a serious problem has been raised as to the obligation of the underwriter to take delivery of the bonds while the litigation was pending.

A few such situations in recent years have made underwriters wary of bidding (or acutely conscious of the extra risk in bidding) on issues where it is not established that their obligation is contingent upon delivery of a no-litigation certificate in addition to an unqualified legal opinion.

The issuer will receive more bids and better bids if it is made clear that the obligation of the underwriter to take delivery of the bonds is conditioned upon delivery at the time of closing of both (a) an unqualified approving legal opinion by a specified

Continued on page 54

Continued from page 53

Report of IBA Municipal Securities Committee

bond attorney and (b) a no-litigation certificate.

Contractual agreement on the requirement for the unqualified approving legal opinion and the no-litigation certificate in the case of a public sale can be achieved by either (1) including a provision to that effect in the notice of sale with provision that the terms of the notice of sale shall be part of the contract or (2) including such a provision on the bid form. Appendix 3 contains suggested appropriate provisions for inclusion in the notice of sale and the bid form to establish such a contractual agreement. In the case of a private sale the contract of purchase may cover these conditions.

To avoid the raising of any imaginary "ghosts," to the effect that inclusion in the notice of sale of a requirement for delivery of a no-litigation certificate would provoke the filing of "nuisance suits," it might be pointed out that in "The Daily Bond Buyer" of May 13, 1958 (selected simply because it included an article regarding this forum on no-litigation certificates) more than 12 of the notices of sale specifically provided that a no-litigation certificate would be provided to the purchaser of the bonds. Appendix 4 contains excerpts from those notices of sale with respect to the furnishing of no-litigation certificates. If the issuer for some reason prefers not to include such a provision in the notice of sale, the desired contractual arrangement can be achieved by including an appropriate provision in the bid form.

These suggested procedures are already common practice and the importance of the no-litigation certificate to bidders has long been recognized.

In the bulletin entitled "Marketing Municipal Bonds" published by the Municipal Finance Officers Association in 1946, the section on "Advertising and the Prospectus" includes in the list of information recommended for inclusion in the advertisement the following:

"20. A statement that there is no litigation, pending or threatened, which concerns the validity of these bonds, the corporate boundaries or taxing powers of the issuer, or the right of the present officials to hold their respective offices."

In 1950 the Municipal Securities Committee of the Investment Bankers Association recommended that municipal bond attorneys and municipal finance officers include in notices of sale language providing that the securities are offered for sale subject to the unqualified approving legal opinion of a specified attorney (the cost of which will be paid by the issuer, or by the successful bidder if that be the intended requirement) and that the successful bidder will be furnished with said opinion and the usual closing proofs, which will include a no-litigation certificate.

In May, 1956, the Board of Governors of the Municipal Forum of New York adopted a resolution recommending that, in order to establish the right of a purchaser to receipt of a no-litigation certificate, each notice of sale or purchase contract with the issuer include a provision that there will be furnished without cost to the purchaser the approving opinion of a specified bond attorney and the usual closing certificates, dated as of the date of delivery of and payment for the bonds, including a no-litigation certificate.

In November, 1956, the Municipal Securities Committee of the Investment Bankers Association recommended that the obligation of the issuer to deliver to purchasers a no-litigation certificate be established by a provision in the notice of sale or in the bid form.

In July, 1957, the Municipal Law Section of the American Bar Association adopted a resolution urging bond attorneys to conform to practices and definitions stated therein, including a recommendation that the bond attorney at the time of delivery of the bonds should obtain from the issuer and make available to the purchaser a no-litigation certificate.

The advantages of the suggested procedure can best be focused in realistic perspective by a few simple facts. In 1957 sales of municipal bonds in over 6,864 issues aggregated over $6,824,000,000. In the first four months of 1958 sales of municipal bonds in over 2,291 issues aggregated over $2,960,000,000. In this great volume of municipal financing there were only a few situations in which a controversy arose as to whether the underwriter was obligated to take delivery of bonds when the bond attorney was prepared to deliver an unqualified legal opinion although there was pending litigation.

In view of the foregoing facts and statistics, it is sound business for issuers to obtain the advantage of better bids in thousands of issues by protecting dealers against a potential liability of being required to take delivery of unmarketable bonds in one or two issues where there is litigation but the attorney proposes to deliver an unqualified opinion.

Consequently, we hope that the Municipal Finance Officers Association will give positive support to the Municipal Forum of New York, the Municipal Law Section of the American Bar Association and the Municipal Securities Committee of the Investment Bankers Association in their efforts to facilitate municipal financing by supporting (1) the adoption of legislation providing for a final judicial determination of the validity of municipal bonds and (2) the practice of providing in the contract of sale between the issuer and the underwriter that the obligation of the underwriter to take delivery of bonds is subject to delivery at the time of closing of an unqualified legal opinion by a specified bond attorney and delivery of a no-litigation certificate.

APPENDIX I

MODEL FORM OF BILL

To Provide for Final Determination of the Validity of Municipal Bonds and Related Matters

SECTION 1. Any county, municipality, taxing district or other political district or subdivision, commission, authority, department or other public agency of this State, or of this State and one or more other States, which is now or may hereafter be authorized by law to borrow money and issue bonds, notes or other evidences of indebtedness (hereinafter called the "Issuer"), prior to the issuance of any particular issue of bonds, notes or other evidences of indebtedness which it proposes to issue (hereinafter called "the Securities"), may file a petition for validation for the purpose of obtaining an adjudication as to its authority to issue the Securities and the legality of all proceedings taken and/or proposed to be taken in connection therewith, including, in proper cases, any assessments of taxes levied or to be levied, and the lien of such taxes, the levy of rates, charges, or tolls, and of proceedings or other remedies for the collection of such taxes, rates, charges, or tolls. Such petition may be filed in the ______ Court in the county in which such Issuer may be located or have its principal place of business, against the State of ______ and the taxpayers, property owners and citizens of such Issuer, including nonresidents owning property or subject to taxation therein, and all other persons interested in or affected by the issuance of the Securities. If the Securities are to be issued by any of the State agencies, authorities, commissions or departments, such petition may be filed in the ______ Court of the county in which the proceeds of such Securities are to be expended or in the ______ Court of the county in which the seat of State government is situated, and such petition shall be brought against the State of ______ and the taxpayers, property owners and citizens thereof, including nonresidents owning property or subject to taxation therein, and any other persons affected by or interested in the issuance of the Securities.

SECTION 2. The petition for validation shall briefly set out, by proper allegations, references or exhibits, the petitioner's authority for issuing the Securities, the holding of an election and the results thereof where an election is required, the ordinance, resolution or other act or proceeding authorizing the issuance of such Securities and the adoption thereof, all other essential proceedings had or taken and/or proposed to be taken in connection therewith, the amount of the Securities to be issued, the rate of interest or maximum rate of interest they are to bear, and, in case of a district established for the purpose of constructing or acquiring a public improvement for which the Securities are to be issued, the authority for the creation of such district, the consideration to be received by the Issuer for the Securities, the county or counties in which the proceeds of the Securities, or any part thereof, are to be expended, and all other pertinent matters.

SECTION 3. The judge of the ______ Court wherein the petition is filed, shall, upon the filing and presentation thereof, make and issue an order in general terms in the form of a notice directed against the State of ______ and against "all property owners, taxpayers, citizens and others having or claiming any right, title or interest in any property or funds to be affected by the issuance of the Securities or affected in any way thereby," requiring, in general terms and without naming them, all such persons and the State of ______ through its ______ attorney or attorneys of the circuit (or district) wherein the Issuer has its principal place of business, to appear at a time and place within the circuit (or district) wherein the petition is filed, to be designated in such order, and show cause why the prayers of the petition should not be granted and the proceedings and the Securities validated and confirmed as therein prayed. A copy of the abovementioned petition and order shall be served upon the ______ attorney of the circuit (or district) in which such proceedings are pending, and in cases where the Issuer lies or functions in more than one circuit (or district), upon each ______ attorney of each of such circuits (or districts) at least twenty (20) days before the time fixed in said order for hearing as aforesaid. Said attorney or attorneys shall carefully examine the petition and if it appears, or there is reason to believe, that the petition is defective, insufficient or untrue, or if in the opinion of said attorney or attorneys, the issuance of the Securities has not been duly authorized, defense shall be made thereto as may seem proper by said attorney or attorneys. Said attorney or attorneys shall have access, for the purposes aforesaid, to all records and proceedings of the Issuer and any officer, agent or employee having charge, possession, custody or control of any of the books, papers or records of the Issuer shall, on demand of said attorney or attorneys, exhibit for examination such books, papers or records and shall, without cost, furnish duly authenticated copies thereof, which pertain to the proceedings for the issuance of the Securities or which may affect the legality of the same as may be demanded of him.

In case the Securities are to be issued by any State agency, authority, commission or department, a copy of the above-mentioned petition and order shall be served upon the __________ attorney of the circuit (or district) in which such proceedings are pending and, if the proceeds of the sale of the Securities, or any portion thereof, are to be expended in any county other than the county in which the proceedings are pending, upon the __________ attorney of each county in which it is proposed to expend such proceeds or any part thereof.

SECTION 4. Upon motion of the petitioner, whether before or after the date set for hearing as provided in Section 3, the judge may enjoin the commencement by any person of any other action or proceeding contesting the validity of the Securities described in the petition, or the validity of the taxes, assessment, tolls, rates or other levies authorized to be imposed or made for the payment of such Securities or the interest thereon, or the validity of any pledge of revenues, or property to secure such payment, and may order a joint proceeding in any court in the State, and may order all such actions or proceedings consolidated with the validation petition pending before him, and may make such orders as may be necessary or proper to effect such consolidation and as may tend to avoid unnecessary costs or delays or multiplicity of suits. Such orders shall not be appealable.

SECTION 5. Prior to the date set for hearing as provided in Section 3, the clerk of the court wherein said petition is filed, shall cause a copy of said order to be published in the county wherein the petition is filed, or, if the petitioner lies or functions in more than one county, then in each of such counties in each of any three consecutive calendar weeks, in a newspaper of general circulation, in each instance upon any business day of the week and in any such newspaper, but the publication in the first calendar week in each county to be not less than twenty (20) nor more than thirty (30) days prior to the date set for hearing. By the publication of said order, all property owners, taxpayers, citizens or others having or claiming any right, title or interest in or against the petitioner or property subject to taxation thereby or otherwise affected by or interested in the issuance of the Securities described in the petition, shall be considered as and are made parties defendant to said proceedings, and the court shall have jurisdiction of them to the same extent as if individually named as defendants in said petition and personally served with process in the cause.

In the case of proceedings to validate the Securities of any State agency, commission or department, the order shall be published in the manner herein provided in a newspaper of general circulation in each of the counties wherein the proceeds of the Securities, or any part thereof are to be expended, and in a newspaper of general circulation published in the country in which the seat of State government is located.

SECTION 6. Any property owner, taxpayer, citizen or person affected by or interested in the issuance of the Securities may become a named party to said proceedings by pleading to the petition on or before the time set for hearing as provided in Section 3, or thereafter by intervention upon leave of court. At the time and place designated in the order for hearing, as provided for in Section 3, the judge shall proceed to hear and determine all questions of law and fact in said proceedings and may make such orders as to the proceedings and such adjournments as will enable him properly to try and determine the same and to render a final decree therein with the least possible delay. Such final decree shall find the facts specially and shall state separately the judge's conclusions of law therein.

SECTION 7. Any party to the cause, whether petitioner, defendant or intervenor or otherwise, dissatisfied with the final decree may appeal therefrom to the Supreme Court within twenty (20) days after the entry of such decree. Such appeal may be effected by the filing and recording, in the book wherein said decree is recorded, a notice of appeal returnable in the Supreme Court not less than fifteen (15), nor more than twenty (20) days after the filing and recording of such notice of appeal. On or before the return day of said appeal, the appellant shall file in the Supreme Court a certified copy of all the said proceedings, including a transcription of all the evidence taken therein before the court. Upon application of any party, such evidence shall be duly certified by the judge who heard said cause and rendered the decree appealed from.

A certified copy of all of said proceedings as aforesaid, duly filed in the Supreme Court, shall constitute the record upon which said appeal shall be heard in the Supreme Court.

Within ten days after the return day of such appeal the appellant shall file his brief in the Supreme Court and shall deliver a copy thereof to the appellee or his attorney of record, who shall within ten (10) days thereafter file his brief, and shall deliver a copy thereof to the appellant or his attorney of record, who may reply thereto within five (5) days. After the time for filing briefs, as aforesaid, has expired, the Supreme Court shall proceed to consideration of said cause upon the record and briefs; provided, however, that if either party shall file a request in writing for oral argument by the return day of such appeal, the court may enter an order setting down said cause for oral argument at the earliest practicable date. Thereafter the Supreme Court shall give immediate consideration to said appeal and render its decision thereon in due course. Such decision shall be final after ten days and mandate shall issue forthwith, if no petition for rehearing has been filed.

Such appeal shall take priority in the Supreme Court over all the other civil cases therein pending, except habeas corpus.

SECTION 8. In the event the decree of the __________ Court determines that the Issuer has authority to issue the Securities for the consideration and upon the terms set forth in the petition for validation and adjudicates the legality of all proceedings taken and/or proposed to be taken in connection therewith, and no appeal is taken within the time above prescribed, or if taken and the decree of the __________ Court is affirmed, such decree shall be forever binding and conclusive, as to all matters adjudicated, against the petitioner and all other parties to the cause, whether mentioned in and served with said notice of the proceedings, or included in the description "all property owners, taxpayers, citizens and others having or claiming any right, title or interest in any properties or funds to be affected by the issuance of the Securities or affected in any way thereby," and shall constitute a permanent injunction against the institution by any person of any action or proceeding contesting the validity of the bonds, notes or certificates of indebtedness described in the petition or the validity of the taxes, assessments, tolls, rates or other levies authorized to be made for the payment thereof or the interest thereon or the validity of any pledge of revenue or property to secure such payment.

SECTION 9. The decree shall be recorded in the same manner as other decrees or judgments in each county in which notice of the hearing is required to be published by Section 5.

SECTION 10. Bonds, notes or certificates of indebtedness validated as herein provided shall have stamped or written thereon the following statement:

"Validated and confirmed by a decree of the __________ Court (specifying the date when such decree was rendered and the court in which it was rendered) which perpetually enjoins the institution of any suit, action or proceeding involving the validity of this bond or the provision made for the payment of the principal and interest thereof."

A copy of such decree, certified by the Clerk of the Court in which the decree was rendered shall be original evidence of such decree in any court of the State.

SECTION 11. The cost in each proceeding under this act shall be paid by the petitioner except in cases where a taxpayer, citizen or other person may appeal and contest the proceeding or intervene therein, the court may tax the whole or any part of the cost against such person as shall be equitable and just.

APPENDIX II

Article 11, Title 15, Code of Virginia, Determining Validity of Bonds (adopted 1954).

SECTION 1. The provisions of this act shall apply to all suits, actions and proceedings of whatever nature involving the validity of bond issues of any political sub-division, whether the bonds are to be issued following an election on the question of their issuance or without necessity of such election. They shall supersede all other acts and statutes on the subject and be controlling in all such cases, notwithstanding the provisions of any other law or charter to the contrary.

SECTION 2. The term "bonds" shall mean bonds, interim certificates or other obligations issued or to be issued by any political subdivision.

SECTION 3. No action shall lie nor proceeding be brought to contest the validity of any such bonds unless the same be brought within twenty-one days next after the final passage of the resolution or publication of the ordinance of the governing body authorizing such bond issue and fixing the form and details thereof.

SECTION 4. The governing body of any political subdivision proposing to issue bonds may bring at any time a proceeding to establish the validity of such bonds in any court of the county or city having general jurisdiction and in which such political subdivision is located. Such proceeding shall be brought by filing a motion for judgment describing such bonds and the proceedings had relative to the issuance thereof and alleging that such bonds are valid and legal obligations of the issuing political subdivision. In such motion for judgment the taxpayers, property owners and citizens of the issuing political subdivision, including non-residents owning property or subject to taxation therein, and any other persons affected by or interested in the issuance of such bonds, shall be made parties defendant.

SECTION 5. All such parties shall be served by publishing such motion for judgment once a week for two consecutive weeks in some newspaper published in or having general circulation in such county, city or town. Upon the filing of any such motion for judgment the court shall enter an order requiring the publication thereof and at the same time shall

Continued on page 56

Continued from page 55

Report of IBA Municipal Securities Committee

fix a time and place for hearing the proceeding, which time and place shall be published with the motion for judgment.

SECTION 6. Any person, corporation, or association desiring to contest any such bond issue shall proceed by motion for judgment brought in the court having jurisdiction as provided in Section 4. Upon the filing of any such motion for judgment the court shall fix a time and place for hearing the proceeding and shall forthwith enter an order requiring the publication of the motion for judgment, together with the time and place of such hearing, once a week for two consecutive weeks in some newspaper published in or having general circulation in such county, city or town. In addition to such publication, the plaintiff must secure personal service on at least one member of the governing body of the issuing political subdivision.

SECTION 7. Any party defendant may reply to such motion for judgment within ten days after the second publication thereof as required by Section 5 but not thereafter. Any property owner, taxpayer, citizen or other person in interest may become a party to said proceedings by pleading to the motion on or before the time set for hearing as provided by Section 5, or thereafter by intervention upon leave of court. At the time and place designated in the order for hearing as provided for in Section 5, the judge shall proceed to hear and determine all questions of law and fact in said cause and may make such orders as to the proceedings and such adjournments as will enable him properly to try and determine the same and to render a final decree therein with the least possible delay. The proceedings shall take precedence over all other business of the court.

SECTION 8. Upon motion of the plaintiff or the issuing political subdivision the court in which the first proceeding to invalidate or sustain the bonds was instituted may enjoin the commencement by any person, corporation or association of any other action or proceeding involving the validity of the bonds, and may order a joint hearing before it of all such issues then pending in any actions or proceedings in any court in the State, and may order all such actions or proceedings consolidated with the validation proceeding pending before it, and may make such orders as may be necessary or proper to effect consolidation and as may tend to avoid unnecessary cost or delays. Such orders shall not be appealable.

SECTION 9. From the final judgment of the court an appeal shall lie to the Supreme Court of Appeals. No such appeal shall be allowed unless the petition therefor be filed within thirty days next after the date on which the judgment of the court is entered and only then if the party taking the appeal has the record certified to the Supreme Court of Appeals and his brief filed therein within sixty days next after the date on which the judgment of the court is entered. If the appeal be timely and otherwise in conformity herewith and if the Supreme Court of Appeals allows the appeal the same shall be placed on the privileged docket.

SECTION 10. In the event the decree of the court validates the bonds and no appeal is taken within the time above prescribed, or if appeal is taken and the decree of the court is affirmed, such decree shall be forever conclusive and shall constitute a permanent injunction against the institution by any person of any action or proceeding contesting the validity of the bonds.

SECTION 11. No court in which a proceeding to invalidate or sustain bonds is brought shall invalidate the bonds unless it finds substantial defects, material errors and omissions in the incidents of such bond issue. Matters of form shall be disregarded.

SECTION 12. Whenever bonds issued or to be issued by any political subdivision have been finally validated by decree of a court of competent jurisdiction, or where no proceeding to contest the validity of such bonds has been brought within the time limited by law, no action shall thereafter be brought to contest the validity of the taxes, assessments, tolls, rates or other levies authorized by the resolution or ordinance which authorizes such bond issue and fixes the form and details of same to be used for the payment of such bonds or the interest thereon or of any pledge of revenue or property to secure such payment.

APPENDIX III

Provision to be Inserted in Notice of Sale.

"These securities are offered for sale subject to the unqualified approving legal opinion of (name of approving attorney), the cost of which will be paid by (the issuer, or the successful bidder if that be the intended requirement). There will also be furnished to the successful bidder the usual closing papers dated as of the date of delivery of and payment for the bonds, including a no-litigation certificate."

Provision to be Inserted in Bid Form.

"This proposal is conditioned upon the (issuer) furnishing to the undersigned, upon the delivery of the bonds, a certificate certifying that there is no litigation pending or, to the knowledge of the signers thereof, threatened affecting directly or indirectly the validity of the bonds or the levy and collection of taxes to pay the interest and principal thereof or in any manner questioning the proceedings and authority for the issuance of said bonds or of any provisions made or authorized for their payment or the corporate existence, boundaries or taxing powers of the (issuer) or the title of the present officers or any of them to their respective offices."

APPENDIX B

MODEL FORM OF BILL

Authorizing the Use of Facsimiles of Signatures and Seals in the Execution of Public Securities.

Section 1. *Definitions*—As used in this Act, the following words and term shall have the following meanings:

(a) The word "unit" shall mean the state, or any department, board, commission or other agency of the state, or any county, city, town, village, district or any other political subdivision of the state heretofore or hereafter created or established, or any board, commission, authority or other public agency or instrumentality of this state, or of this state and one or more other states, which is now or may hereafter be authorized by law to issue bonds.

(b) The term "governing body" shall mean the board or body in which the general legislative or administrative powers of a unit shall be vested or the officer of officers, or the department, board, body, council, commission, authority or other agency of a unit which is authorized by law to take the proceedings which are required to authorize or to provide for the issuance of bonds.

(c) the word "bonds" shall mean public securities of all kinds and shall include bonds, notes, certificates and other similar obligations of a unit for the payment of money at a future date, whether payable in whole or in part from the proceeds of *ad valorem* taxes, revenues or any other source.

(d) the word "facsimile" shall mean the reproduction, either in the same or a different size, by engraving, imprinting, stamping or otherwise of the signature of an officer of any unit or governing body or of the seal of any unit or governing body or any officer thereof.

Section 2. *Execution of Bonds*—Any bonds heretofore or hereafter authorized to be issued by any unit under the provisions of any general, special or local law heretofore or hereafter enacted and any interest coupons attached thereto may, if so authorized by the governing body of such unit, bear or be executed with the facsimile signature of any officer authorized to sign or to execute such bonds or coupons; provided, however, that each such bond shall be manually signed by at least one officer of such unit but it shall not be necessary that the same officer sign all the bonds which may be issued at any one time. In case any such law shall provide for the sealing of such bonds with the official or corporate seal of such unit or of its governing body or any officer thereof, such bonds may bear a facsimile of such seal 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.

In case any officer whose signature or a facsimile of whose signature shall appear on any bonds or coupons shall cease to be such officer before the delivery of such bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if he had remained in office until such delivery, and any bond may bear the facsimile signature of, or may be signed by, such persons as at the actual time of the execution of such bond shall be the proper officers to sign such bond although at the date of such bond such persons may not have been such officers.

Section 3. *When Act Effective*—

NY Investment Assn. Hold Annual Dinner

The Investment Association of New York held its annual dinner at the Waldorf Astoria on the Starlight Roof on Dec. 10, 1958. More than 520 were in attendance, an increase of 25% over last year.

The guest of honor and speaker was Admiral Charles R. Brown, USN Commander in Chief Allied Forces Southern Europe. Admiral "Cat" Brown graduated from the Naval Academy in 1921 and has since served a distinguished Naval career afloat and ashore. During World War II he commanded the carrier Hornet. Admiral Brown has been in command of America's striking and support forces in the troubled Middle East area since 1956. His heavy responsibilities have included the direction of our forces from the time of the uncertainties of the Suez situation to the recent U. S. operations in Lebanon. Fleet Admiral Halsey also attended the dinner with Rear Admiral John J. Bergen and Captain Frederick W. Laing, USN.

Other honored guests were Charles L. Bergmann, R. W. Pressprich & Co., Chairman of the National Association of Securities Dealers; Emmons Bryant, Blair & Co., Incorporated; T. Jerrold Bryce, Clark, Dodge & Co.; Harold H. Cook, Spencer Trask & Co.; George W. Davis, Davis, Skaggs & Co. (San Francisco); Robert de Vecchi, Smith, Barney & Co.; James Dyer, American Stock Exchange; Gerald M. Gantz, Wood, Struthers & Co.; George Gregory, Gregory & Sons; Stewart S. Hawes, Blyth & Co., Inc.; Richard de La Chapelle, Lee Higginson Corporation; Robert J. Lewis, Estabrook & Co.; Cushman McGee, R. W. Pressprich & Co., Chairman of the New York Group of the Investment Bankers Association; Edward A. Schrader, Goldman, Sachs & Co.; William F. Shelley, Vance, Sanders & Company; Edward C. Werle, Johnson & Wood, Chairman of the Board of Governors of the New York Stock Exchange; Frank A. Willard, Reynolds & Co.

Form Equitable Inv.

BALTIMORE, Md. — Equitable Investment Co. has been formed with offices at 1800 North Charles Street to engage in a securities business. Officers are Charles H. Fiege, Jr., President and Treasurer, and Edgar C. Murphy, Vice-President and Secretary.

Continued from page 26

Report of IBA Industrial Securities Committee

holdings would today amount to about **one-third** of the total.

In recent years, the importance of institutions has been extremely noticeable in the supplying of funds for the equity market. Over the five-year period 1953-1957, investment companies, insurance companies, mutual savings banks, and non-insured corporate pension funds purchased on balance a total of $7.9 billion of stocks. This compares with total net new stock issue (excluding investment company issues) of $11.5 billion.

Thus, these institutions accounted for over two-thirds of the net increase in outstanding shares over the period. This is not meant to imply that institutions in any important way **directly** absorb new stock issues. As will be discussed later, the vast bulk of institutional buying is of existing issues in secondary markets. For that reason, these figures do suggest that there might be considerable difficulty someday in our ability to provide adequate funds for many of these new equity issues in which institutions have no current interest.

Investment Policies and Practices Of Financial Institutions

The men who manage these institutional funds are trained and nurtured in the tradition of trusteeship. First and foremost, they are concerned with the preservation of the capital values entrusted to their charge. Higher rates of income return, both present and potential, and increase of market value are, of course, the motivation for accepting the risks inherent in all common stock investment, but once the fundamental hazard has been accepted an important criterion of selection is the degree to which it is minimized.

Therefore, the fiduciary investor will generally look to the financially strong, solidly established companies with proved management and an assured competitive position in the favored industries. Herein, surely, risks are minimized and, moreover, there is the comforting assurance, in the event that a selection proves unfortunate, that all the other fiduciary managers were equally misled.

The stark facts bare the effects of adherence to this "prudent" policy on the supply of risk capital. These institutions tend to concentrate their common stock investments on a relatively few highly selective and well-seasoned investment grade issues purchased in secondary markets. These are inevitably the issues of the largest and best-established corporations in the nation.

The Life Insurance Association of America, in a special study covering the period of almost three years, from January 1953 to September 1955, analyzed the common stock investments of 25 life insurance companies owning about 85% of the common stock investments in all life insurance portfolios. It showed that total net purchases amounted to $168 million in the period and that this sum was almost wholly invested in a relatively small number of listed or investment-type over-the-counter issues. Not more than 7%, or $12 million, represented new capital, and 90% of this amount was accounted for by purchases on subscription rights.

The published portfolios of investment companies reveal the same story. Except for specialized funds which, in keeping with their stated objectives, do buy modest amounts of secondary or unproved issues, the more than $13 billion of assets held by the industry is almost wholly invested in the best known companies. In fact, at the end of June, 1958, the "fifty favorites" of the investment company industry—the fifty common stocks which show the highest aggregate market values in investment company portfolios — represented about one-fourth of the total assets of all investment companies.

Although very few pension funds publicize their holdings, it is hardly a secret that they follow a policy which, if anything, is more selective than the investment companies. On Sept. 30, 1954, the fifty largest common stock holdings of pension, profit-sharing, and welfare funds trusteed in New York State banks represented 60% of the marekt value of their total common stock holdings.[4]

This uniformity of policy and preference among institutional investors is, of course, to be expected, not only because of the fiduciary responsibilities of these investment managers, but also because the management personnel of these institutions share similar training and experience, are in continuous association with one another, and interchange information and opinions. Thus, the institutionalization of investments works directly against the idea of decentralization and diversity in capital markets. A recent study points out that, of the approximately 1,100 companies listed on the New York Stock Exchange, about one-quarter are under the effective control of the founders' families or the present management, while in the great majority of companies the only large stockholders are institutional trustees.[5] Acting for pension funds, endowments, investment trusts and corporate trustees, the managements of these institutions have in their control about one-third of total outstanding common stock shares that are listed. It is patent that the effective control of the major segment of American business has passed into fiduciary hands.

Importance of Institutions in the Future

The future gives every appearance of being more of the same. As changes occur in the structure of our economy, along the same paths as in recent decades, there is every likelihood that the role of and the reliance on institutions in our caiptal markets will continue to grow in importance. The rise of institutions has taken on considerable momentum today, a factor which by itself suggests the continuation of their growth in the next 10 or 25 years. It will take a major upheaval to upset this trend—such as a destructive war or possibly a major depression.

For example, as far back as we have data, life insurance companies as a whole have tended to double their assets regularly every 10 years. This suggests that by 1967 the whole industry's assets will amount to about $200 billion, $7 billion or $8 billion or more of which may be in stocks.

Also, if the rate of growth of corporate non-insured pension funds continues, the total assets of this group will increase from what was $19 billion at the end of 1957 to over $50 billion at the end of 1965.[6] If 30% of this amount is then in stocks, these institutions will hold approximately $15 billion worth of equity securities.

Variable Annuities

One of the big unknown questions at this time is the future prospects for the development of the variable annuity. Important interests in the life insurance industry are currently putting up a strong fight to surmount certain legislative and judicial obstacles to their full-scale operation of the program.

In any case, the variable annuity will have several advantages favoring rapid growth:

(1) The already large sales force of the life insurance industry, numbering over 200,000 people.

(2) A highly developed public fear of inflation.

Even though the variable annuity to some extent may grow at the expense of other forms of institutionalized savings, it is important to note that the monies saved will be invested in equities while some of these alternative forms of saving have relatively low proportions in stocks (except for mutual funds). Therefore, for this reason alone, the tendence will be for institutional funds, as a whole, to flow into equities to an even greater extent than at present.

This flow of funds from variable annuities may exert a dominating influence on future investment trends. Whatever the final form of this device may be, it seems highly probable that such annuities will soon become available, and that the amount of dollars involved will be almost astronomical. Furthermore, since the investment of these funds in equities will be administered almost exclusively by the life insurance companies, we may expect that in the acquisition of common stocks they will be directly competitive with the buying from trust funds, pension funds, mutual investment funds and others of the institutional type. This is a natural consequence of the fact that the administrators of these various funds have essentially the same training and background, many of the same problems, and in general the same objectives.

A glance at comparative statistics will illustrate the impact of the purchasing power of the variable annuity reserves when superimposed, to a large extent, upon current demand from institutional sources.

A report recently received indicates that during 1957 net purchases of common and preferred stocks for corporate pension funds, life insurance companies, investment companies, banks, and other institutions totaled $2.1 billion. Since 1957, the rate of purchases by institutions, particularly pension funds and investment companies, has been stepped up sharply. It seems reasonable to assume that purchases by these five classes of institutions may now be on the order of $3.0 to $3.5 billion annually.

It is reported in the statement of Carrol M. Shanks,[7] President of the Prudential Insurance Company of America before the New Jersey Legislative Committee last May, that at least $2.5 billion per annum of equities would be purchased over the next 20 years, if the life insurance industry received the go-ahead to enter the variable annuity business. It is our assumption, for the purposes of this report, that the desire on the part of the insurance industry will probably be accomplished. This would result in an increase in demand for equities of over 60%, without consideration of any increase in demand from present institutional sources, and also without any direct effect upon the creation of an additional supply of suitable stocks.

When we consider that by far the greater part of equity buying by institutions is limited to a list of less than 100 stocks listed on the New York Stock Exchange, we are at a loss to estimate what may be the eventual effect of an

Continued on page 58

4 Computed from *Pension and Other Employee Welfare Plans*. New York State Banking Department, 1955.

5 Peter Drucker, *America's Next Twenty Years, The New Tycoons*.

6 Vito Natrella of the Securities and Exchange Commission has projected this group's total assets to $52 billion by the end of 1965, as described in a paper delivered before the American Statistical Association, Sept. 10, 1957.

7 Remarks of Carrol M. Shanks, President, Prudential Insurance Company, before Business Affairs Committee, New Jersey Assembly, Trenton, N. J., May 2, 1958.

Continued from page 57

Report of IBA Industrial Securities Committee

added 60% of purchasing power concentrated on the same stocks over the next few years.

A further indication of the magnitude of the potential demands for stocks is found in the statement of Mr. Shanks before the Business Affairs Committee of the New Jersey Assembly to the effect that at the end of 20 years aggregate capital requirements arising from variable annuities will amount to $53.0 billion.

An indication of the potential growth in demand for equities is the estimate of Betram M. Betsch, President of the American Society of Corporate Secretaries, as reported by the Los Angeles "Times," that by the end of 1965 pension fund assets and insured reserves would reach the astounding total of $90.0 billion, and that $50.0 billion of this total would be in trust fund assets.

The table below shows the net purchases of corporate stocks, preferred and common, by type of purchaser during the 1950-57 period. With the exception of 1956, the trend toward the institutionalization of equity investment is clearly evident. During the 1950-52 period, individuals accounted for 58% of net stock purchases; during the 1953-57 period, individuals accounted for only 49% of net stock purchases; and if 1956 were excluded, the latter percentage would be only 41%.

I am sure that the trend would stand out even more clearly if data for a longer span of years were available. Unfortunately, comparable data for years prior to 1950 are not available at the present time.

Net Purchases of Corporate Stocks 1950-57*
($ billions)

Type of Purchaser	1950	1951	1952	1953	1954	1955	1956	1957
Individuals	.9	1.7	1.7	1.0	.8	1.3	2.8	1.8
Pension funds and insur. cos.	.7	.5	.8	.8	1.1	.9	1.0	1.1
Savings institutions	†	†	.1	.1	.1	.1	†	.1
Invest. cos. & other finan. inst.	†	.2	.4	.3	.5	.5	.3	.9
Non profit organizations	--	--	--	--	--	--	--	--
Foreign holders	†	.1	†	.1	.1	.1	.3	.1
Total	1.7	2.6	3.1	2.3	2.6	3.0	3.8	4.0
% of total acquired by individuals	53	65	55	43	31	43	74	45

*Details may not necessarily add to totals, due to rounding. †Less than $50 million.
SOURCE: Federal Reserve Board.

If we would add to the above data the impact of the equity purchases by life insurance companies by their entrance into the variable annuity field, we would find that the table would be adjusted to read 70% of net purchases per annum through institutions and only 30% by individuals.

It is conceivable that by 1965 if the normal growth curve of the trusteed corporat pension funds were applied, plus the expected portfolio changes yet to be made by governmental, state and local pension funds from bond and mortgage purchasing to some per cent of equity purchases, that the figure will then have reached 90% of net purchases by institutions and only 10% by individuals.

What of the Medium Sized Company?

With the practices and policies pursued today by this huge segment of the investment market, where then is the small and medium sized business to look for equity capital that it needs to fulfill its opportunities in an expanding economy?

The plight of very small business has received and continues to receive the solicitous attention of government and commercial banks. The traditional sources of small business capital, its owners and individual friends and relations, suppliers, commercial banks and factors, have been augmented to a significant extent by new agencies and new methods. The Small Business Administration of the Federal Government, directly and in association with local banks, has established a very creditable record in providing capital for small business expansion and not infrequently has participated in original financing. Under the Small Business Investment Act of 1958, means are being established for setting up investment companies whose special function would be small business financing. Also, commercial banks through the medium of the term loan have extended materially the range and volume of their capital commitments. The development that is perhaps of most importance to small business, although it is widely utilized by business of all sizes, is the sale and lease-back arrangement. A very substantial amount of financing has been effected through this device and a portion of it has been of an equity type in character if not in name.

No one would deny the vital necessity of opening up new sources of investment capital to small business. In fact, it is not improbable that the preservation of those two priceless assets of our industrial system—invention and innovation—is directly dependent upon the continuing availability of risk capital that will waive the protection of earnings and assets in return for the opportunity of exceptional profits. But, at least, this problem is widely recognized and its solution is the active concern of some agencies, although almost completely ignored by the investment banking fraternity.

The medium sized business is at no particular disadvantage when it seeks senior capital. Life insurance companies, commercial banks, and pension funds are not only receptive, but will compete for the business when the supply of and demand for investment capital is in reasonable balance. The problem of **equity capital,** however, is an entirely different matter. We have considered the tendency of institutional investors to confine their common stock portfolios to investment leaders.

Of course, most industrial enterprises, large and small alike, have placed their main reliance for equity capital on the reinvestment of a substantial percentage of current earnings. Indeed, in the postwar period, reinvested earnings have provided about three times as much equity capital as has been raised by public offerings. However, business as a whole does not earn enough to be self-financing in an expanding economy and even its partial success in doing so over the past decade was exceptional. To a very considerable extent it was made possible by the flush earning power generated by the insistent postwar and Korean demand and the inflation that accompanied it.

Small business in one respect is favorably situated to finance through retained earnings because its stock ordinarily is held by the management who cannot benefit from dividends because of the confiscatory higher bracket personal income tax rates. As public common stock financing is seldom possible, anyway, the only interests that must be considered are those of the controlling stockholders. Therefore, the total earnings can be reinvested.

The Role of the Investment Banker

The typical medium sized corporation does have access to the equity capital market but to enter it successfully it must compete with the companies in its industry which have an established investment standing. One of the most effective means of competing is to offer a higher dividend return. The dilemma is obvious: to make its stock attractive to the investor, it must pay out a reasonably high proportion of earnings; but the larger the amount of earnings it must disburse, the greater the amount of new capital it must raise. If the medium sized business is to find a path through this quandary, it will need the faithful services of an interested and competent guide—one who understands the financial necessities of industry and the requirements and limitations of that segment of the equity capital market that is still available to him. Such guidance will be found in the investment banking fraternity and in particular among those whose time and abilities are not pre-empted by the demands of large industry.

The investment banker who has established his business apart from the traditional centers of finance is exceptionally qualified to join hands with medium sized business and advance its welfare to mutual advantage.

The harmony of interests is especially apparent to the investment banker who has pondered the implications to his business of the institutionalization of savings and the concentration of investments. He has become aware of an important dilemma facing the investment banking business. First, those individuals who constitute the most important part of the banker's clientele directly control an ever decreasing proportion of investable capital. However, at the same time there is a smaller and more restricted supply of top grade investment participation available to the banker to offer to his clientele. He can, in some degree, offset this restriction of his business by the active merchandising of investment company shares, but to the very extent that he does so he relinquishes some portion of his professional role of investment banker.

The investment banker can bring a veritable wealth of experience, skill and knowledge to counsel medium sized business on its immediate capital problems and its long range financial goals. His professional abilities and his creative imagination have been nurtured and disciplined by close association with many types of business and business management. The necessity of always being acutely conscious of current and potential economic and financial developments on the broadest possible national and international scale affords him a perspective that is invaluable to management preoccupied with the immediate demands of profitable operation.

What Should the Investment Banker Do About the Problem?

Implicit in the investment banker's relationship with his corporate clients is a continuous sense of responsibility for the enterprises and securities that he sponsors, unless he abdicates in favor of the growing profession known as Public Relations Experts. Although there are many and varied services that he is uniquely placed to render, his primary contribution is this:

(1) To participate with his client in creating a distinct corporate personality and investment character which, by earning the confidence of the investing public, will be entitled to its continuing support.

(2) To return to the kind of sponsorship that includes directorships and representative di-

rectorships on the part of investment bankers.

(3) To encourage his correspondent firms who are away from the traditional centers of finance to educate the management on the ways and means of preparing itself for a public issue of stock.

(4) To undertake public financing on a regional basis where suitable since the regional dealer can very often win the confidence of both the management and the nearby investing public more ably than the larger firms in the major financial communities.

(5) To educate the managers of institutionalized funds to broaden their scope of investment to include the shares of medium sized corporations — especially those corporations with sufficient capitalization to prevent any impairment of floating supply or marketability that might result from large institutional holdings.

(6) Lastly, it is important to understand and to attempt to evaluate these "forces at play" with respect to their effect on his own securities business over the next seven or eight years. We hope that the study presented here may serve as a helpful background for anyone making policies in the securities business. We feel that individually or collectively the investment fraternity may not impeed or materially change the trends toward institutionalization and its attendant effects. However, the individual can change his own policies with respect to the conduct of his business, as some have already done.

Respectfully submitted,
INDUSTRIAL SECURITIES COMMITTEE

William S. Hughes, Chairman
Wagenseller & Durst, Inc., Los Angeles

Frederick C. Braun, Jr.
F. S. Moseley & Co., New York

Mark Davids
Lester, Ryons & Co., Los Angeles

P. Fred Fox
P. F. Fox & Co., Inc., New York

Robert R. Gilbert, Jr.
Sanders & Company, Dallas

Edward Glassmeyer
Blyth & Co., Inc., New York

Charles L. Hewitt
Francis I. duPont & Co., New York

Herman B. Joseph
Joseph, Mellen & Miller, Inc., Cleveland

Gilbert W. Kahn
Kuhn, Loeb & Co., New York

Samuel N. Kirkland
Hallowell, Sulzberger, Jenks, Kirkland & Co., Philadelphia

Thomas A. Larkin
Goodbody & Co., New York

Blancke Noyes
Hemphill, Noyes & Co., New York

Frank B. Reid
Fulton Reid & Co., Inc., Cleveland

Julian A. Space
The Johnson, Lane, Space Corporation, Savannah

John W. Spurdle
Dominick & Dominick, New York

Jerome F. Tegeler
Dempsey-Tegeler & Co., St. Louis

LeRoy A. Wilbur
Stein Bros. & Boyce, Baltimore

Coast Exchange Member

The election of Mark D. Leff of First Angeles Corporation to membership in Pacific Coast Stock Exchange through the purchase of a membership in the Los Angeles Division has been announced by Frank E. Naley, Board Chairman.

The firm of First Angeles Corporation was organized by Mr. Leff, President, on May 2, 1958, is headquartered at Beverly Hills, and is engaged in the general securities business.

Mr. Leff, formerly active in the oil business in Southern California is a graduate of Culver Military Academy and The University of Pittsburgh and was in business in Pittsburgh prior to moving to Los Angeles in 1945.

First Pacific Inv. Corp.

(Special to The Financial Chronicle)

PORTLAND, Ore. — The First Pacific Investment Corporation has been formed with offices in the American Bank Building to engage in a securities business. Ronald A. Roeske is President of the firm.

HIP Investors Formed

PEEKSKILL, N. Y. — HIP Investors, Inc. has been formed with offices at 111 North Division Street to engage in a securities business. Herman I. Poritzky is President and Treasurer. Mr. Poritzky was previously with Cooper-Hartert Company.

H. C. Jones Opens

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif. — H. Cabot Jones is engaging in a securities business from offices at 9015 Wilshire Boulevard.

J. J. Wade Opens

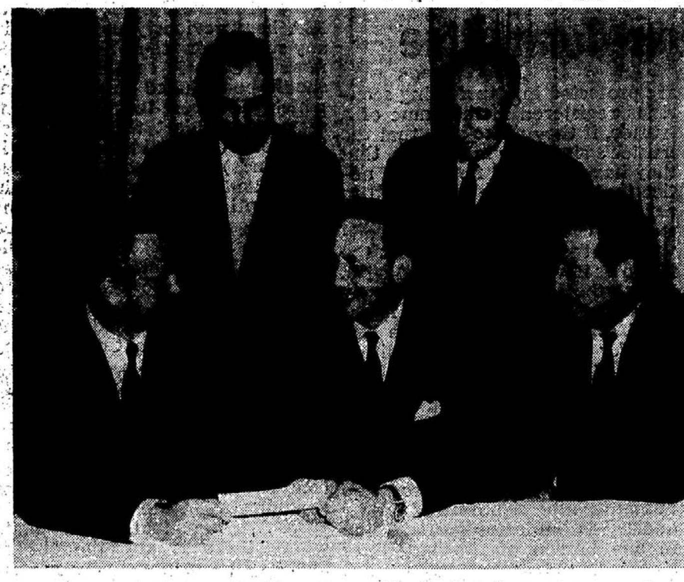
MEMPHIS, Tenn.—John Joseph Wade, Jr. is engaging in a securities business from offices at 3387 Poplar Avenue under the firm name of Joe Wade Jr. & Co. He was formerly with Waddell & Reed, Inc.

P. J. Maestas Opens

(Special to The Financial Chronicle)

FT. ORD, Calif.—Phil J. Maestas is engaging in a securities business from offices at 101 Fourth Div. Avenue.

Republic of Panama Bond Offering Formally Completed at Closing Ceremonies



Formal completion of the public offering on Nov. 20 of $16,800,000 Republic of Panama 4.80% external secured bonds due 1993 took place recently in New York City, when Fernando Eleta A., Minister of Finance and Treasury of Panama (seated left), received a check for the net proceeds of the sale of the bonds from Philip Isles (seated, center), partner of Lehman Brothers, manager of the investment banking group which offered the issue for public subscription.

Participating in the closing ceremonies were: seated, right, Ricardo Arias E., Panama's Ambassador to the United States, and, standing, left to right, Sanford L. Smith, Vice-President of The First National City Bank of New York, Panama's Fiscal Agent for the loan, and Marcel A. Palmaro, partner of Lehman Brothers.

Security for the bonds has an interesting historical background since it is based on the Treaty of 1903, as amended, between the United States of America and the Republic of Panama under which the Panama Canal was constructed. Interest and sinking fund instalments to retire the entire issue by maturity are to be derived from $1,000,000 of the $1,930,000 annual payment which the United States of America owes, under the Treaty, to Panama in perpetuity for the use and occupancy of the Canal Zone. The $1,000,000 payments are being assigned, until all bonds are retired, to The First National City Bank of New York, as fiscal agent for the loan.

Panama will use proceeds from the financing to redeem outstanding indebtedness of the Republic, including all indebtedness to the World Bank. The bonds were purchased from the Republic by the underwriters at a price of 100.17% and reoffered to the public at 101.17%, the latter price constituting a yield of approximately 4.73% to maturity.

Continued from page 28

Report of IBA State Legislation Committee

duciary security transfers, prepared by the National Conference of Commissioners on Uniform State Laws. A copy of this Uniform Act, with the official comments on sections of the Act, is attached as Appendix D. The Key provisions of this Act provide that:

(a) A corporation or transfer agent registering a security in the name of a person who is a fiduciary or who is described as a fiduciary is not bound to inquire into the existence, extent, or correct description of the fiduciary relationship, and thereafter the corporation and its transfer agent may assume without inquiry that the newly registered owner continues to be the fiduciary until the corporation or transfer agent receives written notice that the fiduciary is no longer acting as such with respect to the particular security.

(b) The corporation and transfer agent may assume without inquiry that a transfer is within the authority of the fiduciary and is not in breach of fiduciary duty, even though the transfer is to the fiduciary himself or to his nominee. They may assume that the fiduciary has complied with any controlling instrument and with the law, including any law requiring court approval, and they are not charged with notice of court records or other documents even though in their possession. Thus the corporation and transfer agent are protected in transferring securities registered in the name of a trustee, if they make sure that the trustee's signature is genuine, that they have received no written notice that the trustee has ceased to act as such and no notification of a claim of beneficial interest adverse to the transfer, and that the tax laws have been complied with. Where the assignment is made by a fiduciary who is not the registered owner, the corporation and transfer agent must in addition obtain specified evidence of appointment or incumbency.

(c) No person (including a bank or dealer) who participates in the acquisition, disposition, assignment or transfer of a security by or to a fiduciary including a person who guarantees the signature of the fiduciary is liable for participation in any breach of fiduciary duty by reason of failure to inquire whether the transaction involves such a breach unless it is shown that he acted with actual knowledge that the proceeds of the transaction were being or were to be used wrongfully for the individual benefit of the fiduciary or that the transaction was otherwise in breach of duty.

We recommend consideration of adoption of this Act with a view to minimizing the problems involved in the transfer of securities from or to fiduciaries.

VI
Uniform Commercial Code

The Uniform Commercial Code was adopted in Kentucky to become effective July 1, 1960. The IBA has previously urged that in any state where the Uniform Commercial Code is considered there should be included an amendment which declares that investment securities subject to Article 8 of the Code (which include municipal bonds) are negotiable instruments and which provide certain presumptions with respect to the signatures and defenses on such securities. The 1957 official edition of the Uniform Commercial Code includes the recommended amendment, and the recommended amendment was included in the Uniform Commercial Code adopted in Kentucky.

VII
Preparation for 1959

In several states work is already under way toward adoption of complete new securities acts or amendments to the present act in 1959. We urge that, in any state where there is any thought of adopting a complete new securities act or amending the present act in 1959, work be commenced immediately so that the amendments can be carefully prepared and well considered in advance of the legislative session. We urge that all such work be undertaken in close cooperation with IBA Counsel and that preliminary drafts of any such proposals be submitted to IBA Counsel for comment prior to submission to the legislature. IBA Counsel on request will draft desired amendments and participate in any conferences regarding the proposals.

Respectfully submitted,

STATE LEGISLATION COMMITTEE

Harry Beecroft, Chairman
Beecroft, Cole & Co., Topeka

Gustave A. Alexisson
Granbery, Marache & Co., New York

Walter A. Bayer
F. J. Winckler Co., Detroit

Henry J. Blackford, Jr.
A. M. Law & Company, Inc., Spartanburg

Gerald F. Brush
Brush, Slocumb & Co., Inc., San Francisco

W. W. Keen Butcher
Butcher & Sherrerd, Philadelphia

Lyman W. Cole
Kalman & Company, Inc., Minneapolis

Richard J. Cook
Wm. J. Mericka & Co., Inc., Cleveland

John F. Curley
Paine, Webber, Jackson & Curtis, New York

Robert E. Daniel
Pacific Northwest Company, Seattle

Stanley R. Dickover
Elworthy & Co., San Francisco

Ralph G. Elam
Sweney Cartwright & Co., Columbus

John B. Ellis
Courts & Co., Atlanta

Sherman Ellsworth
Wm. P. Harper & Son & Co., Seattle

George H. C. Green
The Liberty National Bank and Trust Company, Oklahoma City

Charles E. Halcomb
The First Boston Corporation, Pittsburgh

F. Barton Harvey, Jr.
Alex. Brown & Sons, Baltimore

Arthur H. Haussermann
Vance, Sanders & Company, Boston

Wilbur E. Hess
Hess & Company, Houston

Henning Hilliard
J. J. B. Hilliard & Son, Louisville

William L. Hurley
Baker, Simonds & Co., Detroit

Marshall H. Johnson
McDaniel Lewis & Co., Greensboro

Quitman R. Ledyard
Equitable Securities Corporation, Nashville

W. Bruce McConnel, Jr.
Singer, Deane & Scribner, Pittsburgh

Joseph J. Muldowney
Scott & Stringfellow, Richmond

Paul L. Mullaney
Mullaney, Wells & Company, Chicago

George A. Newton
G. H. Walker & Co., St. Louis

Einer Nielsen
J. C. Bradford & Co., Nashville

Frank W. North
Barret, Fitch, North & Co., Incorporated, Kansas City

Gilbert H. Osgood
Blunt Ellis & Simmons, Chicago

Charles C. Pierce
Rauscher, Pierce & Co., Inc., Dallas

Robert A. Podesta
Cruttenden, Podesta & Co., Chicago

Albert Pratt
Paine, Webber, Jackson & Curtis, Boston

Malcolm F. Roberts
Garrett-Bromfield & Co., Denver

Harry Theis
Albert Theis & Sons, Inc. St. Louis

APPENDIX A

Recommended Procedure for Organization and Operation of Group Legislation Committees.

(1) Organization of Committee:

(a) Appoint Chairman and members for following year prior to Annual Convention.

(b) Include at least one representative from each state in IBA Group.

(c) Include some men who have served on Committee during current year and are familiar with background of matters before Committee, so as to provide continuity and experience.

(d) Include some capable and interested young men.

(e) Select men who are familiar with operation of state government and who take an active interest in it.

(2) Establish a cooperative working relationship with state officials whose duties and activities are related to securities business. Meet at least once early in each year with the securities commissioner of each state in the Group to:

(a) Inform him of identity of members of Committee in his state.

(b) Discuss any administrative or legislative problems of commissioner or industry.

(c) Generally, establish an attitude of mutual cooperation and confidence.

(3) Undertake amendment of state securities law, or adoption of a new state securities law of a model type, or changes in administrative rulings relating thereto, where such action is needed to:

(a) Provide more effective protection for investors.

(b) Obtain greater uniformity with the laws and procedures in other states.

(c) Coordinate state and federal requirements and procedures; or

(d) Eliminate unnecessary burdens on the orderly conduct of fair and honest securities business.

It is recommended that such work be undertaken, where possible, in close cooperation with the state securities commissioner. The Assistant General Counsel of the IBA will give any desired assistance in this work, including drafting the amendments and participating in conferences, and his assistance should be requested to coordinate local legislation with general recommendations of the Association and to obtain the benefit of his experience in this field.

(4) Check proposed legislation affecting the securities business and take appropriate action to encourage the adoption of

desirable legislation and to oppose the adoption of undesirable legislation.

(5) Seek, encourage and support the appointment of persons of ability, intelligence and integrity as state officials, particularly as securities Commissioners.

Comments

The state legislation committee of an IBA Group provides valuable opportunities for a member to increase his knowledge of state government and its functions and administration, and at the same time to perform an important service for the investment banking profession. The foregoing check-list of recommended procedures is simply a guide for the mechanics of organizing and operating the Committee. These comments are intended to supply a little of the philosophy of the work of the Committee.

Good legislative work for good legislation makes for good government and good citizenship. Legislative work is, in one sense, simply intensive selling of ideas in the form of laws.

In all state legislative work concerning the regulation of the sale of securities a fundamental basis and objective should be recognition of investment banking as a profession in which only responsible and honest persons should engage. Thus, state legislation regulating the sale of securities is at its best when it protects the investing public from irresponsible persons whose judgment is tempered by greed, but permits the orderly conduct of the securities business by responsible and honest persons with a minimum of regulation.

Equally important with sound legislation is honest and intelligent administration of the law. Therefore, it is also an important function of legislation committees to establish a cooperative working relationship with state officials whose duties and activities are related to the securities business. This activity includes obtaining the appointment of competent officials, as well as establishing a cooperative relationship with officials. It is desirable to obtain satisfactory compensation for state officials to attract competent persons to the jobs; to keep in regular contact with state officials so that they know whom to contact as representatives of the securities industry to discuss administrative or legislative problems; and to provide cooperation and support to administrative officials when they are confronted with problems.

For many types of state legislation affecting the securities business, there is available model legislation. Therefore, it is always desirable to communicate with IBA Counsel regarding proposed legislation to obtain the benefit of any model legislation that may be available and to coordinate the proposed legislation with generaal recommendations of the Association. With particular regard to state securities laws, it should be noted that there is a Uniform State Securities Act designed in three separate parts embodying three separate types of regulation, plus a fourth part containing general provisions. Part 1 covers fraudulent and certain prohibited practices. Part 2 covers the registration of broker-dealers, agents and investment advisors. Part 3 covers the registration of securities. Part 4 includes general provisions covering definitions, exemptions, administration, enforcement, criminal penalties and civil liabilities. In accord with IBA policy of leaving to the members in each state determination of the type of state regulation most appropriate for that state, the Association has neither approved or disapproved the Uniform Act for adoption, but the IBA has prepared a **modified** draft of the Uniform Act which it recommends for adoption in those states where adoption of the Uniform Act, or parts thereof, is contemplated.

APPENDIX B

Summary of Amendments to State Blue Sky Laws in 1958.

CONNECTICUT

Section 5982 of the Connecticut Securities Act was amended effective April 25, 1958 to eliminate a requirement that the Bank Commissioner enter on the register of brokers, dealers and salesmen the date of each entry.

LOUISIANA

The following amendments to the Louisiana Securities Act were adopted effective July 30, 1958:

(1) Subsection 11 was added to Section 51:704 (exempt securities) to exempt any security not having a fixed return which has been outstanding in the hands of the public for a period of not less than three years, the issuer of which has had a net income after taxes for a continuous immediately preceding period of not less than three years.

(2) Subsection 11 was added to Section 51:705 (exempt transactions) to exempt: "The sale by a registered dealer, acting either as principal or agent, of securities theretofore sold and distributed to the public, provided that:

"(a) Such securities are sold at prices reasonably related to the current market price thereof at the time of sale, and if such registered dealer is acting as agent, the commission collected by such registered dealer on account of the sale thereof is not in excess of usual and customary commissions collected with respect to securities and transactions having comparable characteristics; and

"(b) Such securities do not constitute an unsold allotment to or subscription by such dealer as a participant in the distribution of such securities by the issuer or by or through an underwriter; and

"(c) Either Moody's, Standard and Poor's or Fitch's securities manuals, or any other recognized securities manuals approved by the commissioner, contains the names of the issuer's officers and directors, a balance sheet of the issuer as of a date not more than 18 months prior to the date of such sale, and a profit and loss statement for either the fiscal year preceding that date or the most recent year of operations.

"The commissioner may revoke the exemption afforded by this subsection with respect to any securities by issuing an order to that effect if he finds that the further sale of such securities in this State would work or tend to work a fraud on purchasers thereof."

(3) Section 707 (registration by notification) was amended to eliminate a requirement that each dealer must file a notice with the Commissioner before selling securities which have been registered by notification.

(4) Section 710 (registration of dealers and salesmen) was amended to exclude from the requirement that an issuer selling its securities must register as a dealer, any corporation organized exclusively for religious, educational, benevolent, fraternal, charitable or refunding purposes and not for pecuniary profit, no part of the net earnings of which inures to the benefit of any profiting stockholder or individuals.

(5) Section 719 was amended to provide that applicants for registration of securities must pay an examination fee of $25 in addition to the fee for registration of securities.

MISSISSIPPI

A new Mississippi Blue Sky Law was adopted effective May 6, 1958. This law embodies basically the provision of the previous Act with the following principal changes:

(1) It provides for registration

Continued on page 62

Continued from page 61

Report of IBA State Legislation Committee

of "limited dealers" who are defined as dealers authorized only to sell or offer for sale a certain issue of, or a certain class of, securities specified by the Secretary of State (as distinguished from a "dealer" who is authorized to engage in a general securities business).

(2) Provision is made for hearings by the Secretary of State whenever he has issued an order forbidding the sale of any securities or refusing or suspending or revoking the registration of any person as an investment company, dealer, limited dealer or agent.

(3) Some of the exemption provisions are modified and several new classes of exempt transactions are added.

(4) The filing fee for securities (which is based on the amount of securities), was increased so that the minimum fee for securities was raised from $25 to $50 and the maximum fee for securities was raised from $250 to $500. The fee for dealer registration was increased from $25 to $50 and the fee for registration of agents was increased from $5 to $10.

(5) A new section was added restricting the qualification of securities if the issuer has authorized the issuance and sale, or has negotiated or contracted for the issuance of, optional, pre-organizational, or incentive shares in excess of a specified percentage of the authorized capital of the company.

(6) A new provision was added that, after a registered dealer has registered an issue of securities, any registered dealer may thereafter sell such securities.

NEW YORK

Several amendments to the New York Blue Sky Law were adopted, the principal of which were the following:

(1) The authority of the Attorney General to investigate was extended to include investigation of fraudulent practices in the purchase of securities.

(2) The fee for filing each dealer's statement was increased from $5 to $10. The fee for filing each supplemental dealer's statement was increased from $2.50 to $5. The fee for filing each sworn statement was increased from $2 to $4.

(3) A new section (Section 359-ee) was added requiring every person who filed a dealer's statement on or before June 30, 1953 to file in the Department of Law on or before Feb. 1, 1959 a signed and certified "Certificate of Report of Existence." After the Attorney General gives notice to each dealer to whom this requirement applies and issues a proclamation, the dealer's statement of each dealer who is subject to the requirement and who fails to file the required Certificate shall become void as of May 31, 1959.

APPENDIX C

Summary of Amendments to State Legal Investment Laws Adopted in 1958.

CONNECTICUT

Section 5815 of the Connecticut Legal Investment Law for Savings Banks was amended effective April 25, 1958 by adding a new subsection 15 to authorize investment of assets of savings banks and of the savings departments of state banks and trust companies (in addition to other investments authorized by law) in the obligations of regional school districts in the state, provided that not more than 6% of such assets are so invested and not more than 1% of such assets may be invested in the obligations of any one such regional school district.

NEW YORK

Section 81 of the New York Legal Investment Law for Insurance Companies, applying to investment of reserves was amended effective April 9, 1958 by adding subdivision (15) to authorize investments which do not qualify under any of the specified classes of authorized investments; provided the aggregate cost of such investments shall not exceed 2% of the admitted assets of the insurer as of the preceding Dec. 31; and provided that this subsection shall not be deemed to alter any limitation provided in any other subdivision or section on the amount which may be invested in any of the authorized types of investments, except that a limitation of one-half of 1% of assets on investment in corporate obligations not otherwise qualifying shall not apply to the extent of an additional 1½% of assets.

RHODE ISLAND

Section 19-9-29 of the Rhode Island Legal Investment Law for Deposits in Savings Banks was amended effective May 10, 1958 to raise from 2% to 5% of deposits the amount which may be invested subject to the prudent man rule in corporate stock meeting specified requirements.

Rhode Island Fraternal Benefit Societies were authorized, effective April 25, 1958, to invest funds only in such securities as are authorized by Rhode Island Law for the investment of assets of life insurance companies. Such societies were previously permitted to invest only in securities authorized for investment of assets of Rhode Island savings banks.

APPENDIX D

Uniform Act for Simplification of Fiduciary Security Transfers.

[Be it enacted. . . .]

SECTION 1. [*Definitions.*] In this act, unless the context otherwise requires:

(a) "Assignment" includes any written stock power, bond power, bill of sale, deed, declaration of trust or other instrument of transfer.

(b) "Claim of beneficial interest" includes a claim of any interest by a decedent's legatee, distributee, heir or creditor, a beneficiary under a trust, a ward, a beneficial owner of a security registered in the name of a nominee, or a minor owner of a security registered in the name of a custodian, or a claim of any similar interest, whether the claim is asserted by the claimant or by a fiduciary or by any other authorized person on his behalf, and includes a claim that the transfer would be in breach of fiduciary duties.

(c) "Corporation" means a private or public corporation, association or trust issuing a security.

(d) "Fiduciary" means an executor, administrator, trustee, guardian, committee, conservator, curator, tutor, custodian or nominee.

(e) "Person" includes an individual, a corporation, government or governmental subdivision or agency, business trust, estate, trust, partnership or association, two or more persons having a joint or common interest, or any other legal or commercial entity.

(f) "Security" includes any share of stock, bond, debenture, note or other security issued by a corporation which is registered as to ownership on the books of the corporation.

(g) "Transfer" means a change on the books of a corporation in the registered ownership of a security.

(h) "Transfer agent" means a person employed or authorized by a corporation to transfer securities issued by the corporation.

SECTION 2. [*Registration in the Name of a Fiduciary.*] A corporation or transfer agent registering a security in the name of a person who is a fiduciary or who is described as a fiduciary is not bound to inquire into the existence, extent, or correct description of the fiduciary relationship, and thereafter the corporation and its transfer agent may assume without inquiry that the newly registered owner continues to be the fiduciary until the corporation or transfer agent receives written notice that the fiduciary is no longer acting as such with respect to the particular security.

Comment: This section assumes an effective assignment by or on behalf of the old registered owner, and negates any duty to inquire into the fiduciary status of the newly registered owner. In the ordinary case of an *inter vivos* trust, this section deals with the transfer to the trustee, and Section 3 deals with any later transfer out of the trust. If an assignment is made by one fiduciary to another, both this section and Section 3 apply. If the assignment is made by a fiduciary who is not the registered owner, as in the case where an executor seeks to have securities of his decedent registered in the name of the executor as such, Section 4 is also applicable.

SECTION 3. [*Assignment by a Fiduciary.*] Except as otherwise provided in this act, a corporation or transfer agent making a transfer of a security pursuant to an assignment by a fiduciary.

(a) May assume without inquiry that the assignment, even though to the fiduciary himself or to his nominee, is within his authority and capacity and is not in breach of his fiduciary duties;

(b) May assume without inquiry that the fiduciary has complied with any controlling instrument and with the law of the jurisdiction governing the fiduciary relationship, including any law requiring the fiduciary to obtain court approval of the transfer; and

(c) Is not charged with notice of and is not bound to obtain or examine any court record or any recorded or unrecorded document relating to the fiduciary relationship or the assignment, even though the record or document is in its possession.

SECTION 4. [*Evidence of Appointment of Incumbency.*] A corporation or transfer agent making a transfer pursuant to an assignment by a fiduciary who is not the registered owner shall obtain the following evidence of appointment or incumbency:

(a) In the case of a fiduciary appointed or qualified by a court, a certificate issued by or under the direction or supervision of that court or an officer thereof and dated within 60 days before the transfer; or

(b) In any other case, a copy of a document showing the appointment of a certificate issued by or on behalf of a person reasonably believed by the corporation or transfer agent to be responsible or, in the absence of such a document or certificate, other evidence reasonably deemed by the corporation or transfer agent to be appropriate. Corporations and transfer agents may adopt standards with respect to evidence of appointment or incumbency under this subsection provided such standards are not manifestly unreasonable. Neither the corporation nor transfer agent is charged with notice of the contents of any document obtained pursuant to this paragraph (b) except to the extent that the contents relate directly to the appointment or incumbency.

Comment: As noted above in the Comment to Section 2 one of the instances of the application of this section arises when an executor seeks to have securities of his decedent registered in his name as executor.

SECTION 5. [*Adverse Claims.*]

(a) A person asserting a claim of beneficial interest adverse to the transfer of a security pursuant to an assignment by a fiduciary may give the corporation or transfer agent written notice of the claim. The corporation or transfer agent is not put on notice unless the written notice identifies the claimant, the registered owner and the issue of which the security is a part, provides an address for communications directed to the claimant and is received before the transfer. Nothing in this act relieves the corporation or transfer agent of any liability for making or refusing to make the transfer after it is so put on notice, unless it proceeds in the manner authorized in subsection (b).

(b) As soon as practicable after the presentation of a security for transfer pursuant to an assignment by a fiduciary, a corporation or transfer agent which has received notice of a claim of beneficial interest adverse to the transfer may send notice of the presentation by registered or certimail to the claimant at the address given by him. If the corporation or transfer agent so mails such a notice it shall withhold the transfer for 30 days after mailing and shall then make the transfer unless restrained by a court order.

SECTION 6. [*Non-Liability of Corporation and Transfer Agent.*] A corporation or transfer agent incurs no liability to any person by making a transfer or otherwise acting in a manner authorized by this act.

Comment: Unlike Section 3 of the Uniform Fiduciaries Act, this section contains no exception for cases of "actual knowledge" or "bad faith." But if a corporation or transfer agent consciously aids and abets a fraudulent conspiracy, there is of course no intention to impair the responsibility imposed by the general law of torts.

SECTION 7. [*Non-Liability of Third Persons.*]—

(a) No person who participates in the acquisition, disposition, assignment or transfer of a security by or to a fiduciary including a person who guarantees the signature of the fiduciary is liable for participation in any breach of fiduciary duty by reason of failure to inquire whether the transaction involves such a breach unless it is shown that he acted with actual knowledge that the proceeds of the transaction were being or were to be used wrongfully for the individual benefit of the fiduciary or that the transaction was otherwise in breach of duty.

(b) If a corporation or transfer agent makes a transfer pursuant to an assignment by a fiduciary, a person who guaranteed the signature of the fiduciary is not liable on the guarantee to any person to whom the corporation or transfer agent by reason of this act incurs no liability.

(c) This section does not impose any liability upon the corporation or its transfer agent.

Comment: Subsection (a) of this section makes an exception for cases of "actual knowledge" of wrongdoing. In the case of an individual, conscious knowledge of the fiduciary's wrongdoing is required to bring the exception into operation. In the case of an organization, knowledge by the individual acting for the organization in the transaction is of course actual knowledge of the organization, but liability is not to be imposed "merely because it appears that at some stage by piecing together all the facts known to different employees a breach of trust would become more or less apparent." See Scott, Participation in a Breach of Trust, 34 Harv. L. Rev. 454, 481 (1921).

SECTION 8. [*Territorial Application.*]—

(a) The rights and duties of a corporation and its transfer agents in registering a security in the name of a fiduciary or in making a transfer of a security pursuant to an assignment by a fiduciary are governed by the law of the jurisdiction under whose laws the corporation is organized.

(b) This act applies to the rights and duties of a person other than the corporation and its transfer agents with regard to acts and omissions in this state in connection with the acquisition, disposition, assignment or transfer of a security by or to a fiduciary and of a person who guarantees in this state the signature of a fiduciary in connection with such a transaction.

SECTION 9. [*Tax Obligations.*] This act does not affect any obligation of a corporation or transfer agent with respect to estate, inheritance, succession or other taxes imposed by the laws of this state.

SECTION 10. [*Uniformity of Interpretation.*] This act shall be so construed as to effectuate its general purpose to make unifrom the law of those states which enact it.

SECTION 11. [*Short Title.*] This act may be cited as the Uniform Act for Simplification of Fiduciary Security Transfers.

SECTION 12. [*Repeal.*] The following acts or parts of acts are repealed: [Section 3 of the Uniform Fiduciaries Act . . .]

SECTION 13. [*Time of Taking Effect.*] This act shall take effect . . . .

Twin City Women Hear

MINNEAPOLIS, Minn.—Municipal Trends during the past 15 years was the subject of Stanley R. Manske, First National Bank of St. Paul, who addressed a recent meeting of the Twin City Investment Women's Club.

With Price, McNeal

Vail W. Cummings has become affiliated with Price, McNeal & Co., 165 Broadway, N. Y. C.

Goodbody Co. Adds

Jay E. Haynes has been added to the staff of Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange, as a registered representative.

With Lakewood Secs.

(Special to THE FINANCIAL CHRONICLE)

LAKEWOOD, Ohio — Henry S. Hershey is with Lakewood Securities Corporation, 14714 Detroit Avenue.

Philadelphia Inv. Assn. Elects New Officers

PHILADELPHIA, Pa. — Robert T. Arnold of The First Boston Corporation was elected President of the Investment Association of Philadelphia at the annual meeting and election of the Association held Thursday evening at the Mask & Wig Club. Mr. Arnold succeeds Harry K. Hiestand of Reynolds & Co., whose term expired.

Robert T. Arnold

Other officers elected at the meeting were H. Gates Lloyd, III, of Drexel & Co., Vice-President; Herbert S. Bengtson of Schmidt, Roberts & Parke, Secretary; and Frank J. Murray of Bache & Co., Treasurer.

The following were elected to the Executive Board of the Association: Marshall Schmidt of Hornblower & Weeks; Edgar Scott, Jr., of Montgomery, Scott & Co. and Mr. Hiestand.

Joins J. A. Hogle Staff

(Special to THE FINANCIAL CHRONICLE)

LONG BEACH, Calif. — Leonhardt K. Anderson has joined the staff of J. A. Hogle & Co., 147 East First Street.

Chicago Analysis to Hold Forecast Forum

CHICAGO, Ill.—The Investment Analysts Society of Chicago will hold their annual forecast program and Christmas reception on Dec. 18. Forum will be held at 3 p.m. in the Adams Room of the Midland Hotel, with the reception at 5 p.m. in the University Room.

Wilson Wright, economist for the Procter & Gamble Co., will speak on the business outlook. Robert Van Cleave, C. F. Childs & Co., will cover the money market; and Walter Maynard, Shearson, Hammill & Co., will discuss the stock market. A question and answer period will follow.

The entire program is free to members; tariff for guests $2.50.

With A. E. Aub & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Howard E. Phillips is joining the staff of A. E. Aub & Co., Fifth-Third Bank Building. He was formerly with Bache & Co. and in the past was an officer of Smart, Clowes & Phillips, Inc.

Beauchamp, West to Admit

Beauchamp, West & Stava, 115 Broadway, New York City, members of the New York Stock Exchange, on Dec. 18 will admit Thomas T. Beauchamp, Jr. to limited partnership.

Continued from page 30

Report of IBA Investment Companies Committee

The Securities Research Unit of the Wharton School has been assigned by the SEC to conduct the fact-finding phase of the study. We understand that the SEC is just about to circulate an extensive questionnaire, prepared by the Wharton School, to all investment companies. (By the time of the convention, this may already have been circulated).

State Matters

Taxation by States and Territories of Capital Gain Distributions of Regulated Investment Companies — Legislation was enacted this year in Georgia which provided for the taxation of capital gain distributions of regulated investment companies at capital gain rates. This law conforms the taxation of capital gain distributions in Georgia to Federal law. A similar law was enacted in Hawaii in 1957, effective for taxable years beginning on or after Jan. 1, 1958.

In New York, a bill which would have provided for the taxation of capital gain distributions at capital gain rates passed the Legislature, but was vetoed by the Governor.

Gifts of Securities to Minors—During the past year "gifts to minors" legislation has been adopted in Alabama, Kentucky, Louisiana, Massachusetts and Mississippi. This brings to 46 the number of jurisdictions in which the procedures for making gifts of securities to minors have been simplified.

Position of Illinois Securities Administrator with Respect to Directors and Officers of Investment Companies Who Hold Similar Positions in Portfolio Companies—A general letter has been received from the Secretary of State of Illinois by those investment companies whose registrations have been up for renewal in that State.

In summary, the letter states that although renewals will be granted to companies which have interlocking directorates with respect to investment fund management, investment advisory management on the the one hand and companies represented in the investment companies' portfolios on the other, future renewals may be denied if such interlocking directorates continue to exist. Newly organized funds seeking registration must submit a commitment or resolution that such interlocking directorates will not exist within the company.

Your committee is of the opinion that this letter of the Secretary of State places unjustified operating restrictions on regulated investment companies, which, in many cases, will be detrimental to the shareholders of investment companies which sell securities in Illinois. It is urged by your committee that every effort be made to remove this unwarranted prohibition.

"Variable Annuities"

A report on "variable annuities" developments will no doubt be presented by the IBA State Legislation Committee. I would like, however, to take this opportunity briefly to supplement that report.

The IBA along with all other elements of the securities industry, has continually opposed the sale of so-called "variable annuities" without the Federal and State securities regulations which have proved essential to protect the public investing in equity securities.

Your committee has followed closely "variable annuities" developments in various jurisdictions, particularly Alabama, Massachusetts, New Jersey, Virginia, West Virginia and the District of Columbia. Of particular interest have been recent developments in the District of Columbia.

In May, the Court of Appeals for the District of Columbia affirmed the decision of the District Court in *SEC vs. VALIC*, which held that the SEC did not have the power to regulate "variable annuities" companies nor the securities which they issue.

In October the Supreme Court granted the petitions for certiorari which had been filed by the SEC and the NASD. The NASD had intervened in the action as party plaintiff. Argument will take place early next year.

Your committee is awaiting the Supreme Court decision and urges all members of the IBA to be alert to the threat to both the industry and the public posed by the sale of equity securities without the regulation to which investment companies and the securities they issue are subject.

Public Information and Education

Seminar of Investment Banking: Indicative of the growth in interest in investment companies is the increasing number of educational discussions of the subject by investment company officials. In 1958, for the first time, the Chairman of this Committee and other industry representatives conducted sessions with all three-year classes at the annual IBA Seminar at the Wharton School in Philadelphia. "The Investment Company — Its Role in the Securities Business" was presented to the first-year class; "Institutional Investment Practices — the Investment Company as an Investor" was presented to the second-year class; and an open forum on investment companies was held for all three classes.

Educational Aids: A number of educational aids are now available to IBA members.

Visual Aids: The National Association of Investment Companies has produced two films that have received wide acceptance. "The Hope That Jack Built," a 16mm sound color cartoon telling the story of investment companies in financial planning, has been shown since its release to over 2½ million people in movie theaters across the country. The film is available to IBA members on a purchase or rental basis.

An earlier 16mm black and white sound motion picture, "We Did It Ourselves" continues to be popular. To date a total audience of over 25 million has seen it on television and in church, fraternal, adult education and other groups. It is available to IBA members at cost.

There is also a film strip called "Investing With A Purpose," narrated by John Cameron Swayze, which explains investment companies by means of a narration in conjunction with 48 original color cartoons.

Television and Radio: The Public Information Committee of the National Association of Investment Companies, in cooperation with several IBA regional groups presented several panel discussions on investment companies. These presentations were part of a series explaining the over-all investment business to the investing public.

Publications and Booklets: The National Association of Investment Companies has added to its impressive list of available publications and booklets. These include "Planning Your Future With Mutual Funds" (the third of a series of booklets produced in cooperation with a commercial organization); "Investment Company Shares—An Aid to Bankers and Trust Officers"; "Seven Reasons for Investing in Mutual Funds"; "The Story of Investment Funds and You" and "Investing Made Easy." All of these educational type booklets may be obtained from the N.A.I.C. To date several hundred thousand copies have been made available to the public.

Other Information—Educational Activities

To assist in presentation of the investment company story, the N.A.I.C. has been active in a number of other areas. It is constantly responsive to inquiries from students, press and public. It conducts an investment company course at the City College of New York. It participates with the IBA and other elements of the securities industry in the Joint Committee on Education in the Securities Business.

Newspapers: Stories have been written and research material provided to assist major newspapers and magazines to tell their readers about investment companies. A major education effort in this area is the annual "Press Kit on Investment Companies" as well as factual news releases on a regular basis.

We would note that several major newspapers now have regular weekly columns devoted to news about investment companies—this group includes the New York "Herald Tribune," the New York "World-Telegram and Sun," the Los Angeles "Mirror-News," and most recently, the New York "Times."

N.A.S.D. Publications: The National Association of Securities Dealers has recently published an educational booklet that I would like to bring to your attention. Called "What You Must Know . . .," it brings together in one place data about standards for preparing investment company sales literature, including the text of the Securities and Exchange Commission's Statement of Policy, pertinent extracts from the NASD Manual, texts of various SEC Rules and interpretations, statistical excerpts and sample sales material. For those familiar or unfamiliar with the investment company business, this booklet can be most helpful.

Research in Support of Public Information Activities: To provide more data about investment companies and their shareholders the N.A.I.C. carries on several continuing projects. These include the annual presentation of a Statistical Summary on the industry from 1940 to date; collection, compilation and distribution of key statistics series; analysis of closed-end investment company securities quarterly; and analysis of regional sales of mutual fund shares on a semi-annual basis to supplement the annual collections that have been made since 1954.

The year 1958 saw the completion of a major Association project, "The Mutual Fund Shareholder Survey—A Comprehensive Study" which presents some 4,300 statistical items in 23 categories concerning the financial position of the investment company shareholder.

The Present and the Future

The acceptance of the investment company industry continues. It is symptomatic of the growing interest on the part of individuals and institutions in equity investments as part of their over-all financial plans. It is gratifying to us that the individuals who are shareholders of investment companies do use them as part of over-all investment plans which also include the important necessary factors of savings accounts, U. S. Savings Bonds and individual securities held directly.

It is important that we continue to educate the American public concerning investment in general as well as investment company shares. A proper presentation is, as our experience has taught us, the most effective way to secure and maintain acceptance of the securities industry by the American public. The IBA has been a most important institution in the past and will continue to be of great importance in the future. We look forward with mutual confidence to continuing education and enlightenment of those who become owners of American industry. Public confidence in the integrity of the securities business must be a byword for us all.

Respectfully submitted,

INVESTMENT COMPANIES COMMITTEE

Charles F. Eaton, Jr., Chairman
Eaton & Howard, Incorporated, Boston

Edward S. Amazeen
Coffin & Burr Incorporated, Boston

Herbert R. Anderson
Distributors Group Incorporated, New York

Curtis H. Bingham
Bingham, Walter & Hurry, Inc., Los Angeles

Robert E. Clark
Calvin Bullock, Ltd., New York

Howard B. Dean
Harris, Upham & Co., New York
Henry Earle
First of Michigan Corporation, Detroit
Paul A. Just
Television Shares Management Corporation, Chicago
Hugh W. Long
Hugh W. Long and Company, Incorporated, Elizabeth
Philip F. McLellan
Massachusetts Life Fund Distributors, Inc., Boston
Walter L. Morgan
The Wellington Company, Philadelphia
Robert L. Osgood
Vance, Sanders & Company, Boston
William A. Parker
The Parker Corporation, Boston
Harry I. Prankard, 2nd
Lord, Abbett & Co., New York
Albert C. Purkiss
Walston & Co., Inc., New York
Herman J. Sheedy
McDonald & Company, Cleveland
Henry J. Simonson, Jr.
National Securities & Research Corporation, New York
Charles M. Werly
Putnam Fund Distributors, Inc., Boston
Carlton P. Wilson
Robert W. Baird & Co., Incorporated, Milwaukee
Harold H. Wylie
J. M. Dain & Company, Inc., Minneapolis
Henry J. Zilka
Zilka, Smither & Co. Inc., Portland

With Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — B. B. Smith has become connected with Dempsey-Tegeler & Co., 210 West Seventh Street. He was previously with J. Logan & Co.

Opens Inv. Office

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Barbara G. Reel is engaging in a securities business from offices at 1012 Hammond Street.

New Schweickart Branch

BROOKLYN, N. Y.—Schweickart & Co. has opened a branch office at 512 Eighty-sixth Street under the management of Adolph L. Bennett, Jr.

Continued from page 31

Report of IBA Aviation Securities Committee

practice has nullified the original developmental intent of the Act.

(1) Rates: The CAB's narrow utility rate philosophy, prolonged delays in rate awards, and only recent grudging recognition of economic need in the form of two temporary rate increases, has failed to re-establish adequate airline earning power or investment status. The CAB historically has based its rate decisions upon a fixed maximum allowable return based upon those portions of original, straight-line, depreciated costs which the Board chose to recognize. This utility analogy is completely inapplicable in view of the intense competition, volatile earnings, high capital turnover, rising reproduction costs, and high obsolescence factor within the industry.

Based upon this narrow concept and despite recurrent industry protests, the CAB placed a ceiling upon general air passenger fares at close to 1938 levels for 20 years. During this same period consumer prices rose 98%, first-class railroad fares 46%, bus fares 37%. The airlines' own cost, just since 1947, rose 45%. The airlines, driven by mounting costs and competition pressing against a rigid rate ceiling, have repeatedly petitioned for rate relief, only to meet with CAB delays.

Industry leaders warned as early as 1954 of an impending financial crisis unless fare adjustments were made. Subsequent figures have borne out their warning. While consolidated operating revenues of the domestic trunklines almost doubled in the period 1952 to 1957, from $768 million to $1,419 million, net income declined 50%, from $54 million to $27 million. During these six years, the trunklines' after-tax return on investment declined from 14% to 5%, their profit margins fell from 7% to 2%. With no adjustment in outmoded rate schedules, the trunklines estimated they would suffer an aggregate $8 million net loss in 1958 and certain carriers would go into technical default on financial obligations.

Despite these overwhelming indications of financial need, the CAB did not initiate its first General Passenger Fare investigation until May 1956. After 31 months of testimony, in which the airlines have presented the strongest case for a permanent 15% rate increase, the CAB still delays its decision. Furthermore the Board in 1957 flatly rejected the airlines' petition for an emergency 6% fare increase. It thereby implicitly concurred with the CAB Staff's amazing statement that: "The current general fare level will provide sufficient revenue not only for operating expenses but also for the capital costs of the carriers."

The CAB only grudgingly abandoned this untenable position by granting two temporary fare increases in 1958, pending decision on the General Passenger Fare case. The average 6.6% increase in fares granted in February and average 3% increase in October resulting from a change in discounts, represent a piecemeal too-little-and-too-late approach. Thus, despite a 2% increase in revenue passenger miles flown during first nine months 1958, trunkline earnings declined from $34.8 to $29.3 million, with three of the majors reporting deficits. The CAB Staff in October recommended that almost two-thirds of the temporary rate increases be eliminated in two stages over the next two years.

In the area of rate determination, we urge that the CAB abandon narrow and inapplicable utility concepts which can not fulfill the development intent of the Act. These should be replaced by an investment market, cost of capital approach, encompassing an adequate return for the risks and development needs of the industry and an operating ratio sufficiently conservative to account for its high capital turnover and volatile nature.

(2) Competition: The fallacy of applying narrow utility concepts to the airlines is nowhere more clearly demonstrated than in the area of airline competition. The most intense intercarrier competition determines actual, rather than theoretically allowable, earnings, schedules, re-equipment, and promotional outlays. While the Civil Aeronautics Act sought to alleviate cutthroat competition by giving the CAB exclusive power over entry and route certification, the Board has utilized this power in recent years to intensify competition, often at the behest of the carriers, to the point that airline earnings are jeopardized on even the most favored high-density routes. In postwar years the Board has granted non-scheduled operators entry to the profitable high-density routes without the countervailing requirement imposed on scheduled airlines of minimum service and acceptance of nonprofitable low-density routes. Since 1955 the Board has sought to equalize opportunity for the weaker trunklines through a series of overlapping certifications on the more profitable routes.

Competition in the 50 heaviest traveled domestic markets, as a result, has increased 50% since 1955, with the average number of competing carriers per market raised from 2.0 to 3.0. Now 12 of the most lucrative markets have five or more competitive services, while only one had comparable competition before 1955.

The individual airline, faced with CAB-decreed ever-expanding competition, has been forced to a series of uneconomic policies — overexpansion of scheduling, capacity, advertising—just to hold its share of an increasingly-fractionalized market. The results have shown up, both in the industry's earnings decline mentioned above, and in declining domestic load factors from 64.1% in 1956 to 61.5% in 1957 to 58.3% in first half 1958.

The airline industry has attempted in part to mitigate the above problems and to utilize equipment more economically through mergers and exchange of stock and equipment. The CAB has acted favorably on the most recent exchange proposal but does not appear to have defined any long-term merger policy to guide airline management.

We recommend that the Presidential appointee analyze, as one portion of his overall review, the problem of competition—including certification, entry, route structure, and merger—in light of the new economics of the jet age, in order to prevent a return to the excess service and cutthroat competition which the Civil Aeronautics Act sought to halt.

(3) Management Freedom and CAB Policy: It was the clear intent of Congress in the Civil Aeronautics Act to grant the airlines maximum policy freedom subject to the public welfare. As the CAB itself acknowledged in 1939: "There is no intent expressed in the Act . . . to superimpose governmental management upon the management of the air carriers." Yet it has been the CAB's practice to encroach upon and ultimately to dominate airline managerial practices, inhibiting their development and threatening to substitute political decree for economic freedom.

Early in its history the CAB began to disallow after the fact an ever-broadening list of actual cost expenditures and cash investments undertaken by the airlines in good faith. Initially disallowance was applied to airmail and subsidy cases and then extended to passenger fare investigations. Typical disallowance of expenditures, each made with sound business intent, occurred in such broad and diverse categories as maintenance costs, flying expense, ground and administrative expense, sales expense, legal fees, officer's salaries, and accelerated depreciation on aircraft.

We urge the CAB to limit disallowance of legitimately-incurred airline expenses to those exceptional instances where fraud, flagrant waste or extravagance, or mismanagement are clearly demonstrated. In brief, intervention by the CAB in this area should be restricted to the prevention of clear abuses to the public.

Both the Supreme Court and the Circuit Court of Appeals have decided against the CAB in its most recent attempt to encroach upon management freedom. The courts rightly refused to allow the Board to extend unauthorized control over piston aircraft deprecia-

Continued on page 66

Continued from page 65

Report of IBA Aviation Securities Committee

tion policy for non rate-making purposes.

The airlines fought and won the case in the knowledge that management control over depreciation was a vital business function, determining rates of obsolescence, rates of re-equipment, levels of cash flow, and over-all business strategy. Besides, Congress had expressly authorized one regulatory agency after another to control depreciation practices but had specifically deleted this authority in the Civil Aeronautics Act. The reason for this deletion was spelled out by one of the Senators in discussion of the original bill: "While it is possible to forecast the rate at which a railroad car will depreciate, it is utterly impossible to do so in the case of aircraft, for aircraft are developing so rapidly that they are obsolete and cannot be used in competition long before they are worn out."

We hope that the CAB now will reorient its policies to allow maximum management freedom and flexibility within the framework of the Civil Aeronautics Act.

(4) **The Cherington Report:** A challenging analysis of the air transport industry was completed this past June by Dr. Paul Cherington, a Professor of Business Administration at Harvard University. Presidential Assistant for Aviation Quesada showed initiative in requesting the Report and President Eisenhower signified Administration recognition of the airlines' problem by forwarding it to Congress and the CAB for "such action as they may deem appropriate within the framework of existing authority."

While we may not agree with all aspects of his analysis, Dr. Cherington did deal in some detail with many of the issues we have presented in our own Reports. He warned that the airlines faced losses, violation of liquidity provisions in loan agreements, and inability to finance re-equipment programs, and argued that the carriers "must return, if possible, to a satisfactory level of earnings," which now depends directly upon CAB policy.

III

Financial Problems of the Air Transport Industry

The financial problems of the airlines are in part the result of unfavorable regulation by the CAB, and in part the inherent consequence of a highly competitive industry engaged in massive reinvestment during a lull in the growth cycle.

A. Jet Re-Equipment Financing

The intensity of industry competition has forced each major carrier to finance a jet re-equipment program, regardless of its internal economics, or face competitive oblivion. The direct capital expenditure required of the domestic trunk and international carriers between now and 1962 for jet and propjet equipment and facilities is $2.6 billion. As an indication of magnitude, the $2.6 billion outlay is more than three times the book equity, two times the total capitalization, and 57 times the net income of the carriers for 1957.

CAB rate and depreciation policies place in jeopardy the $1.2 billion which the airlines project they might reasonably raise from internal sources. Of the $1.4 billion external capital requirements, some $510 million remained unfinanced as of early November. The unfavorable regulatory climate of the CAB as well as the unfavorable financial returns of the carriers have combined to reduce most airlines' investment status at their moment of greatest investment need. Thus the Cherington Report flatly states that "20% of the domestic trunkline carriers cannot now finance, to the extent that their current programs require, under normal credit or financial standards" and that another 8% of the domestic industry is in a "tenuous" position to obtain additional financing.

Most airlines will find both cost and dilution from equity financing very high until earnings reverse their downward trend and reattain levels justifying risks of the industry. Some airlines are now in technical default on present borrowings. And the high levels of present debt in many instances prevent new borrowing in the absence of additional equity investment.

Clearly the solvency of America's air transportation system and the public's receipt of the many benefits of jet aviation, depend upon the CAB allowing the industry an adequate return to cover both normal operating profits and the cost of capital necessary for re-equipment.

B. Used Piston Aircraft Market

The airlines face within the next few years a major problem in the form of mass obsolescence of their entire piston fleet and the danger of a used airplane market glut and resulting depressed resale prices. It has been estimated that 500-600 piston aircraft will be placed on the domestic market in the next five years. Most authorities believe this supply will greatly exceed the foreseeable demand, derived mainly from non-scheduled operators, smaller foreign airlines, and corporate users.

To the extent that used piston aircraft can serve a useful economic purpose abroad, we recommend that the World Bank and United States foreign lending agencies promote the improvement of transportation and communication facilities in underdeveloped countries by arranging proper credits for the acquisition of these aircraft.

C. Issue of Industry Capacity in the Jet Age

Certain industry officials disagree completely with the conclusion of the Cherington Report that the conversion to jets will result in industry overcapacity. They point out that the likely elimination of all but a small percent of present piston capacity on major competitive routes plus the dramatic time, convenience, and luxury benefits of jet travel, should result in substantial improvement in load factors by 1962.

Without prejudging the varying assumptions relating to passenger promotion and jet capacity, we urge the CAB to grant airline management maximum policy flexibility in generating the maximum profitable traffic. The potential is certainly there, with a large percent of the adult population unexposed to air travel. Given management freedom, a favorable regulatory climate, and the dramatic passenger benefits from jet travel, we believe the airlines can achieve desired rates of traffic growth.

IV

The Airlines and the Federal Aviation Act

The air transport industry and the flying public both stand to benefit greatly from the Federal Aviation Act of 1958. The Act at once simplifies government supervision of the airline industry and consolidates in a single agency responsibility for civil-military cooperation in allocation of air space and air safety. Both Congress and the Administration deserve praise for the leadership recently evidenced in this vital area. The terrible and needless waste of life involved in two mid-air collisions between uncoordinated military and civilian aircraft in 1958 must be brought to a halt. Such dangers will be compounded in the new jet age by speed, number of aircraft, and tightness of scheduling.

We are confident the FAA and Congress will expedite the establishment of procedures and acquisition of equipment for complete ground and instrument control of all commercial and non-emergency military aircraft, including a separate allocation of reserved air space for commercial jets.

V

The Aircraft Manufacturing Industry and the Defense Department

A. Nature of the Relationship

The aircraft manufacturing industry and our government, through the Defense Department, are interdependent partners in the most crucial struggle this nation has ever faced—the struggle for physical survival against history's most powerful military aggressor. With over 85% of sales directed to the government, the aircraft industry is necessarily dependent upon Defense Department policy. This policy has forced one of the most rapid changes in basic product mix and production techniques in industry history. A brief account of the nature and impact of this change is essential to our analysis.

Most fundamental has been an accelerating shift from the industry's former product, aircraft, to a basically new product, missiles. The programmed reduction in Air Force plane wings, from 137 to 105 by the end of fiscal 1959, is reflected in a decline in military aircraft procurement from a peak of $8.3 billion in fiscal 1954 to a projected $7.0 billion in 1959. The resulting stretchouts and cancellations of military aircraft programs have resulted in considerable hardships as well as a reduction in the proportion of more profitable fixed-price contracts. In contrast, military missile procurement and development expenditures have risen steadily, from $1.1 billion in fiscal 1954 to an estimated $3.4 billion in 1959. Missile outlays will continue to climb, from 29% of military aviation expenditures now to 50% in 1960.

The impact on the industry has been great. The proportion of more profitable incentive-price prime production contracts has declined, to be replaced by less profitable fixed-fee research and development contracts. And government expenditures in the industry for research and development are mounting steadily, from $1.5 billion in fiscal 1955 to a projected $2.4 billion in 1959. The complexity and altered nature of the new weapons systems has required the individual company to subordinate itself to a systems team. Most late military aircraft, from the B-58 to the Dyna-Soar, and virtually all military rocket programs, are on a systems team basis. The position of the exclusive airframe manufacturer within the team has declined as control mechanisms, propellants, and electronics absorb increasing proportions of missile expenditures. The aircraft manufacturers have been required to make large additional investments in new missile, electronics, and testing facilities at the same time that they are faced with mass obsolescence of their old high bay airframe facilities.

B. *Consequences of the Relationship*

The financial consequences of this major alteration in the face of the industry, combined with the transition to commercial jet aircraft production, may not be favorable in the immediate future. It is likely that total aircraft industry margins will decline in 1958 and will not fully recover in 1959.

The accelerating missile program will not in the immediate future absorb the loss of sales volume in military aircraft. Contrary to popular impression, almost 74% of the projected increase in the 1959 budget stems from non-defense spending. Procurement of military hardware is actually slated to decline $400 million in fiscal 1959. Total government expenditures in the missile-aircraft areas will decline from an estimated $11.2 billion in fiscal 1958 to $10.5 billion in 1959. The industry's annual after-tax return on sales, which has fallen steadily from 3.9% in 1955 to 2.6% in first quarter 1958, may shrink even further. Lower revenues will face mounting fixed costs, increased depreciation from new facilities, continued writeoffs on the development of commercial jets, and an increased proportion of cost-plus-fixed-fee contracts. Deliveries and backlog of commercial piston aircraft are in steep decline and will be almost negligible in 1959. As previously indicated, the airlines may prove incapable of financing the total $2.6 billion for new equipment. On a cash basis, the aircraft industry has not yet recouped its commercial jet and propjet development outlays. At worst it may face an unreimbursed investment in this program of over $1 billion, almost equivalent to the total 1957 capitalization of the 12 major airframe manufacturers.

In view of the magnitude of changes involved, we again urge Secretary of Defense McElroy and a permanent industry committee to negotiate a series of mutually acceptable proposals, for presentation to Congress where necessary, to allow the industry the financial and managerial leeway to adjust to this major transition period.

A sound initial step in this direction was taken last January with a meeting of the industry "Committee of 12" with Secretary McElroy. We do hope such meetings will be on a sustained basis and will result in concrete action rather than mere staff studies. To this end, we present below our financial viewpoint on but a few of the many problems stemming from the government-industry relationship.

C. *Financial Impact of the Relationship*

(1) Advantages of Incentive-Type Contracts: Due to expanded research and development programs and difficulty of determining costs of certain projects in advance, the Defense Department may find it necessary to use cost-plus-fixed-fee contracts in many areas. Under this type of contracting, the aircraft manufacturer is normally reimbursed for a portion of costs incurred, plus a fee fixed in advance, irrespective of subsequent performance. Thus cost-plus-fixed-fee has the disadvantage of eliminating the traditional incentive of cost reduction for profit maximization upon which our enterprise system is based.

Armed Services Procurement Regulations also provide for incentive-type contracts. Under one method a target price is negotiated as soon as costs of the project can be determined with reasonable accuracy. The government normally receives 80% of savings beneath targeted costs up to a pre-determined limit and 100% of any further cost reductions. In event of a cost overrun, the contractor normally shares in added costs up to a limit and pays 100% of further costs. This motivates management to save on the largest, 95% segment, of the defense dollar represented by costs. It also allows profits commensurate with initiative and performance.

In view of the clear advantage both to government and to industry, we urge that Congress amend the Armed Services Procurement Act to require the use of incentive-type contracts except in those instances where the public interest or the nature of the project clearly determine otherwise.

(2) Renegotiation: Under the Renegotiation Act, earnings derived from government contracting have been subject to retroactive review and downward adjustment by the Renegotiation Board ever since 1941. The original intent of Congress, in which we heartily concur, was to encourage efficiency and eliminate excessive profits.

As arbitrarily administered by the Board, the renegotiation process has not filled this intent. Rather it has served to penalize efficiency and reduce the incentive to save tax dollars. Industry incentive earnings resulting from cost reduction and management efficiency have in many cases been retroactively eliminated by the Board and, in several cases, basic contracted earnings have been reduced as well. Renegotiation has been used, not in isolated instances, but as a broadsword to reduce the earnings of all companies in the industry as a whole. The reduction in pre-tax income has averaged $5 million per company per year in the period 1951-1954, with the industry as a whole penalized over $101 million during these four years. This broadsword confiscation appears even less justifiable in view of the major investigation of aircraft industry earnings by the Hebert Congressional Committee in 1956 and its conclusion: "There has been no showing that, on the average, the profits allowed were excessive." Faced with this constant threat of retroactive loss of earnings, the aircraft industry is understandably hesitant to expand investment in military research and facilities, when this is essential for the most rapid weapons development.

We therefore urge that Congress limit renegotiation to those isolated noncompetitive instances where it is impossible to establish costs and prices through the regular contracting process.

(3) Progress Payments: Progressive reduction by the government of payment on contracts in process threatens to force a recapitalization of the aircraft industry during a period of declining earnings and revenues. Prior to 1954, progress payments on work completed were generally at 90% of costs incurred. Under budgetary and debt-limit pressures, the Defense Department unilaterally reduced this rate to 75% in 1954 and to 70% in 1957. The industry was forced to increase its financing of government contracting without express recognition in the contract price for the interest cost of financing.

The government was in effect forcing the industry to obtain additional permanent capitalization on the one hand, while limiting industry earnings growth and stability to finance the capitalization on the other. During the period 1954-1957, the 12 major airframe manufacturers increased long-term debt $119 million only to be faced at the end of the period with a decline of $62 million in cash liquidity. As a result of additional borrowing in 1958, industry funded debt has increased to a high level for this volatile type of contracting business. The danger of overcapitalization in absence of compensating earnings stability is demonstrated by the fact that all 17 companies in the industry went through bankruptcy or reorganization following World War I. Favorable equity financing is hampered by the recent adverse earnings trend and risks of renegotiation. Thus, despite a 40% increase in aggregate annual sales for the four years 1954-1957, the 12 major airframe manufacturers suffered a 9% decline in annual net income, 18% decline in average per share earnings, and 4% decline in average per share cash dividends. The 38% payout of earnings for dividends during the period was well beneath the national manufacturing average.

In the area of progress payments, we urge that the Defense Department, as an integral portion of contract price determination, allow the aircraft manufacturers adequate earnings to cover the increased cost of permanent capital required to finance government contracting. The earnings allowed must include a stability and growth factor sufficient to provide an operating ratio and rate of return over fluctuating conditions adequate to attract long-term investment funds.

D. *Desirability of the Saltonstall Amendment*

Senate Bill 4294, sponsored by Senator Saltonstall, Ranking Minority Member of the Armed Services Committee, represents a sound and carefully-reasoned attempt to solve many of the problems listed above. The Bill is based upon over 6 months of preparation and reflects our own warnings and those of many, many others as to the inadequacies of Defense Department procurement policies.

In brief, the Saltonstall Bill would amend the Armed Services Procurement Act of 1947 to:

(1) Require the use of incentive-type contracts unless another type is specifically proven in the public interest.

(2) Require specifications to be written in terms of broad functional performance unless another type is proven more efficient.

(3) Provide statutory support for weapons system procurement with maximum independence granted to the systems manager and the contractors.

(4) Exempt from renegotiation all incentive contracts or any contract entered into after formal advertising or competitive negotiation.

Without presuming to pass judgment as to specific wording, we nevertheless wholeheartedly support the principles of the Saltonstall Bill. We urge the most careful and favorable consideration of this legislation by Congress as essential both to the national security and to the economic strength of the aircraft industry.

Respectfully submitted,

AVIATION SECURITIES COMMITTEE

Donald N. McDonnell, Chairman
Blyth & Co., Inc., New York
Sylvan C. Coleman
E. F. Hutton & Company, New York
Richard W. Courts
Courts & Co., Atlanta
Walter M. Giblin
Hornblower & Weeks, New York
William Barclay Harding
Smith, Barney & Co., New York
Herman H. Kahn
Lehman Brothers, New York
Richard W. Millar
William R. Staats & Co., Los Angeles
James P. Mitchell
The Chase Manhattan Bank, New York
John Raiss
Burnham and Company, New York

Continued from page 32

Report of IBA Nuclear Industry Committee

operation as against 7 at the time of the Geneva Conference in 1955. A continuing large effort will have to be devoted to the many technical problems of the fuel cycle.

Fuel Cost Factors

When we talk about atomic fuel cost, we mean many things which add up to the actual cost of nuclear fuel per kilowatthour of energy released. We can do no better than mention these factors which make up the fuel cost:

(1) There is the mining of uranium and thorium ores;

(2) The milling of uranium and thorium ores in which the uranium and thorium oxides are extracted;

(3) The "feed material" plants in which the uranium and thorium oxides are transformed either into metal or, in the case of uranium, into a gaseous compound of uranium — uranium hexafluoride —with subsequent separation of it into the two basic isotopes of natural uranium, i.e., uranium-235 and uranium-238.

(4) The manufacture of the fuel elements to be inserted in the reactor core.

(5) The chemical reprocessing of spent nuclear fuels in which the fissionable materials present or produced in the fuel elements have to be separated for re-use and in which the radioactive products released in fission have to be disposed of or put in usable form.

The first four elements of nuclear fuel cost are rather well known today. Much experience has been gained in the mining and milling industries. The feed material plants and gaseous diffusion plants have been in operation for many years and many companies are engaged and have gained experience in the manufacture of fuel elements. The last cost factor, however, which is that of chemical reprocessing and waste disposal per kilowatthour is still largely unknown. Furthermore, it depends largely on the frequency of reprocessing which in turn depends on the lifetime of the fuel elements. This is a difficult metallurgical problem which is far from solved and will require much more research.

Reactor Cost Experience

In the three years since the previous Conference, the world's first large-scale nuclear power stations came into operation at Calder Hall in England, at Shippingport in the United States, and recently in Siberia. The experience gained by the operation of the large English and largest American reactor is invaluable in preparing the way for the next generation of reactors. The information thus gathered complements that obtained from earlier small-scale experiments. Yet, in spite of this experience, capital costs per kilowatt still appear to be about twice those of coal or oil fired stations, although these costs will continue to fall appreciably during the next decade. As far as capital investment is concerned, it is unlikely that reactors will ever be as cheap as conventional power plants, because reactor plants will always be more complicated and also require a much more exacting technology. The optimism and confidence that competitive power is only a few short years away is based on whatever limited experience is available today regarding the fuel cost which shows that nuclear fuel costs are already lower than conventional fuel costs. The break-even point will be reached, as far as the overall economics are concerned, when the saving in nuclear fuel costs versus conventional fuel costs will more than offset the excess fixed charges of the plant.

Let us again stress that high load factors are essential to counteract the present high capital costs. In this country as in England or elsewhere, reactors are integrated in existing networks and are thus expected to carry the load with the consequent high utilization of the installed nuclear capacity. Probably in five to eight years, nuclear power costs in Britain will begin to fall below conventional costs, whereas we will only have achieved parity by then. This lag in the time scale is entirely due to the lower cost of fossil fuels in our country.

Italy

It is significant that the Italian Company, "SENN," (Societa Elettronucleare Nazionale) decided during the last few days of September to order a large nuclear power station of an installed capacity of around 150,000 kilowatts. This plant will be built by General Electric with Ebasco Services acting as architect-engineer and constructor. It is the first nuclear power station to be financed by the World Bank and SENN's decision was only arrived at after many bids had been received from many companies in several countries. The plant will be a boiling water reactor. The boiling water reactor concept, judging from the Geneva Conference, is growing in favor as a result of the good performance of reactor experiments. Because of their comparative simplicity—they have no heat exchanger—they may achieve lower capital costs sooner than some other concepts. Nevertheless, the studies made by SENN are particularly important in that they show that, with assumed 14% capital charges and some other assumptions regarding fuel burn-up, nuclear power in Italy will be only about 10% more costly than power from oil. These studies also show that there is really very little economic difference between the various types of reactors developed in this country and in the United Kingdom. It is really a "neck to neck" race.

Euratom Nations

The six Euratom nations—France, West Germany, Italy, and the three Benelux nations—Belgium, Holland and Luxembourg—announced last year a very ambitious goal of 15 million kilowatts capacity by 1967. It is now apparent that although this goal will not be reached, the Euratom nations together with the other nations of Western Europe will probably have 10 million kilowatts by 1965. Our own program in the United States calls for 1.3 million kilowatts by 1963 and let us emphasize here that we are not in a kilowatt race. With less kilowatts installed today or in the next ten years, our country should retain its lead because of its diversified program which lays a better foundation for the future than the atomic program of any other nation. Soviet Russia expects to have two million kilowatts in the early 1960's and the United Kingdom hopes to complete 5 to 6 million kilowatts by 1965. India predicts 500,000 kilowatts and Japan 750,000 kilowatts by 1965. All this adds up to about 20 million kilowatts of nuclear capacity in ten years out of a total installed capacity which will then amount to around 500 million kilowatts in the entire world. Once the break-even point is reached, an increasingly large percentage of yearly additions will be nuclear and in 20 to 25 years from now, all future additions to the installed capacity will probably be nuclear.

Tremendous emphasis in Geneva was placed by the British, the Russians and the Americans on the fast breeder reactor concept in which more fissionable substance is produced than is consumed. The true future of atomic energy lies in this direction. Without breeding, atomic energy at best would be comparable to oil, not even to coal. As you know, our energy reserves in oil are only a few percent of those known to exist in coal and this is true for the world at large. The use of plutonium as a reactor fuel will lead to a much better utilization of world uranium supplies. Fortunately, the abundance of uranium which is forecast for the next decade shows that we have time to master the fast breeder reactor concept and the plutonium cycle.

Uranium Ore Reserves

The Free World production of uranium oxide will soon be at a level in excess of 40,000 tons a year. The ore reserves in South Africa, Canada, the United States and France, contain at least two million tons of uranium and an additional two million tons is likely to be available. These forecasts are higher than those made in 1955. If we add thereto the reserves in Russia, China, and other countries, world reserves of high-grade ore are likely to be of the order of 10 million tons of uranium. These reserves cover a long time at our present rate of production which is very much in excess of our present needs for the peacetime uses of the atom. We will likely have developed fusion power long before we run out of uranium.

Let us not give the impression that coal, oil or natural gas will become obsolete and that their use will decrease. Coal, oil and natural gas, as uranium, mean energy. If we use 100 as an index of our present energy input from coal, oil and natural gas, only 15 of that total energy input is used to make electricity which, as you know, is not a source of energy per se, but a convenient way to extract the energy contained in the fossil fuels. That figure 15 is represented by the 600 billion kilowatthours we produce in this nation y e a r l y in conventional plants which have an installed capacity in excess of 130 million kilowatts. As you can see, could we, by a stroke of magic, convert overnight that huge amount of power into nuclear power, we still would have taken care of only 15% of our energy needs. We would still need oil and natural gas where they are used directly without going through the medium of electricity. In the years to come, in spite of atomic energy, coal, oil and natural gas will become more important, so too will the Middle East which contains the largest known oil reserves. Should we fear anything, it is that atomic energy may not yet be ready to take over when oil and natural gas first and coal next become scarce.

Other Aspects

Regarding the other important aspects of atomic energy where it is used as a source of heat or as a means of propulsion either for ships or aircraft, let us just say that the technical feasibility of nuclear propulsion of ships has been abundantly proven by the historic voyages of the "Nautilus," the "Skate," and quite recently the "Sea Wolf." The United States "Savannah" will come into commission in 1960 as a combined passenger-cargo ship. The Russians expect to build a nuclear tanker using a boiling water reactor for propulsion by 1962. In the meantime, details were given at Geneva of the ice breaker "Lenin," which is due to be commissioned in '59. It will be a few years — more here than in the electrical field — before nuclear ship propulsion is competitive with conventional ship propulsion plants. Here again, let us put the emphasis on the load factor and thus underline the fact that atomic propulsion will first be competitive at high load factors of which the oil tanker is the ideal example.

In contrast with the hopeful outlook for marine applications, commercial nuclear aircraft propulsion appeared at Geneva to be much, much further away.

Atomic energy seems to hold a bright future in some other applications such as demineralization of sea water, whereby the world some day may be able to produce unlimited quantities of clear potable water from the oceans while we would obtain at the same time as vital byproducts, the ocean's inexhaustible mineral resources and the heavy water which will give us our future fuel in fusion reactors. An abundant water supply will in time become as vitally important as an abundant energy supply.

III

Radioactive Isotopes and Radiation

At Geneva, the many industrial uses to which radioisotopes and radiation are put were outlined brilliantly by several nations. Dr. Willard Libby, one of our AEC Commissioners emphasized the tremendous savings in industry and agriculture brought about by their use each year. The industrial savings are now at a level in excess of $500 million per year which already is giving us a 7% return from a national standpoint on the some $7 billion of taxpayers' money invested in nuclear installations and equipment. The Russians also indicated that the present annual savings to Soviet industry by their use exceed one billion rubles which, at the official rate of exchange, is about $250 million. How can anyone doubt the brilliant future that atomic energy holds for us when the radioactive isotopes alone, too often improperly called the "waste," will make the entire atomic energy program of this nation pay its way, quite independently of the more vital aspects of atomic energy as a source of energy.

Radioisotopes

Uses of radioisotopes have become so diversified and extend to so many countries that it is just impossible to review them here. The fundamental principles involved in the use of radioactive isotopes can readily be reduced to three major types of use.

In the first mode of use, the radiation acts on materials. Radioisotopes are used simply as a source of radiation much as radium and X-ray machines are used. A target material is affected in some manner by the radiation. This target may be a cancer patient receiving radiation therapy, or a plastic being irradiated to change its properties, or a bag of potatoes being irradiated to prevent decay.

In the second mode of use, the effect of the target material on the radiation furnishes information about the material involved. In this mode of use, the application is based on measuring the radiation which penetrates or is reflected from the material. The radiation-detection device may be a counter or a photographic emulsion. This mode is used in medical radiography when a radioactive source replaces X-ray equipment. In industry, similar applications include measuring the thickness of a moving sheet of metal radiographing the internal structure of a piece of equipment, measuring the liquid level in a closed container, etc.

In the third mode of use, the radioisotope serves as a tracer to follow the complicated path of atoms in physical transfer or chemical or biological reactions. This to date is still the most important use of radioisotopes. Radioisotopes are incorporated into materials of interest, and the radioisotope used as a tracer serves as a tag or a label which reveals the presence and identity of the material, whether it is involved in a physical or a mechanical transfer, or in a chemical or biochemical reaction. The material labeled and traced may be oil running through a pipeline, sugar being utilized in a human being, or an atom transferring from one kind of molecule to another in a chemical reaction.

Unborn Uses

There are many unborn uses of radioisotopes in the fields of medicine, agriculture and industry. Isotopes may also contribute to our knowledge of such matters as the atmospheric circulation problem. We may thus learn to predict weather more accurately.

With the continued growth of the nuclear power industry, hundreds of thousands of kilowatts of radiation unavoidably will be produced. This gamma radiation is enormous in comparison with the energy available from ordinary chemical reactions. This radiation may be able to break chemical bonds and form new molecular bonds in materials where similar results would be impossible by chemical or physical methods. In the rubber industry, radiation has already led to the vulcanization of rubber without sulfur and heat. The petroleum industry is outstanding in its support of radiation research. Radiation preservation of foods has reached a point in the United States where the U. S. Atomic Energy Commission is cooperating in establishing the U. S. Army Ionizing Radiation Center to be located near Stockton, California. The Army Quartermaster Corps has undertaken, in conjunction with the food industry, a program which will solve many of the basic problems that may lead to the sterilization or pasteurization of foodstuffs by irradiation techniques.

IV

International Developments

A very comforting conclusion of the reactor experience so far is that reactors are indeed even safer to operate than had been believed. The risk of an accident of catastrophic proportions is indeed infinitely small yet it is not nil. This is why the Anderson-Price Bill had to be enacted by our Congress to solve the third-party liability problem in the United States. This Bill provides for $500 million of government indemnification to reactor builders and operators for each atomic reactor project in the United States. This $500 million coverage is over and above the amount of third-party liability insurance deemed reasonable by the AEC and available for each project from the private insurance companies.

In the international field, however, the problem is enormously more complicated. A study under the auspices of the Harvard Law School, released in May of this year, points to the complexity which arises not only from the existence of separate legal systems, but also from the possibility of complex circumstances. To use a relatively simple example, an atomic installation located in one country, having been designed or equipped by a supplier in another country, could contaminate persons or property in yet a third country.

In case of accidents involving nuclear power ships, there doubtless would arise additional complications in the already complex problems of territorial waters and, of course, special law will find still different problems to adjudicate in future nuclear propelled aircraft both within and beyond the earth atmosphere.

I. A. E. A.

These are problems as well as those of waste disposal with which the International Atomic Energy Agency in Vienna, Austria, will have to deal. The answer to the third-party liability problem in the international field seems to lie in the setting up of multilateral agreements.

Apart from this insurance problem, we have bilateral agreements with many nations to foster their research and power reactor programs. The I.A.E.A. should become the ultimate depository of such bilaterals.

The Agency is a specialized organization of the United Nations, like the World Bank. It is the embodiment of the high principles of the "Atoms-for-Peace" Program outlined by President Eisenhower in his most inspiring speech in December 1953 before the United Nations Assembly. The Agency's future success, however, depends to a considerable extent on the attitude of the communist member nations which have been using the Agency as a political platform, thus obstructing the Agency's real tasks. However, international cooperation in this field will probably impose itself in time as the implications of atomic energy are such that the communists themselves will realize that they need to cooperate with the rest of the world.

An Agreement for Cooperation in the civilian uses of atomic energy between the United States and the six nations forming the European Atomic Energy Community—EURATOM—was signed on Nov. 8, 1958 in Brussels. The Agreement has as its major objective the construction of one

Continued on page 70

Continued from page 69

Report of IBA Nuclear Industry Committee

million kilowatts of nuclear capacity within the next five to seven years, using reactor types developed in the United States.

The Agreement is expected to come into force after Congress convenes in January 1959. It calls for:

Financial Guarantee

Financial guarantees by the United States of up to $90 million for a 10-year operating period with respect to the cost and integrity of the fuel elements required in the reactors;

Long-term assurance of an adequate nuclear fuel supply at prices equivalent to those offered to domestic U. S. industry;

Guarantee for a 10-year period of a market for the plutonium recovered from the power reactors in the program;

Long-term line of credits from the Export-Import Bank of up to $135 million to cover a portion of the capital costs of the nuclear power plants; and

A long-term assurance by the United States that chemical reprocessing services will be available under terms comparable to those then available to U. S. industry.

An integral part of the program is a joint 10-year research and development project. During the first five years the Community and the United States will each contribute up to $50 million to this program.

These basic arrangements will be of mutual benefit. The preliminary International Agreement and the legislative basis for initial U. S. participation in the joint program as contained in the Euratom Cooperation Act of 1958 were approved by Congress in August, 1958.

Conclusion

A firm foundation has been laid for sound atomic energy developments in the United States and in the Free World. We can all look with increased confidence towards the future of this great new industry in its many facets and ramifications.

In closing, the future of atomic energy does not lie in the military aspects of the bomb, nor does it lie in the glamour of the atom as some dreamers had conceived it. The atom is neither frightful nor glamorous. The atom will maintain and improve the high standard of living enjoyed by the technically advanced nations of the world, whose appetite for energy is enormous and still growing. The atom also holds for the underdeveloped nations the great promises that became evident at Geneva in 1955, although on a different time scale than had been envisioned at that Conference. Atomic energy, like all the good things of life, will become ours only through the continuation of our efforts on a national and international scale.

Respectfully submitted,

NUCLEAR INDUSTRY COMMITTEE

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

Robert Colton
National Securities & Research Corporation, New York

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

Thomas M. Johnson
The Johnson, Lane, Space Corporation, Savannah

Edmond N. Morse
Smith, Barney & Co., New York

Mark Sullivan, Jr.
Auchincloss, Parker & Redpath, Washington

Continued from page 29

Report of the IBA Federal Taxation Committee

than ever before now own capital assets, plus the inflationary conditions of recent years, make it desirable that the loss limitation be raised to $5,000.

(c) **"Full Reinvestment Treatment":** Under present law home owners can sell their homes and buy another or equal or greater value within a year without incurring capital gains tax liability. We feel that the same treatment should be accorded to all property owners. The preference now accorded to home owners was granted in recognition of inflationary pressures and the illusory nature of gains resulting from them. The logic behind this proposal is compelling, and we feel it should be promptly enacted.

(d) **Capital Levy Limitation:** Under present law sale of an asset originally received at no cost requires a taxpayer to pay a tax equal to 25% of the present value of his capital. It is obvious that very few sales are made under these circumstances and that the tax revenue collected is negligible. Put another way, the "locking-up" effect of the capital gains tax is tremendous when potential capital gains tax liability is high. A buyer of Standard Oil of New Jersey stock at $10 a share, the going price in 1946, who now, 12 years later, wished to sell it at the present price of about 60, would have only 80% of his capital left to reinvest following a sale. If the Treasury were to be less greedy and permit him to retain a larger amount of his capital, let us say 96% of it, he might well not be inhibited from making the sale, and the Treasury would benefit correspondingly. We should urge that capital gains tax liability should be limited to a reasonable percentage — say 4%, which is equal to roughly a year's income —of the value of assets sold, or 25% of the gain, whichever is lower. Such a limitation would release for sale tremendous amounts of property now effectively immobilized. It would make available to our economy a great deal of venturesome equity capital, and it would greatly increase the Treasury's revenue from the tax. We believe that this is a logical proposal which we should urge with all of the means at our disposal.

We hope that each member of this Association will make our views on the subject of taxation known to his Congressional representatives in as forcible and effective a way as possible.

Respectfully submitted,

FEDERAL TAXATION COMMITTEE

Walter Maynard, Chairman
Shearson, Hammill & Co., New York

J. C. Bradford
J. C. Bradford & Co., Nashville

Albert O. Foster
Foster & Marshall, Seattle

Thomas Graham
The Bankers Bond Co., Inc., Louisville

Benjamin H. Griswold, III
Alex. Brown & Sons, Baltimore

Herbert S. Hall
Morgan Stanley & Co., New York

W. S. Hildreth
The Peoples National Bank, Charlottesville

James M. Hutton, Jr.
W. E. Hutton & Co., Cincinnati

Maitland T. Ijams
W. C. Langley & Co., New York

Stewart R. Kirkpatrick
Kirkpatrick-Pettis Co., Omaha

John P. Labouisse
Howard, Weil, Labouisse, Friedrichs & Company, New Orleans

James K. Miller
Schoellkopf, Hutton & Pomeroy, Inc., New York

George A. Newton
G. H. Walker & Co., St. Louis

Edward P. Prescott
Prescott, Shepard & Co., Inc., Cleveland

Ralph W. Simonds
Baker, Simonds & Co., Detroit

Jack T. Stephens
Stephens, Inc., Little Rock

Richard J. Stern
Stern Brothers & Co., Kansas City

Mark Sullivan, Jr.
Auchincloss, Parker & Redpath, Washington

Frank C. Trubee, Jr.
Trubee, Collins & Co., Buffalo

Respectfully submitted,

With Channer Secs.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Edward F. Dee, Jr. is now connected with Channer Securities Co., 39 South La Salle Street.

Continued from page 33

IBA Governmental Securities Committee Report

problems of the period have their origin in the unbalanced budget.

Budget Cost Versus Inflation Toll

In any event, the increased interest cost involved in striving for a sound debt structure is nominal compared with the possible inflationary consequences of artificially created easy money. There is a real danger that we will do the cause of sound money serious damage if we attempt to limit arbitrarily the interest cost of servicing our national debt.

We need a flexible monetary policy but there is no denying that in some instances our monetary policies have an effect that is not intended just as the too frequent public utterances of officials indicating their intention to fight inflation suggests to many people that inflation is out of control. Certainly it is not the purpose of monetary policy to force the Treasury debt into a shorter position and certainly we need willing investors in longer term Government securities if we are going to be able to prevent this from happening.

People Question Long Terms

Yet more people today are questioning the advisability of owning any fixed income securities than at any time in this country's recent economic history. As a consequence, we have seen in some measure a flight from Government issues into other securities including common stocks. Furthermore, the preference of investors for shorter term Government securities as against longer issues in recent markets has enhanced the difficulties the Treasury faces in lengthening the debt.

We hope that any investigation of fiscal and monetary policy will delve into some of the basic problems that we face such as the Federal debt structure and unbalanced budgets and not place their emphasis on artificial means of limiting interest cost. Attacks on interest rates have always been politically popular and yet one wonders why this should be inasmuch as there are many more individual savers in this country than borrowers. The investor is necessary to the continued growth of our country and the interest rate is one of the important inducements in our free economy that secures his cooperation. Perhaps at times the investor has not been given all the consideration he deserves in monetary policy decision.

The Treasury by its actions has indicated an awareness of the problem and has recently demonstrated a determination to improve its debt management operations. Investors in this country and in the entire world are watching to see how resolutely we deal with our difficult fiscal and monetary problems.

Respectfully submitted,

GOVERNMENTAL SECURITIES COMMITTEE

Robert B. Blyth, Chairman
The National City Bank of Cleveland, Cleveland

Milton S. Bosley
National Bank of Detroit, Detroit

Wendell T. Burns
Northwestern National Bank of Minneapolis, Minneapolis

Dwight W. Chapman
American Trust Company, San Francisco

F. Newell Childs
C. F. Childs and Company, Chicago

James A. Cranford
The Atlantic National Bank of Jacksonville, Jacksonville

Stewart A. Dunn
C. J. Devine & Co., New York

W. Wayne Glover
California Bank, Los Angeles

Sheldon R. Green
The Chase Manhattan Bank, New York

H. Lyman Greer
The Fifth Third Union Trust Co., Cincinnati

Alfred H. Hauser
Chemical Corn Exchange Bank, New York

Hardin H. Hawes
Harris Trust and Savings Bank, Chicago

Russell A. Kent
Bank of America, N.T. & S.A., San Francisco

George B. Kneass
The Philadelphia National Bank, Philadelphia

Frederick G. Larkin, Jr.
Security-First National Bank, Los Angeles

Ralph F. Leach
Guaranty Trust Company of New York, New York

Pat G. Morris
The Northern Trust Company, Chicago

Robert C. Morris
Bankers Trust Company, New York

Emil J. Pattberg, Jr.
The First Boston Corporation, New York

John H. Perkins
Continental Illinois National Bank and Trust Company of Chicago, Chicago

Delmont K. Pfeffer
First National City Bank of New York, New York

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

Herbert N. Repp
Discount Corporation of New York, New York

Lockett Shelton
Republic National Bank of Dallas, Dallas

Rudolf Smutny
R. W. Pressprich & Co., New York

Girard L. Spencer
Salomon Bros. & Hutzler, New York

Joins Municipal Bond Corp.

(Special to THE FINANCIAL CHRONICLE)

ALTON, Ill.—E. M. Guenther has joined the staff of Municipal Bond Corp., 205 West Third Street. Mr. Guenther was previously an officer of the First National Bank & Trust Co. of Alton.

With First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Leroy E. Killebrew Jr. has become affiliated with First California Co. Inc., 300 Montgomery Street, members of the Pacific Coast and Midwest Stock Exchanges.

Eugene Sullivan With A. C. Allyn & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Eugene Sullivan has become associated with A. C. Allyn and Co., Inc. 30 Federal Street. Mr. Sullivan in the past was manager of the Profit Sharing and Pension Plan Department for Keller & Co.

Sutro Bros. Branch

PALM BEACH, Fla. — Sutro Bros. & Co. has opened a branch office at 44 Cocoanut Row under the management of Andrew T. Balconis.

With Fusz-Schmelzle

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Edward E. Hawkins has become affiliated with Fusz-Schmelzle & Co., Inc., Boatmen's Bank Building, members of the New York and Midwest Stock Exchanges. Mr. Hawkins was previously with I. M. Simon & Co.

J. H. Brooks to Admit

WILKES-BARRE, Pa.—Bernard Harris will become a partner in J. H. Brooks & Co. on Jan. 1. He will make his headquarters in the firm's Wilkes-Barre office, 15 South Franklin Street.

With W. L. Lyons Co.

(Special to THE FINANCIAL CHRONICLE)

LOUISVILLE, Ky. — Harry M. Carr is now with W. L. Lyons & Co., 235 South Fifth Street, members of the New York Stock Exchange.

Continued from page 34

Report of IBA Railroad Securities Committee

request would be compensatory and nondiscriminatory.

Prospects for Rates and Earnings

This section of the 1958 Act has caused concern in certain quarters lest the Interstate Commerce Commission misinterpret the intent of Congress. It is too early to say whether these fears are well founded, but it is hoped the Commission will be realistic in considering requests for competitive rate adjustments. In the opinion of your Committee, a regulatory policy for transportation rates, which gives the carriers freedom to make competitive but compensatory rates, would be a most effective step toward improving the credit base of the industry.

The trend of declining traffic for the railroads, that began in the latter part of 1957, was arrested towards the end of April, 1958. Although not quite back to the 1957 level, carloadings have, for the last several months, shown a tendency to improve and there is every indication that the business recovery now taking place will continue well into 1959.

For the first nine months of 1958, Class I Railway operating revenues aggregated $7.012 billion, as contrasted with $7.920 billion in the like period of 1957, a decrease of $908 million, or 11.5%.

Net railway operating income for the Class I roads in the first nine months of the current year totaled $438 million, or $212 million less than the $700 million earned in the same period of 1957.

The relationship between earnings and fixed charges showed the charges for the first nine months to be earned three times, figured before the deduction of Federal income taxes, as against four times in the corresponding period of the preceding year. For the month of September, the corresponding figure of coverage was 4.93 times in 1958 and 4.30 times in September, 1957. Further improvement in earnings protection for fixed charges may be anticipated as the traffic picture continues to improve.

Superficially, the fixed charge coverage data seems satisfactory, whereas careful examination of available statistics reveals that the good showing is more reflective of an extremely modest debt. Furthermore, it should be remembered that the results of many major railroads were well below the average.

Based on results for the 12 months ended Sept. 30, 1958, the earnings of the railroad industry in relation to property investment showed a rate of return of only 2.58%. The annual rate of return over the last ten years never exceeded 4.31%.

Passenger train service operations of the railroads, on the basis of the Interstate Commerce Commission accounting rules governing separation of costs by class of service, are still being conducted at a substantial loss. For the year 1957, revenues from this service aggregated $1,238,000,000 which was insufficient by an amount of $723 million to cover the allocated costs of the service.

Recommends Passenger Traffic Subsidization

If the public interest requires the railroads to provide passenger service and your committee believes it does, then the traveling public using this mode of transportation must be subsidized. It is beyond the scope of this report to suggest the form and extent of such a subsidy.

It is noteworthy that the New Haven Railroad last summer entered into an arrangement with various municipalities in its service area in the vicinity of Boston whereby it will receive over a period of a year from the municipalities a sum of $900,000 for the purpose of maintaining service. Similarly, the Pennsylvania and Reading Railroads more recently agreed with the City of Philadelphia to provide certain passenger train service under conditions that involved the city paying to these companies, over a period of a year, sums totaling $165,000.

The railroads are constantly striving to improve their earnings position and eliminate economic waste. The work of management in this respect represents a herculean effort in the face of political factors, labor demands and the inflated costs of doing business. Some idea of management's problem may be gleaned from the fact that based on 1947-1949 as being equal to 100, the average hourly labor cost has increased approximately 100%, material and supply prices are up about 40%, while the average charge for freight transportation, the backbone of the railroad industry, is not over 20% higher.

Merger and Coordination Studies

Rail management can be relied on to continue its great work, and evidence of management's desire to greatly strengthen the position of the industry is found in the current series of studies being made of possible mergers and coordination of facilities. Mergers would produce, in the opinion of your committee, expense savings that would make the present aggregate earnings of the railroads look small by comparison; coordination also promises the opportunity of important savings. If the industry is to prosper as a part of our free enterprise system, such savings as may be realized from mergers and coordination of rail facilities must not be dissipated in payments to labor or reductions in service charges, while the rate of return on the investment in rail transportation facilities is at such a low ebb.

Marketwise, over the last year, railroad security prices, in general, followed the pattern of the earnings trend. The prices for the bonds of the better credits, such as Union Pacific, Santa Fe, Norfolk & Western, etc., were determined by money market conditions.

Stock Price Recovery

Railroad stock prices have vigorously recovered from their lows reached last January and the averages are now up more than 50%. Many railroad common stocks are close to or recently surpassed the highest prices at which they sold in the 1956-1957 period. Does this enthusiasm for rail equities portend a new horizon for the rail industry? There is much reason to be optimistic, based on what has already transpired this year, as well as what is in the offing, wholly apart from the excellent traffic outlook both near-term and long-term.

There were five railroads that raised funds this year through the sale of mortgage bonds at competitive bidding. In January, the Chicago, Burlington & Quincy received a bid of 99.299, an interest cost of 4.43% for $24,500,000 first & refunding mortgage 4⅜% bonds, due Feb. 1, 1978. Proceeds of the issue were applied towards the retirement of general mortgage 4% bonds that matured March 1, 1958.

The Virginian & Southwestern, a lessor line of the Southern Railway Company, sold $5,000,000 bonds in March. These bonds carried a maturity date of 25 years and the interest cost to the company was 4.33%. Proceeds of the issue were used to retire maturing debt.

Also, in March, the Rock Island sold $16,000,000 first mortgage 25-year 5½% bonds at an interest cost of 5.64%. These bonds were sold to obtain additional working capital.

In May, 1958, the Virginian Railway sold $12,000,000, 25-year first lien & refunding 4% bonds at an interest cost of 4.05%. Proceeds were used to retire $4,500,000 short-term loans and the balance added to working funds.

Last July the Southern Railway placed a $22,000,000 first collateral trust bond issue on the market. These bonds, due in 30 years, carried a 4½% interest rate and were extremely popular with investors. The interest cost to the company was 4.57% and the return to the investor was 4.50%.

In addition to the above security offerings there were several security exchanges proposed by certain railroads to modify their capital structure. All of these propositions had as an objective tax savings through the substitution of bonds for stock. The roads involved are the Monon which offered the holders of its Class "A" common, par $25, income 6% bonds par-for-par plus ½ share of Class "B" common.

The "Katy" is currently offering its holders of preferred stock a new $100, 5½% income debenture, $100 certificate to be liquidated out of income, and one share of common stock for each share of preferred stock.

Earlier this month, the Virginian Railway offered the holders of its non-callable preferred stock the opportunity to exchange such stock for 50-year, 6% income debentures. This exchange offer is on the basis of $11.50 par value of bonds for each share of preferred stock, par $10.

Additional rail financing in public markets was represented by Philadelphia Plan equipment trust offerings. These aggregated approximately $150 million since the beginning of the year.

Summarizing, your Committee wishes to say that although this past year has been an exceedingly difficult one for all those identified with the railroad industry, it nevertheless has also been rewarding. Your Committee feels a great deal of progress and understanding of what has been a perennial problem stands a better chance today of being willingly solved than at any time in the last several decades.

Looking ahead, the future of the rails looks brighter. Business is recovering and probably will get materially better before many months have gone by. Increased traffic should increase earnings in the immediate future. Operating economies from the adoption of technological advancements should further increase earnings. Then we still have consolidations and coordination of facilities that will ultimately substantially increase earnings, if the savings therefrom are permitted to be retained. Obviously the chances of retention are excellent, so long as the rate of return on property investment remains at the low level of recent years.

Respectfully submitted,

RAILROAD SECURITIES COMMITTEE

Alfred J. Ross, Chairman
Dick & Merle-Smith, New York

Charles L. Bergmann
R. W. Pressprich & Co., New York

James H. Carson
Salomon Bros. & Hutzler, New York

Gustave L. Levy
Goldman, Sachs & Co., New York

W. Wendell Reuss
W. E. Hutton & Co., New York

James L. Sheehan
Dick & Merle-Smith, New York

Eugene Treuhold
L. F. Rothschild & Co., New York

Continued from page 48

In Attendance at Convention

KING, Jr., ROBERT
First Securities Corporation, Durham
KLINGENSTEIN, FREDERICK A.
Wertheim & Co., New York
KNAPP, ALFRED S.
Janney, Dulles & Battles, Philadelphia
KNEASS, GEORGE B.*
The Philadelphia National Bank, Philadelphia
KNOTHE, STANNARD B.
Halle & Stieglitz, New York
KNOX, JOHN T.
The Federal Land Bank, New York
KOENIG, PHILIP F.
C. F. Childs & Co., Chicago
KOERNER, IRVING
Allen & Co., New York
KRELL, ROBERT B.
Bacon, Whipple & Co., Chicago
KROEZE, JOHN O.*
Kroeze, McLarty & Co., Jackson
KRUG, THOMAS B.*
Bioren & Co., Philadelphia
KRUMM, ROBERT B.*
W. H. Morton & Co., New York
KRUSE, JOHN A.
Prescott, Shepard & Co., Cleveland
KRUSEN, H. STANLEY
Shearson, Hammill & Co., New York
LABOUISSE, JOHN P.*
Howard, Weil, Labouisse, Friedrichs & Co., New Orleans
LaCROIX, ROGER C.
Paine, Webber, Jackson & Curtis, Chicago
LAFFAN, EDWARD
Hornblower & Weeks, New York
LAIDLAW, ROBERT*
Laidlaw & Co., New York
LANAHAN, Jr., W. WALLACE
Stein Bros. & Boyce, Baltimore
LANDSTREET, III, BEVERLY W.
Clark, Landstreet & Kirkpatrick, Nashville
LARKIN, JOHN J.
Federal Reserve Bank, New York
LARKIN, THOMAS A.*
Goodbody & Co., New York
LATOUR, WALLACE C.*
Merrill Lynch, Pierce, Fenner & Smith, New York
LATSHAW, JOHN
E. F. Hutton & Co., Kansas City
LAUN, HAROLD G.*
F. S. Moseley & Co., Chicago
LAWLOR, Jr., WILLIAM J.
Hornblower & Weeks, Chicago
LAWSON, JOHN S.
J. P. Morgan & Co., New York
LAY, JOSEPH E.
The Robinson-Humphrey Company, Atlanta
LEACH, RALPH F.
Guaranty Trust Company, New York
LEDYARD, Q. R.
Equitable Securities Corporation, Nashville
LEE, JAMES J.
W. E. Hutton & Co., New York
LEES, Jr., LEON*
Ira Haupt & Co., New York
LEGROS, EMILE A.*
The First Cleveland Corporation, Cleveland
LEMKAU, HUDSON B.
Morgan Stanley & Co., New York
LEMON, JAMES H.*
Johnston, Lemon & Co., Washington
LEVERING, WALTER B.
Carlisle & Jacquelin, New York
LEWIS, MILTON F.
A. G. Becker & Co., New York
LEWIS, ROBERT J.
Estabrook & Co., New York
LIEBMAN, WILLIAM L.
Loewi & Co., Milwaukee
LINCOLN, MARY
Investment Bankers Association, Washington

***Denotes Mr. and Mrs.**

LINDBURG, ARTHUR R.
Lehman Brothers, Chicago
LINDMAN, RAY H.*
O'Melveny & Meyers, Los Angeles
LINEN, JOHN S.
The Chase Manhattan Bank, New York
LITTLE, ALDEN H.*
Investment Bankers Association, Hollywood
LOCKETT, JOSEPH F.*
Townsend, Dabeny & Tyson, Boston
LOEWI, J. VICTOR
Loewi & Co., Milwaukee
LOKAY, JOHN M.
Shearson, Hammill & Co., New York
LOOMIS, JOHN S.
The Illinois Company, Chicago
LOOMIS, Jr., JOHN S.
City National Bank, Chicago
LORD, Jr., ANDREW J.
Eaton & Howard, Boston
LOW, THEODORE V.*
Bear, Stearns & Co., New York
LOWELL, Jr., JAMES RUSSELL
Paine, Webber, Jackson & Curtis, New York
LUBETKIN, LLOYD E.
Lubetkin, Regan & Kennedy, New York
LUBY, JOSEPH M.
Commerce Trust Company, Kansas City
LUCAS, Jr., MARK A.*
Lucas, Eisen & Waeckerle, Kansas City
LUND, ANTHON H.
Amott, Baker & Co., New York
LUNDFELT, CHARLES E.
McCormick & Co., Chicago
LYKLEMA, WALTER C.
A. C. Allyn & Co., Chicago
LYNCH, Jr., CHARLES McK.*
Moore, Leonard & Lynch, Pittsburgh
LYNCH, FRANK
Blair & Co., New York
LYNCH, III, THOMAS
Moore, Leonard & Lynch, Pittsburgh
LYNE, LEWIS F.*
Mercantile National Bank, Dallas
LYNN, EUGENE
Wertheim & Co., New York
LYONS, SAM B.*
Finance Magazine, Chicago
LYONS, Jr., W. L.*
W. L. Lyons & Co., Louisville
MacCULLEY, IRA B.
Equitable Securities Corporation New York
MacDONALD, GEORGE C.*
McLeod, Young, Weir, Inc., New York
MacFADDEN, DONALD S.
Eastman Dillon, Union Securities & Co., New York
MACHOLD, WILLIAM F.
Drexel & Co., Philadelphia
MACKLIN, Jr., GORDON S.
McDonald & Co., Cleveland
MACLIN, LUTTRELL
Paine, Webber, Jackson & Curtis, New York
MACY, NORMAN L.
The First Boston Corporation, New York
MAGNUS, JULIAN A.
Magnus & Co., Cincinnati
MAGNUS, WILLIAM S.
Magnus & Co., Cincinnati
MANLEY, MILTON A.*
Manley, Bennett & Co., Detroit
MARCKWALD, ANDREW K.*
Discount Corporation, New York
MARCUSSEN, P. A.
Investment Dealers' Digest, New York
MARLIN, W.
Bache & Co., New York
MARRYOTT, LEONARD I.*
Stranahan, Harris & Co., Toledo
MARSHALL, Jr., W. LAWRENCE
Bankers Trust Company, New York
MARTIN, GEORGE L.*
International Bank, New York
MASSEY, ARNOLD B.*
Mills, Spence & Co., Toronto
MATHEWS, Jr., ROBERT C.
Trust Company of Georgia, Atlanta

MATHIS, WALTER N.
Dittmar & Co., San Antonio
MATTON, CHARLES F.*
Wachovia Bank & Trust Co., Winston-Salem
MAWDSLEY, LORRIN C.
Van Alstyne, Noel & Co., New York
MAXWELL, JOHN M.*
The Northern Trust Company, Chicago
MAY, J. DENNY*
The Parker Corporation, Boston
MAYNARD, WALTER*
Shearson, Hammill & Co., New York
McALPIN, III, BENJAMIN B.
Bache & Co., New York
McANDREWS, MARTIN
Hemphill, Noyes & Co., New York
McCALL, ARTHUR C.
Alester G. Furman Co., Greenville
McCANDLESS, JOHN A.*
Vance, Sanders & Co., Boston
McCARLEY, J. NATHAN*
McCarley & Co., Asheville
McCONNEL, Jr., W. BRUCE*
Singer, Deane & Scribner, Pittsburgh
McCORMACK, FRANK J.
H. Hentz & Co., New York
McCORMICK, EDWARD T.
American Stock Exchange, New York
McDONNELL, DONALD N.
Blyth & Co., New York
McELROY, DAVID B.*
J. P. Morgan & Co., New York
McGEE, CUSHMAN*
R. W. Pressprich & Co., New York
McGOVERN, Jr., COLEMAN B.
The First National City Bank, New York
McKEON, STEPHEN G.
Chas. W. Scranton & Co., New Haven
McKIE, STANLEY
The Weil, Roth & Irving Co., Cincinnati
McKNIGHT, Jr., WILLIAM G.
Eastman Dillon, Union Securities & Co., New York
McLELLAN, PHILIP F.*
Massachusetts Life Fund Distributors, Boston
McMAHON, EUGENE G.*
J. Barth & Co., New York
MEAD, W. CARROLL*
Mead, Miller & Co., Baltimore
MEANS, J. W.
First Southeastern Corporation, Atlanta
MENDEL, LEO
Manufacturers Trust Company, New York
MERRELL, ROLAND*
Lee Higginson Corporation, New York
MERRILL, BEARDSLEE B.*
Richards, Merrill & Peterson, Spokane
MERRITT, WILBUR M.
The First Boston Corporation, New York
METZNER, RUSSELL H.
Central National Bank, Cleveland
MEYER, Jr., MAURICE
Hirsch & Co., New York
MEYER, III, MAURICE
Hirsch & Co., New York
MICHELS, HARRY A.
Allen & Co., New York
MILLER, CHARLES M.
Mullaney, Wells & Co., Chicago
MILLER, EDWARD W.
The Ohio Company, Columbus
MILLER, GLENN R.*
Cruttenden, Podesta & Co., Chicago
MILLER, Jr., L. GORDON
J. C. Wheat & Co., Richmond
MIRALIA, DAVID T.*
Kuhn, Loeb & Co., New York
MITCHELL, EARLY F.
First National Bank, Memphis
MITCHELL, JOHN N.*
Caldwell, Marshall, Trimble & Mitchell, New York
MITCHELL, ROBIE L.*
Mitchell, Pershing, Shetterly & Mitchell, New York
MOHR, Jr., SIDNEY J.*
Thornton, Mohr & Farish, Montgomery
MOLANDER, WINSTON L.
Northwestern National Bank, Minneapolis
MOLLARD, LOUIS A.
Hirsch & Co., New York
MONROE, BROOKS
Francis I. DuPont & Co., Lynchburg

Continued on page 80

Continued from page 36

Report IBA Canadian Committee

not generally been net buyers of their own Government long-term bonds since shortly after the Second World War. This has been a source of increasing concern to both Governments. Reflecting this concern, the Bank of Canada last July held a conference of dealers and bankers of Ottawa and announced a plan to increase the term of our outstanding debt. New issues were offered to provide for the conversion of approximately $6.4 billion, or more than 40% of Canada's national debt..

All holders of the Victory Loan Bonds issued during the Second World War were free either to convert their bonds, sell them in the open market, or retain them. Because of cash bonuses offered by the Government for conversion, these Victory Loan issues advanced in price from 2½ to 5½ points overnight. Not only was there a cash bonus incentive to convert bonds, but investors could increase the interest return on their investments from 3 to as high as 4½%.

90.4% of the Victory Bonds available for conversion were converted. The average term of the bonds converted was extended from around four years to nearly 14½ years. This had the effect of extending the average term of Canada's total national debt from about 5½ years to about 10 years. The outstanding success of the operation is a reflection of the attractive terms which were offered to holders and of the organized sales efforts of the investment dealers and banks. I would like to add here that the dealers and banks received a commission on their sales and were also rewarded for special services. Although some dislocation of our high-grade bond market resulted as an aftermath, the operation can be classed as most successful.

Commonwealth Conference

Another important Canadian event this year was the two-week Commonwealth Economic & Trade Conference held in Montreal. The conference re-affirmed the common objective of freer trade and payments. All agreed to re-examine anti-dumping legislation where it was charged that dumped or subsidized goods were damaging the economy of other Commonwealth countries. The importance of the need not to place obstacles in the way of the export of manufactured goods of under-developed countries was recognized.

It was agreed to continue studies of ways and means to mobilize the resources of the Commonwealth countries and consideration was given to the possibility of establishing a new Commonwealth Financial Institution. It was announced that existing Trade agreements between several of hte Commonwealth countries would be reviewed. The great value of the system of preferential tariffs from the Commonwealth viewpoint was re-affirmed.

Particular Problems

Recognition of some of Canada's particular problems will create a better understanding of Canada's domestic and foreign policy. As has been often said, Canada is a vast country, her 10 Provinces extending over about 3,500 miles from the Atlantic to the Pacific. Over the course of the last century, economic development across the country has been by no means uniform. Some large areas of our vast country enjoy a higher standard of living than others. Our new Government, as part of its national policy, would like to improve the lot of those who dwell in the less prosperous parts of the country. This program may involve subsidies in various forms to assist industry where it is needed, to bolster farm prices, and to equalize transportation costs. Subsidies, as we all know, carry with them certain disadvantages. However, with the difference in Provincial economic prospects, Canadians now realize that measures to help equalize opportunity will be part of Canada's internal way of living far into the future.

Because of climatic conditions, her large construction industry, and because Canada is a major agricultural country, seasonal variations in employment are bound to be greater than in many other countries. Special governmental measures are necessary to carry the floating supply of labor through our winter season. A special seasonal Federal Public Works and, for municipalities, a grants-in-aid program will be available this winter. The seasonality of labor demand is one factor that makes it necessary for Canada to plan, carefully, her immigration policy. We still can use more immigrants of the right sort, but there is a limit to the

THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

YEARS AND QUARTERS

		CURRENT ACCOUNT								CAPITAL ACCOUNT			
		All Countries						U.S.	U.K.	All Countries			Official holdings of gold and U.S. dollars at end of period
		Merchandise											
		Exports Adjusted (1)	Imports Adjusted (1)	Trade balance	Interest and Dividend Account (net)	Travel Account (net)	Current Account Balance (2)	Current Account Balance		Direct investment in Canada	Portfolio securities (3)	Capital movements N.O.P.	
		Millions of dollars											Millions of U.S. dollars
1956		4,837	-5,565	-728	-381	-161	-1,366	-1,639	+252	+583	+727	+ 56	1,936.2
1957		4,909	-5,488	-579	-444	-162	-1,400	-1,551	+142	+520	+766	+114	1,828.3
1957	1st	1,102	-1,328	-226	-104	- 69	- 427	- 483	+ 24	+ 91	+240	+ 96	1,923.6
	2nd	1,215	-1,518	-303	-105	- 66	- 528	- 550	+ 29	+163	+334	+ 31	1,941.8
	3rd	1,308	-1,350	- 42	-110	+ 19	- 195	- 212	+ 53	+137	+135	- 77	1,889.9
	4th	1,284	-1,292	- 8	-125	- 46	- 250	- 306	+ 36	+129	+ 57	+ 64	1,828.3
1958	1st	1,087	-1,153	- 66	- 97	- 69	- 289	- 325	+ 12	+ 85	+154	+ 50	1,867.7
	2nd	1,277	-1,356	- 79	- 96	- 69	- 311	- 395	+ 35	+ 90	+263	- 42	1,921.4

(1) The trade figures have been adjusted to conform to balance of payments definitions of the international exchange of commodities.
(2) Balance also reflects all other current transactions.
(3) Net Sales (+) or purchases (-) by Canadians of Canadian and foreign securities (trading, new issues and retirements.)

Sources: Quarterly Estimates of the Canadian Balance of International Payments, D.B.S. and Statistical Summary of Bank of Canada.

Canadian Balance of International Indebtedness

(exclusive of short - term commercial indebtedness and blocked currencies.)

	1939	1945	1950	1955	1956	1957 (1)
	billions of dollars.					
Canadian Liabilities (Foreign Capital invested in Canada)						
United States	4.5	5.4	7.1	11.1	12.6	13.8
United Kingdom	2.6	1.8	2.0	2.5	2.8	3.1
Other Countries, I. B. R. D. and I. M. F.	0.3	0.4	0.8	1.2	1.5	1.7
Gross Liabilities	7.4	7.6	9.9	14.8	17.0	18.5
Canadian Assets (Canadian Capital invested abroad)						
Government of Canada holdings of gold and foreign exchange	.5	1.7	1.9	1.9	1.9	1.8
United States	.9	.9	1.1	2.2	2.5	2.9
United Kingdom	.1	.7	1.6	1.4	1.4	1.3
Other Countries, I. B. R. D., I. F. C., and I. M. F. (2)	.4	.5	1.3	1.4	1.4	1.5
Gross Assets	1.9	3.8	5.9	6.9	7.2	7.6
Net Liabilities	5.5	3.9	4.0	7.9	9.8	11.0

(1) Preliminary.

(2) International Bank for Reconstruction and Development, International Finance Corporation and International Monetary Fund.

Source : Dominion Bureau of Statistics.

NATIONAL ACCOUNTS

Quarterly Estimates : Seasonally adjusted at Annual Rates.

	1956 I	1956 II	1956 III	1956 IV	1957 I	1957 II	1957 III	1957 IV	1958 I	1958 II
	millions of dollars									
NATIONAL INCOME AND GROSS NATIONAL PRODUCT										
Wages, salaries and supplementary labour income	14,052	14,536	15,004	15,284	15,544	15,764	16,076	15,916	15,932	16,212
Military pay and allowances	372	424	452	448	456	456	512	480	496	588
Corporate profits before taxes and dividends / Less : Dividends paid to non-residents	2,780	2,824	2,748	2,856	2,712	2,608	2,432	2,268	2,240	2,292
Rent, interest and miscellaneous investment income	1,952	1,944	1,972	1,988	2,156	2,128	2,196	2,236	2,240	2,220
Accrued net income of farm operators	1,416	1,460	1,432	1,564	1,020	1,024	940	888	1,036	1,188
Net income of non-farm unincorporated business	1,904	1,908	1,996	1,940	1,908	1,936	1,948	1,972	2,016	2,016
Inventory valuation adjustment	-256	-344	-172	-268	-116	-120	-28	24	-60	8
NET NATIONAL INCOME AT FACTOR COST	22,220	22,752	23,428	23,816	23,696	23,808	24,064	23,768	23,912	24,484
Indirect taxes less subsidies	3,480	3,628	3,604	3,692	3,868	3,780	3,800	3,760	3,856	3,812
Capital consumption allowances, etc.	3,356	3,464	3,576	3,664	3,660	3,720	3,720	3,788	3,740	3,720
Residual error of estimate	-112	-36	36	160	28	4	160	148	172	228
G. N. P. AT MARKET PRICES	28,952	29,808	30,644	31,324	31,252	31,312	31,748	31,460	31,684	32,248
G. N. P. less accrued net income of farm operators	27,536	28,348	29,216	29,756	30,220	30,276	30,816	30,588	30,636	31,016

Source : Dominion Bureau of Statistics.

rate at which we can absorb newcomers.

Impact of U. S. A.

Canadians derive many advantages from living side-by-side with a very prosperous neighbor, but our industries are under a competitive disadvantage in many instances owing to the larger markets enjoyed by their American counterparts. To put this problem in some perspective, I will mention that Canada's economy overall is approximately one-fourteenth the size of that of the United States in terms of G. N. P. Most of you know its population is about one-tenth that of the United States. We trust that you can readily understand why it is necessary to have some protection for our industries and why we have anti-dumping legislation.

When metal prices and demand are high, times are of course good in the mining regions and the reverse is true when substantial price recessions occur, as has happened in the last two years. The purchase of stock-piling by your Government and the realese from stock-piling can materially affect the profits of our mines because of the changes in price which ensue. Changes in policy with respect to metals in your country can vitally influence Canadian income from her mines, and perhaps of even greater importance, the impact is concentrated in particular areas.

CANADA CONVERSION LOAN SUMMARY

Statistics as of October 14 1958.

(Millions of Dollars)

1. Victory Loan Bonds Converted (1)

		Outstanding July 14/58.		Converted		Outstanding Oct. 14/58.
5th V. L.	(1959)	947	Average Term 4.20 years	932	Average Term 4.03 years	15
6th V. L.	(1960)	1,165		1,118		47
7th V. L.	(1962)	1,316		1,254		62
8th V. L.	(1963)	1,296		1,080		216
9th V. L.	(1966)	1,692		1,419		273
	TOTAL	6,416		5,803		613
	% of Total			90.4%		9.6%

11. Conversion Loan Bonds Issued (2)

3%	1961	Average Term 14.4 years.	18.14%	1,053
3¾%	1965		21.81%	1,265
4¼%	1972		24.38%	1,415
4½%	1983		35.67%	2,070
	TOTAL		100.00%	5,803

Note : (1) Preliminary recorded figures, subject to minor revisions.

(2) Allocation of the total among the four new issues based on reports from authorized agents during the campaign. Subject to revision on completion of final accounting by issuing agents.

Calculations of average term and percentage distribution by Mills, Spence & Co. Limited.

Need Oil and Gas Markets

Another Canadian difficulty which is receiving a good deal of attention at the present time is that of finding reliable and larger markets for our oil and natural gas. Great strides have been made in this field. We have both oil and gas pipe lines across the greater part of our country, but much has yet to be done before adequate outlets for these products can be found. Some relief may be expected within the next few years if more of our oil and gas could find its way to United States markets.

We depend on the United States as our best market for both raw and manufactured products but we would like to see the trade gap close to more reasonable proportions. In 1956 and 1957 Canadian imports from your country averaged almost one and a half times our exports to the United States market and the combined amount of this trade was equal to about 22% of the value of the Canadian Gross National Product. These the some of the problems Canadians live with but we are confident that most of them will be solved.

In closing I would like to make two comments. First, we hope that the 1957-58 recession which we now seem to be coming out of somewhat falteringly, will be looked back upon as nothing more than a breather, that enabled both our countries to go on to greater prosperity. It looks that way at the present time. Second, with mutual respect, and in more ways than is generally realized, what is good for Canada is good for the United States.

Respectfully submitted,

CANADIAN COMMITTEE

Arnold B. Massey, Chairman
Mills, Spence & Co. Limited, Toronto

Frederick B. Ashplant, Vice-Chairman
F. B. Ashplant & Co., New York

Eric S. Morse, Vice-Chairman
W. C. Pitfield & Company, Limited, Montreal

Irving H. Campbell Secretary-Treasurer
Bell, Gouinlock & Company, Limited, Toronto

Ralph D. Baker
James Richardson & Sons, Winnipeg

D. K. Baldwin
Nesbitt, Thomson and Company, Limited, Montreal

Andrew S. Beaubien
L. G. Beaubien & Co. Limited, Montreal

Wm. T. K. Collier
Collier, Norris & Quinlan Limited, Montreal

Andrew G. Curry
A. E. Ames & Co. Incorporated, New York

Edward S. Johnston
Wood, Gundy & Co., Inc., New York

Peter Kilburn
Greenshields & Co Inc Montreal

George C. MacDonald
McLeod, Young, Weir Incorporated, New York

George P. Rutherford
Dominion Securities Corporation, New York

Private and Public Investment in Canada

1957 and Estimates for 1958

Sector	1957	1958 Original Estimate	1958 Revised Estimate	1957 to 1958 Revised	1958 Original to 1958 Revised
		$ mill.		per cent change	
Business Capital (excluding Housing):					
Forest and mineral products	1,077	656	624	-42.1	-4.9
Fuel and power	1,634	1,535	1,480	- 9.4	-3.6
Trade, finance and commercial services	719	688	695	- 3.3	+1.0
Transportation, storage and communication	992	1,017	1,020	+ 2.8	+0.3
Other	1,236	1,126	1,114	- 9.9	-1.1
Sub-total	5,658	5,022	4,933	-12.8	-1.8
Housing and Social Capital:					
Housing	1,415	1,635	1,768	+24.9	+8.1
Institutional services	444	527	504	+13.5	-4.4
Government departments and waterworks	1,204	1,337	1,320	+ 9.6	-1.3
Sub-total	3,063	3,498	3,592	+17.3	+2.7
TOTAL CAPITAL EXPENDITURES	8,721	8,521	8,525	- 2.2	-

Source = Department of Trade and Commerce, Ottawa.

Boston Inv. Club Elects New Officers

BOSTON, Mass.—Dixon B. White of Hornblower & Weeks was elected President of the Boston Investment Club at the annual meeting on Dec. 9 at the Harvard Club. Joseph M. Hurley, Jr., of Harris, Upham & Co. is the new Vice-President.


Dixon B. White

Guest speaker at the meeting was Robert Cutler, Chairman of the Old Colony Trust Co. and former special assistant to President Eisenhower for national security affairs.

Other officers elected for the ensuing year were Richard E. Murray of May & Gannon, Treasurer; George L. Johnston, Goldman, Sachs, Secretary; and Richard H. Hutchinson of Tucker Anthony & R. L. Day, Publicity Chairman.

Lowell Warren and Neil S. Atkinson will continue for a year on the Executive Committee.

Reed, Lear & Co. To Admit Partner

Reed, Lear & Co., members of the New York Stock Exchange, will admit Arthur W. Sesselberg, Jr., member of the New York Stock Exchange, to partnership on Jan. 1. Mr. Sesselberg will make his headquarters at the firm's New York office, 141 Broadway.

L. F. Rothschild & Co. To Admit Two to Firm

L. F. Rothschild & Co., 120 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Richard H. Baer and Chester W. Viale to partnership.

Koerner, Gordon & Co. To Be Formed in N. Y.

Koerner, Gordon & Company, members of the New York Stock Exchange, will be formed as of Jan. 1 with offices at 120 Broadway, New York City. Partners will be Emanuel Koerner, Baron J. Gordon, members of the Exchange, John R. Atwell, and Peyton Kulman. Mr. Koerner is a partner in Koerner & Co. which will be dissolved Dec. 31.

York Securities Formed

York Securities, Inc. has been formed with offices at 80 Wall Street, New York City to engage in a securities business. Charles F. Herbertz is a principal of the firm.

Jesup & Lamont Partners

Jesup & Lamont, 26 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Laurence S. Johnson and Alexander M. Laughlin to partnership.

Continued from first page

The Investment Bankers Association of America Holds 47th Annual Convention

as IBA President — his Partner, Jay N. Whipple, held the office in 1943.

Upon receiving his BA degree from The University of Chicago in 1925, Mr. Kerr entered the securities business with Kissell, Kinnicutt Co., and has been in investment banking ever since. In 1927 he joined his present firm and became a Partner three years later.

Mr. Kerr has been active in IBA affairs at both the regional and the national level. He was Chairman of the Central States Group of the IBA, 1953-1954, and a Vice-President of the Association, 1957-1958. Committees on which he served the national organization include:

Convention Golf Committee, 1946-1950.
Stock Exchange Relations Committee, 1950-1953.
Group Chairmen's Committee, 1953-1954; Chairman, 1954-1957.
Savings Bonds Committee, 1953-1954.
Governor, 1954-1957.
Finance Committee, 1954-1957.
Executive Committee, 1957-1958.

He is an Associate Member of the American Stock Exchange, New York, and was President of the Bond Club of Chicago in 1956. Mr. Kerr is a Director Weco Products Co., and a Trustee of Washington and Jane Smith Home.

Memberships include: The Attic Club and Beverly Country Club, both of Chicago; the Bond Club of Chicago, the Bond Traders' Club of Chicago and the Municipal Bond Club of Chicago; Augusta National Golf Club; the Lunch Club, New York; and Alpha Delta Phi.

Golf is Mr. Kerr's primary hobby and only athletic interest —he has been a low handicap player for many years.

Mr. Kerr is married to a University classmate, the former Laura Nowak. The Kerrs reside in Chicago and have four children and four grandchildren.

The New President's Inaugural Address

The text of Mr. Kerr's inaugural Address follows:

This is the spot where the incoming President has his captive audience at a decided disadvantage for the first—maybe the only time.


William D. Kerr

I despair of being able to present anything new or novel to you. In our profession we are students—thoroughly choked with theories and statistics — literally nothing escapes our attention. Probably the only happening of recent years for which we were totally unprepared was when Sputnik went aloft.

Perhaps, however, some of us resemble that famous horse-player who — when asked how he was doing—replied, "rotten. I am the victim of too much information." I aspire to clear the atmosphere a bit. What I am about to say is predicated on my belief that problems differ — some are basic, others largely irritating — some concern our entire citizenry, others only individual groups—some are difficult, others only appear so. Those I am to mention are — in my judgment — basic, significant to all, and soluble.

In keeping with what I know to be your hopes, I shall strive for simplicity and brevity. You may conclude I have failed.

Three Domestic Problems

Three domestic problems stand out. First, and so predominant that all other tasks fade into relative insignificance, is the prevention of a shooting war. Without peace we have nothing. Modern destructive devices—their ferocity intensifying each day—make the alternative too hideous to look upon.

Secondly, our economic development—our ability to produce new things—old things— in larger and larger volume — is being challenged in a cold, calculated manner by a zealous Soviet Union. Russia is marshalling her vast resources of materials and her newly found scientific know-how to annihilate us in world markets.

Thirdly, our own population is growing dramatically. The charts point in only one direction. Shortly, 200,000,000 persons will be scrambling the ladder of ambition to a higher and higher standard of living.

The common denominators in these problems are people and money. People working with and for money. Money working for people.

The cost of peace in terms of man-hours and money is almost incalculable.

To match and beat Russia in the cold war—industry must expand and improve at rates heretofore unwitnessed. The long-term growth rate of 3% won't do it—we must think of 5% minimum. To achieve this will take a combination of millions of men and women—and tens of billions of creative dollars cooperating at the highest intellectual level of human direction.

The need of money to furnish the means to provide the homes —the employment opportunities —the rewards for endeavor—to be sought by young adults in the years immediately ahead, could be overwhelming.

The people are and will be available, but where does the money come from? Certainly not from the government, for the government has no money except that provided to it by the people. The money comes from the people who have earned it and paid taxes — who have saved it and invested. The only way for people to get more money is to put savings to work to beget money. Money must be allowed to work for the people.

Far From "Home Plate"

And here we find ourselves far from home plate.

The creative forces of our economy are being frustrated by unenlightened legislative and regulatory measures to the point that our ability to provide even the minimum capital requirements of these formidable problems is seriously threatened.

When I say creative forces I am not referring to the few who comprise industrial management. The creative forces are farmers—labor —management—research—science and investors—all hard at work toward common objectives. We are all in this maelstrom together and we are fighting for survival in the most literal sense of the word.

It is probable the race in the nice art of destruction will remain sufficiently even that neither side will dare tee off against the other —this leaves the economic front as the battleground. Russia has openly declared — "We will win over the United States on the field of peaceful production. We are relentless in this objective—everlastingly."

There it is — no secret — they intend to ruin us by surpassing us in per capita production—by flooding markets, perhaps even our own, with their goods at prices we cannot meet. We cannot assume the Russians are incapable for if we did and were wrong, the consequences would be calamitous.

The only conclusion I can reach is that it is absolutely imperative, in the national interest—in the interest of every family in the land —that our financial affairs so be rearranged that the money to expand our productive capacity—our employment capabilities—our offense on the cold war front—be available on free enterprise terms. The alternative is money from the government—printed money, that is—and that wouldn't last long enough to get the job done.

The answer is clear and concise. All it takes is the doing. First, we must encourage people to save money—in turn to loan it to industry—by halting inflation in its tracks. Inflation is a wasting disease—just like dope. Early injections produce rosy illusions of prosperity—soon the habit is established and to keep the dream alive larger doses become necessary. I hope we are not that far down the road yet—but we have reached the dismal experience of finding that maturing United States Savings Bonds will buy substantially less in goods than we had planned when we bought them. This disillusionment destroys the faith of the worker in the virtues of saving.

Second, we must release equity capital from its sterile refuge imposed by the punitive and impractical provisions of the capital gains tax. I carry the conviction that the amount of money collected under present rates is only a fraction of what it would be if rates were reduced to the levels suggested by our Federal Taxation Committee. Even if there was justification to punish the success of venture capital, this particular tax has proved to be a mighty expensive luxury for other classes of taxpayers. Capital must not be put in a deep freeze—it must be enabled to flow from one medium to another as required—with a minimum of interference. Anyone who looks, perceives that the ability of all governments—national and local—to obtain reasonable rates for their borrowings is seriously hampered by the circumstances that funds frozen in high priced stocks are able to transfer into bonds only at unacceptable penalties. This is a tragedy for all taxpayers.

Thirdly, we must modernize the depreciation deduction schedules for industry to enable it to meet the accelerated obsolescence which research has brought to physical plant and equipment. This need is too well recognized to call for elaboration.

Must Educate People

I have built the case—here is our challenge. We must go to the people and make them understand these problems.

By we, I mean you and I right here in this room, together with every associate and friend we can muster.

By people, I mean members of our own communities, including, most particularly, those whom we have reason to suspect are unaware of this fight for survival and the means to win it. Americans are industrious and thoughtful. There is no conclusive evidence, however, that they perceive to even a small degree that two powerful ideologies are engaged in mortal combat and that they, the people, are in it to the finish whether they like it or not.

The recent elections proved conclusively that highly organized pressure groups can readily cause the voters to do their bidding when the opposition is unorganized and ineffective.

This question of organization is intriguing. I visited our Washington office recently and from our windows we look down Pennsylvania Avenue toward the White House, the Treasury, the Commerce Building. As I learned more of the composition of the area I was deeply impressed by the fact that some 54 labor unions are housed — some in palatial buildings of their own — within easy walking distance of the Triangle. As there is little organized labor force in Washington you come to the realization — that union labor leaders have been far sighted in leaving no chance that distance could jeopardize positive understanding on legislative matters between themselves and the government in Washington.

Organization is combatted successfully only with counter organization. Senator Goldwater proved this in Arizona last month.

Looking to counter organizations we should be heartily encouraged, for the ingredients are right at hand. In every neighborhood in which we live there are doctors, lawyers, storekeepers, teachers, small businessmen of all types — plus many of the labor force—who are intelligent, patriotic, energetic — keenly eager to make America strong and capable of maintaining her independence. All they need is comprehension of the problem—then leadership to achieve organization.

What will counter organization do as against our present state? Well—let me give you a bit of contrast. Here is a well known Congressman's reply to the insistent letter of a businessman—He says, "What sense does it make for those who want a practical program of tax reform to do nothing to elect sound Congressmen and then spend millions trying to sell that tax program to a Congress already committed to the contrary? The horse has already been stolen—the barn, too!"

England's Example

Now look at a page from Prime Minister Macmillan's success story in recent England. His stalwarts, faced with seemingly overwhelming odds, took positive action as follows:

Weekend conferences of local leaders debated party issues and reviewed estimates of public opinion as revealed by trained researchers.

Appealing literature, keyed to the interests of individual groups, was prepared by well known and accomplished writers—then distributed to the public by every means possible.

The research staffs of opposition groups were interviewed and exposed to the persuasion of fundamental logic on all pertinent issues.

A booklet was prepared for party workers in which the answers to some thousand frequently asked questions were given.

All effort was aimed at gaining the public eye and then engaging the public mind continuously. In this — the selection of personable, articulate and upstanding candidates was paramount.

Well—that's it. Here in America—rich beyond description in manpower — raw materials — and the science to fuse them into a pulsating force to lead free peoples to the highest levels of self expression ever attained.

We simply must not let this destiny be washed down the drain into a barren social welfare state.

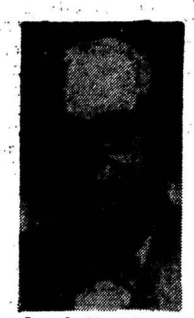
We—individual investment bankers—must suit-up for a second profession. We must become expert, dynamic political factors in our own home towns. We must see to it directly that our customers, friends, and neighbors join us.

We can start the biggest snowball toward creative economic practices the world has ever seen.

I know quite a few men in this very room who would make damned good Congressmen!

Urge More Private Investment Abroad

The IBA Foreign Investment Committee, headed by Joseph T. Johnson, The Milwaukee Company, Milwaukee, presented the following resolution and it was adopted by the Board of Governors:



Joseph T. Johnson

The Foreign Investment Committee has noted with much interest recent efforts in Washington directed toward the development of a practical program for encouraging the investment of private funds abroad. These include discussion of tax and other incentives for bringing about a more favorable condition for investment of private capital in countries of the free world. The IBA looks with favor upon these activities and is ready to assist the departments and agencies or the legislative branch of the Federal Government involved in furthering these efforts.

Speakers at the Convention

The speakers at the convention, besides newly elected President William D. Kerr, were retiring President William C. Jackson, Jr., of the First Southwest Company, Dallas, Texas; Hon. Edward M. Gadsby, Chairman, Securities and Exchange Commission; General James M. Gavin, Vice-President, Arthur D. Little, Inc.; and J. Erik Jonsson, Chairman of the Board, Texas Instruments, Inc.

[These addresses in full text and Committee Reports are given in this issue starting on page 18 with exception of President Kerr's address which may be found above.]

Education Committee Announces New IBA Educational Film

In reporting on behalf of the Education Committee, Chairman Robert O. Shepard, of Prescott, Shepard & Co., Inc., Cleveland, called attention to the availability of a new film "The Richest Man in Babylon" which, in the Committee's opinion, fulfills its primary function creating a desire on the part of more and more individuals to purchase investment securities. The movie stresses the rewards inherent in saving part of one's earnings and the placing of these funds in productive investments. The report also urged that all of the various segments of the investment industry join in a general coordinated nationwide educational program.

Robert O. Shepard

In the report, Chairman Shepard remarked as follows:

The report of the Educational Committee this year will take the form of the printed IBA Educational Bulletin. The Bulletin is much too long for reading here, and I will confine my remarks to a brief mention of several of the many activities, with the hope that you may be encouraged to read the entire Bulletin.

The educational activities of this committee appear to be divided into two broad classifications:

First: The education of our own members, and

Second: The education of the general public.

One important activity of the first general classification is the Institute of Investment Banking sponsored by IBA in cooperation with the Wharton School of the University of Pennsylvania. Registrations last Spring at the Eighth Annual Session of this Executive Development Program were again at capacity-plus, with 264 registrants in attendance.

An innovation announced at the 1958 Session was a request for the submission of an essay on some subject covered in one of the classes during the week. These essays were read by arrangement with the Wharton faculty.

The winning papers for each of the three classes have been reproduced and are available at the Registration Desk. These selections were not easy—far from it. Wharton School selected eight top papers from each class and submitted these to Erwin Boehmler, our Educational Director, and to

Continued on page 78

Continued from page 77

The Investment Bankers Association of America Holds 47th Annual Convention

me with their recommendations. These 24 papers were all good and I predict that many of the men who submitted these papers will be taking top positions in other IBA activities in the near future.

We are fortunate in having the three winners here at the Convention this morning. [Ed. Note: See item on this page.]

And now we come to the final part of my assignment. This concerns the education of the general public.

Your Education Committee has tried to give some real thought to how we might improve our program for the education of the general public. As the result of this brainstorming, we now have a new movie and a recommendation.

I would like to show you this movie and then at its conclusion make another recommendation. First, let me say that a movie is certainly not a new idea. There have been some very good ones produced by various associations in the business and by many individual firms. The IBA movie, "Opportunity U. S. A.", produced while Joe Johnson was Chairman of the Public Education Committee and made available to members while he was President about six years ago, is still going strong and is doing an effective job. All of these have been viewed by a wide audience and have undoubtedly created business and, through clarification, better public relations for our industry. I have nothing but praise for these movies.

The film ["The Richest Man in Babylon"] was proposed with an entirely different conception.

Our Job—Create Desire

Our educational job with the public, in my opinion, should be pointed to the eventual desire to purchase investment securities by more and more citizens. Basically then, there is a real need for a film to create desire. In the past, much stress has been laid on how we operate, the functions of investment banking and how the stock exchanges work. This is important, but it does not necessarily create the desire to purchase securities.

Our great merchandising corporations have learned this truth and, for example, spend little time in explaining how sound waves approach the television set, are routed up through the condenser and all the other technical gadgets that create the pictures. What they have done is create desire through stressing tonal qualities and better reception rather than how the set operates.

Obviously, there must be an accumulation of funds before one can invest, and if money is not inherited the only way in this world to get it is to save it. The task of saving part of one's earnings appears to be a dull thing—full of painful self-sacrifice. But it need not be so if properly approached and glamorized by emphasizing the end-result.

This was true—way back in the 18th century when the wise old German philosopher, Goethe, said:

"Riches amassed in haste will diminish, but those collected by little and little will multiply."

Most of us in the securities business are, by necessity, primarily concerned with day-to-day operations. But the long-range Program is important, too, and should be carried on as a part of our every-day effort.

With all these things in mind, we decided that a movie based on the story entitled "The Richest Man in Babylon" would do the finest job of creating a desire to save that could possibly be imagined. The booklet, first published over 31 years ago, has sold about three and one-half million copies. It has been a personal favorite of mine for at least 15 years.

The first objective was to sell our President, Decker Jackson. He gave careful consideration to the project and followed this with enthusiastic support. Then followed talks with members of our Executive Committee, various Governors and many others who had had previous experience and interest in the educational programs. I wish time permitted naming these men, as their contributions were most helpful. With their combined enthusiasm, wise counsel and sound suggestions, we were encouraged to undertake the production of this movie.

Now, what sort of a film should this be? A regular, Hollywood-type movie with bewigged and costumed actors? Well, maybe; and again, maybe not. The period of this story is ancient Babylon; that is part of its charm, and part of the reason for its "eternal" quality. To produce a "live" picture with competent actors—costumes—scenery—would take the purse of a DeMille.

No—to portray Babylon in all its glory and in a maner which would not interfere with the message to be taught, we decided to adopt a fairly new technique of limited animation so ably employed by Stephen Bosustow in his Academy Award winning cartoons.

How can this movie be used most effectively by us? Here are some suggestions:

(1) Each member who purchases a film print should proceed immediately to show it to his entire organization.

(2) Representatives should be

Continued on page 79

"The Richest Man in Babylon"

Above is a scene from "The Richest Man in Babylon" showing Arkad, the hero of the motion picture, entertaining at a banquet. The film, a project of the Education Committee of the IBA is available for showing by member organizations.

The secret of achieving wealth is dramatically portrayed in a new motion picture "The Richest Man in Babylon," sponsored by the Investment Bankers Association of America.

Members of the Association saw the premier screening of the picture at the opening session of their recent Annual Convention at the Americana Hotel, Bal Harbour, Fla.

"The Richest Man in Babylon" is a 17 minute, 16mm limited animation sound motion picture in full color that tells the secret Arkad learned from Algamish—a secret that enabled Arkad to become the richest man in ancient Babylon, after the King himself. It is a project of the Education Committee of which Robert O. Shepard, Prescott, Shepard & Co., Inc., Cleveland, is Chairman.

Against the rich background of beautiful Babylon are revealed the laws of acquiring wealth. Scenes include the City Wall and Ishtar Gate, the Hanging Gardens, the Tower of Babel, street, marine, banquet and other interior views, all in high color, depicting the riches and grandeur of the ancient city and the opulence of its citizens.

Completely non-commercial, this motion picture is designed solely to tell a story of financial success from which all can learn and benefit. No effort is made to sell any specific service or promote any institution. The film is appropriate for all audiences, teen-agers or adults.

Commenting on the new film, William C. Jackson, Jr., President, First Southwest Company, Dallas, and President of the Association, said:

" 'The Richest Man in Babylon' delivers a powerful and timely message in a simple and understandable manner. A message that is true today as it was in ancient times.

"I am confident this film will be enthusiastically received by the members of our Association and by the public as a whole.

"We are indebted to Robert O. Shepard and the members of his Education Committee, and to Erwin W. Boehmler, our Educational Director, for their vision and efforts which have made this fine motion picture possible."

Basis for the script of "The Richest Man in Babylon" is one of a series of anecdotes in a book under the same title, written by the late George S. Clason, and published by Hawthorn Books, Inc. Pamphlet reprints of this narrative have been available for more than 30 years and still enjoy a wide sale—evidencing the timeless character of this still timely message. A special IBA edition of the pamphlet, illustrated, in color, with scenes from the motion picture, has been published by Prentice-Hall, Inc., and copies were distributed at the Convention.

In making the motion picture adaptation of the story, the producers, Wilding Pictures Productions, Inc., utilized the limited animation technique called "Pancam," typical of many of the most entertaining present day TV commercials. The same technique has also been employed effectively by Stephen Bosutow in many of his Academy Award winning cartoons.

Through members of the Association, "The Richest Man in Babylon" will be shown to audiences throughout the United States, Puerto Rico and Canada. By action of the Board of Governors, sale of prints will be restricted to IBA member organizations for at least one year. Subsequently, in the discretion of the Board, the film may be given wider distribution.

Further information about the project may be obtained from: **Erwin W. Boehmler, Educational Director, Investment Bankers Association of America, 425 Thirteenth Street, N. W., Washington 4, D. C.**

Continued from page 78

The Investment Bankers Association of America Holds 47th Annual Convention

encouraged to schedule many group showings: Service groups—PTA's — Colleges — Lodges — Churches—Credit Unions—Labor Unions—Organizations of professional men, etc.

(3) Each showing should be followed by a talk by the representative—a talk built in such manner as to be appropriate for the audience addressed.

(4) Each talk should be followed by a distribution of the special IBA edition of the booklet imprinted with the firm's name and address.

If such a program is carried on by IBA firms across the land, our country too may produce many counterparts of **"The Richest Man in Babylon."**

Prints Available

I hope that you enjoyed our film. In you chair, you have found a descriptive folder, an IBA edition of the booklet and an order blank. A limited number of prints are available for order at this time and they will be delivered from Chicago promptly as long as this supply lasts. Additional prints will be made and shipped as ordered.

Recommendation

My final comment to you is a recommendation and I would approach it in this fashion:

As I mentioned before, there have been a number of films produced by various segments of our industry. These segments are carrying on their own educational programs. The New York and American Exchanges are doing a splendid job—so, too, the Midwest and Pacific Coast Exchanges, and I am sure there are many others. We are all working toward the same goal; so it seems to me that it would be a logical move to try to coordinate these educational efforts toward the sole purpose of making them more effective, efficient and productive. We are all working toward the same goal, but each is running in a different direction. I do not mean that each one is not effective in its own way, nor do I discount the value of each group focusing attention on thet particular segment of business being covered.

I do propose a meeting of representatives of all branches of our industry presently embarked on educational programs to establish a general coordinated nationwide effort. This idea has been used most effectively in other industries and in my judgment, we too would be wise to take advantage of a program that would give us better control by sharing ideas. I do not propose any pooling of funds—each group must control its own expenditures.

A number of good attempts in this direction have been made, including the current training course being offered by the Central States Group of IBA with NYSE and Northwestern University.

More should and could be done in that direction by securing help from others perhaps better versed in these matters than ourselves. As an example, I would invite the financial editors of some of our great metropolitan newspapers who have a wealth of knowledge and experience on how to communicate with the public.

In proposing a meeting early next year, I am appealing to the Keith Funstons, the Ted McCormicks, the Jim Days, etc., etc., and, of course, to the head of our own organization.

Respectfully submitted,
EDUCATIONAL COMMITTEE

Planning Committee for Institute of Investment Banking

Robert O. Shepard, Chairman
Prescott, Shepard & Co., Inc., Cleveland

Elwood D. Boynton
C. F. Childs and Company, Inc., New York

W. W. Keen Butcher
Butcher & Sherrerd, Philadelphia

Charles A. Capek
Lee Higginson Corporation, Chicago

George W. Davis
Davis, Skaggs & Co., San Francisco

W. Yost Fulton
Fulton Reid & Co., Inc., Cleveland

John C. Hagan, 3rd
Mason-Hagan, Inc., Richmond

Luttrell Maclin
Paine, Webber, Jackson & Curtis, New York

W. Carroll Mead
Mead, Miller & Co., Baltimore

Robert A. Powers
Smith, Barney & Co., New York

Walter A. Schmidt
Schmidt, Roberts & Parke, Philadelphia

Alfred J. Stalker
Kidder, Peabody & Co., Los Angeles

Edward Starr, III
Drexel & Co., Philadelphia

IBA Essay Contest Winners

A feature of the Convention was the selection of the three winners of the essay competition conducted by the Institute of Banking, the executive development program sponsored by the IBA Education Committee in cooperation with the Wharton School, University of Pennsylvania. Registrants attend the Institute on the University Campus for a week each spring for three years and upon completion receive a Certificate of Merit. Copies of the winning essays were distributed at the Convention.

Winners and Their Themes

John H. Canvin, First California Company, San Francisco, was named the principal winner of the competition, his manuscript "Why the Economy Will Turn Up: The Recession — Whither? Wither" being adjudged the best paper submitted by any member of the first year class in which he was enrolled, and was also adjudged the best paper submitted by any registrant at the Institute this year, whether in the first, second or third year class.

William C. Jackson, Jr., President, First Southwest Company, Dallas and President of the Investment Bankers Association, who personally donated the cash prize, presented the $500 award to Mr. Canvin, who was also the recipient of a round trip to Bal Harbour and a day at the Convention, all expenses paid. Mr. Canvin was accompanied to the Convention by Mrs. Canvin.

Other winners: Brooks Monroe, Francis I. duPont & Co., Lynchburg, Va., his paper "Selection Techniques—Sales Personnel" being adjudged the best essay submitted by members of the second year class in which he was enrolled.

John B. Richter, Butcher & Sherrerd, Philadelphia, whose manuscript "Mandatory Sealed Public Bidding" was adjudged the best essay submitted by members of the third year class in which he was enrolled.

NEW GOVERNORS

The incoming Governors elected by their respective Groups and who took office at the 1958 Convention are:

California Group
Mark Davids, Lester, Ryons & Co., Los Angeles.

Canadian Group
Arnold B. Massey, Mills, Spence & Co. Limited, Toronto.

Central States Group
Paul W. Fairchild, The First Boston Corporation, Chicago; and John M. Maxwell, The Northern Trust Company, Chicago.

Mississippi Valley Group
John H. Crago, Smith, Moore & Co., St. Louis; and Edward D. Jones & Co., St. Louis.

New England Group
Thomas B. Gannett, Hornblower & Weeks, Boston; and John W. Valentine, White, Weld & Co., Boston.

New York Group
Francis A. Cannon, The First Boston Corporation, New York; and Robert C. Johnson, Kidder, Peabody & Co., New York.

Pacific Northwest Group
Beardslee B. Merrill, Richards, Merrill & Peterson, Inc., Spokane.

Rocky Mountain Group
Malcolm F. Roberts, Garrett-Bromfield & Co., Denver.

Southern Group
John P. Labouisse, Howard, Weil, Labouisse, Friedrichs & Co., New Orleans.

Texas Group
Charles C. Pierce, Rauscher, Pierce & Co., Inc., Dallas.

Western Pennsylvania Group
Charles McK. Lynch, Jr., Moore, Leonard & Lynch, Pittsburgh.

IBA National Committee Chairmen for 1958-59

The National Committees and their respective Chairmen for 1958-59 are:

Arrangements: Curtis H. Bingham, Bingham, Walter & Hurry, Inc., Los Angeles.

Aviation Securities: (to be announced)

Canadian: Eric S. Marse, W. C. Pitfield & Co. Ltd., Montreal.

Conference: Robert H. Craft, The Chase Manhattan Bank, New York.

Education: Robert O. Shepard, Prescott, Shepard & Co., Inc., Cleveland.

Federal Securities Acts: Paul A. Conley, Blyth & Co., Inc., New York.

Federal Taxation: Walter Maynard, Shearson, Hammill & Co., New York.

Finance: Charles A. Capek, Lee Higginson Corporation, Chicago.

Foreign Investment: Joseph T. Johnson, The Milwaukee Company, Milwaukee.

Continued on page 80

Continued from page 79

The Investment Bankers Association of America Holds 47th Annual Convention

Governmental Securities: Robert B. Blyth, The National City Bank, Cleveland.

Group Chairmen's: David J. Harris, Bache & Co., Chicago.

Industrial Securities: Michael Pescatello, First National City Bank, New York.

Insurance Securities: Shelby Cullom Davis, & Co., New York.

Investment Companies: Robert E. Clark, Calvin Bullock, Ltd., New York.

Membership: Frank L. Reissner, Indianapolis Bond and Share Corporation, Indianapolis.

Municipal Securities: Walter H. Steel, Drexel & Co., New York.

Nominating: William C. Jackson, Jr., First Southwest Company, Dallas.

Nuclear Industry: Paul F. Genachte, The Chase Manhattan Bank, New York.

Oil and Natural Gas Securities: Edmond N. Morse, Smith, Barney & Co., New York.

Public Utility Securities: Thomas M. Johnson, The Johnson, Lane, Space Corporation, Savannah.

Railroad Securities: Alfred J. Ross, Dick & Merle-Smith, New York.

Research: Ralph F. Leach, Guaranty Trust Company, New York.

Small Business: W. Yost Fulton, Fulton Reid & Co., Inc., Cleveland.

State Legislation: George A. Newton, G. H. Walker & Co., St. Louis.

Stock Exchange Relations: Eugene M. Geddes, Clark, Dodge & Co., New York.

Syndicate: H. Lawrence Bogert, Jr., Eastman Dillon, Union Securities & Co., New York.

GROUP CHAIRMEN

The Group Chairmen for 1958-1959 are as follows:

California
Alger J. Jacobs, Crocker-Anglo National Bank, San Francisco.

Canadian
Eric S. Morse, W. C. Pitfield & Co. Ltd., Montreal.

Central States
Erwin A. Stuebner, Kidder, Peabody & Co., Chicago.

Eastern Pennsylvania
William Z. Suplee, Suplee, Yeatman, Mosley Co., Incorporated, Philadelphia.

Michigan
Thomas F. Willmore, Jr., Merrill Lynch, Pierce, Fenner & Smith, Detroit.

Minnesota
Arthur H. Rand, Jr., Woodard-Elwood & Company, Minneapolis.

Mississippi Valley
Hunter Breckenridge, McCourtney-Breckenridge & Company, St. Louis.

New England
Robert S. Weeks, Jr., F. S. Moseley & Co., Boston.

New York
Cushman McGee, R. W. Pressprich & Co., New York.

Northern Ohio
Jack R. Staples, Fulton Reid & Co., Inc., Cleveland.

Ohio Valley
Charles A. Richards, Field, Richards & Co., Cincinnati.

Pacific Northwest
Charles W. Easter, Blyth & Co., Inc., Seattle.

Rocky Mountain
George S. Writer, Peters, Writer & Christensen, Inc., Denver.

Southeastern
Harvey B. Gram, Jr., Johnston, Lemon & Co., Washington.

Southern
Rucker Agee, Stern Agee & Leach, Birmingham.

Southwestern
Joseph M. Luby, Commerce Trust Company, Kansas City.

Texas
John P. Henderson, M. E. Allison & Company, Inc., San Antonio.

Western Pennsylvania
Addison W. Arthurs, Arthurs, Lestrange & Co., Pittsburgh.

Sites and Dates of Next Year's Convention

The Americana Hotel in Bal Harbour, Florida, has been selected as the site for the holding of the Association's 48th Annual Convention in 1959. The exact dates had not been determined at press time, but they will be sometime between Nov. 15-Dec. 10, 1959.

Continued from page 73

In Attendance at Convention

MONTALVO, ROBERTO*
Govt. Development Bank for Puerto Rico, San Juan
MOONEY, Jr., URBAN D.*
Fahnestock & Co., New York
MOORE, RODERICK D.*
Branch, Cabell & Co., Richmond
MORAN, JOHN F.*
Colley & Co., Hartford
MOREY, RICHARD
A. G. Edwards & Sons, St. Louis
MORGAN, CHARLES F.
Morgan Stanley & Co., New York
MORGAN, EMERSON B.
Morgan & Co., Los Angeles
MORGAN, EVANS G.*
The Hanover Bank, New York
MORGAN, LAURENCE W.*
The Parker Corporation, Chicago
MORGAN, WALTER L.*
The Wellington Company, Philadelphia
MORGAN, WILLIAM F.
Blyth & Co., New York
MORRIS, FRANK E.*
Investment Bankers Association, Washington
MORRIS, PAT G.*
The Northern Trust Company, Chicago
MORRIS, WILLIAM S.*
Talmage & Co., New York
MORSE, EDMOND N.
Smith, Barney & Co., New York
MORSE, EDWARD*
The Associated Press, New York
MORSE, ERIC S.*
W. C. Pitfield & Co., Montreal
MORSE, WALTER E.*
Lehman Brothers, New York
MORTON, ROALD A.*
Blue List Publishing Co., New York
MOWER, Jr., EDWARD B.
Newhard, Cook & Co., St. Louis
MUIR, EDWARD D.*
Muir Investment Corp., San Antonio
MULDOWNEY, JOSEPH J.
Scott & Stringfellow, Richmond
MULLANEY, PAUL L.
Mullaney, Wells & Co., Chicago
MULLINS, FREDERIC P.*
A. E. Masten & Co., Pittsburgh
MUNFORD, III, BEVERLEY B.
Davenport & Co., Richmond
MURPHY, DENNIS E.*
The Ohio Company, Columbus
MURPHY, H. E.
The Commercial and Financial Chronicle, New York
MURPHY, JOSEPH D.
Stifel, Nicolaus & Co., Chicago
MURPHY, LESTER V.
Barr Brothers & Co., New York
MURPHY, Jr., PETER J.
Stone & Webster Securities Corporation, New York
MURRAY, C. I.*
Nesbitt, Thomson & Co., New York
MURRAY, LEONARD A.*
Piper, Jaffray & Hopwood, Saint Paul
NABERS, DRAYTON
The First National Bank, Birmingham
NELSON, W. LINTON*
Delaware Distributors, Inc., Philadelphia
NESTER, WALTER C.
M. A. Schapiro & Co., Inc., New York
NEUHAUS, JOSEPH R.*
Underwood, Neuhaus & Co., Houston
NEWBORG, LEONARD D.
Hallgarten & Co., New York
NEWBURGER, Jr., FRANK L.
Newburger & Co., Philadelphia
NEWHARD, HARRY W.
Newhard, Cook & Co., St. Louis
NEWMAN, Jr., A. JOSEPH
The Bulletin, Philadelphia
NEWTON, GEORGE A.
G. H. Walker & Co., St. Louis
NIELSEN, EINER
J. C. Bradford & Co., Nashville
NIX, ALLEN J.
Riter & Co., New York
NOONAN, Jr., WILLIAM A.
Continental Illinois National Bank, Chicago
NOYES, BLANCKE*
Hemphill, Noyes & Co., New York
NOYES, Jr., JANSEN*
Hemphill, Noyes & Co., New York
O'CONNELL, HOMER J.
Blair & Co., New York
O'DAY, DANIEL*
The Northern Trust Company, New York
O'HARA, WALTER T.
Thomson & McKinnon, New York
O'KEEF, ROBERT H.*
The Marshall Company, Milwaukee
OPPENHEIM, EDGAR R.*
Leo Oppenheim & Co., Oklahoma City
OSBORN, II, JAMES E.
Dominick & Dominick, New York
OSTRANDER, LEE H.
William Blair & Co., Chicago
OTIS, C. BARRON*
The Bond Buyer, New York
OTTENS, JUSTIN T.*
Salomon Bros. & Hutzler, New York
OTTO, GEORGE J.*
Irving Lundborg & Co., San Francisco
PARCELLS, Jr., CHARLES A.*
Charles A. Parcells & Co., Detroit

*Denotes Mr. and Mrs.

PARKER, AMORY*
Parker Corporation, Boston
PARKER, H. LAWRENCE
Morgan Stanley & Co., New York
PARKER, JOHN F.
Lucas, Eisen & Waeckerle, Kansas City
PARKER, JOHN G.
Lord, Abbett & Co., Chicago
PARKER, NATHAN K.*
Kay, Richards & Co., Pittsburgh
PATTERSON, DONALD C.*
Chemical Corn Exchange Bank, New York
PATTERSON, EDWARD
Allen & Co., New York
PATTERSON, HAROLD C.*
Securities & Exchange Commission, Washington
PAYNE, CARR
Cumberland Securities Corporation, Nashville
PELIKAN, MILES*
John Nuveen & Co., Chicago
PENDERGAST, THOMAS J.
Courts & Co., Atlanta
PERKINS, JOHN H.
Continental Illinois National Bank, Chicago
PESCATELLO, MICHAEL
The First National City Bank, New York
PETERS, GERALD*
Peters, Writer & Christensen, Denver
PETERSON E. NORMAN
Equitable Securities Corporation, New York
PEVEAR, WILLIAM W.*
Irving Trust Company, New York
PEYSER, BENJAMIN F.
Newburger, Loeb & Co., New York
PFEFFER, DELMONT K.*
The First National City Bank, New York
PHILLIPS, Jr., BLAIR A.
Shearson, Hammill & Co., Chicago
PIERCE, CHARLES C.
Rauscher, Pierce & Co., Dallas
PIETROWICZ, STEPHEN R.
Chicago Tribune, Chicago
PLATT, CHARLES M.
U. S. News & World Report, Washington
PLATT, RICHARD*
Vance, Sanders & Co., St. Louis
PLENTY, ROYAL H.
Philadelphia Inquirer, Philadelphia
PODESTA, ROBERT A.*
Cruttenden, Podesta & Co., Chicago
POLLOCK, WILLIAM E.*
Wm. E. Pollock & Co., Beverly Hills
POOLE, MONROE V.*
Geo. B. Gibbons & Co., New York
POPPER, ELVIN K.
I. M. Simon & Co., St. Louis
PORKORNY, JOHN M.*
Warren W. York & Co., Allentown
PORTER, FELIX N.*
The First National Bank, Oklahoma City
PORTER, WILLIAM C.
Dittmar & Co., San Antonio
POWELL, JAMES M.
Boettcher & Co., Denver
POWELSON, RALPH J.
Leedy, Wheeler & Alleman, Orlando
PRATT, ALBERT*
Paine, Webber, Jackson & Curtis, Boston
PRATT, MARSOM B.
Estabrook & Co., Boston
PRATT, Jr., TRUXTON B.
Bankers Trust Company, New York
PURKISS, ALBERT C.*
Walston & Co., New York

PUTNAM, ALBERT D.
Putnam & Co., Hartford
PUTNAM, Jr., GEORGE*
Putnam Fund Distributors, Boston
PUTNAM, HENRY W.*
DeCoppet & Doremus, New York
QUAIL, JOHN J.
Quail & Co., Davenport
QUIGG, JAMES F.
Paine, Webber, Jackson & Curtis, New York
QUINN, ARTHUR P.*
Quinn & Co., Albuquerque
QUINN, JOSEPH C.*
Merrill Lynch, Pierce, Fenner & Smith, New York
QUIST, LEO L.
Harold E. Wood & Co., St. Paul
RAGGIO, J. THAYER
Hooker & Fay, San Francisco
RAHEL, CLIFF R.*
J. Cliff Rahel & Co., Omaha
RAISS, JOHN
Burnham & Co., New York
RALPH, THOMAS L.
Fidelity-Philadelphia Trust Company, Philadelphia
RAND, Jr., ARTHUR H.*
Woodard-Elwood & Co., Minneapolis
RAND, RICHARD N.*
Rand & Co., New York
RANKIN, HARLEY L.*
Goldman, Sachs & Co., Philadelphia
RANNEY, BRUCE B.*
Ball, Burge & Kraus, Cleveland
RAUCH, ALFRED*
Kidder, Peabody & Co., Philadelphia
RAUSCHER, Jr., JOHN H.
Rauscher, Pierce & Co., Dallas
RAY, THOMAS L.
Mercantile Trust Company, St. Louis
REDMAN, W. Guy*
A. G. Edwards & Sons, St. Louis
REDWOOD, Jr., JOHN*
Baker, Watts & Co., Baltimore
REESE, EUGENE M.
Newhard, Cook & Co., St. Louis
REFSNES, JOSEPH E.
Refsnes, Ely, Beck & Co., Phoenix
REILLY, F. VINCENT
The Commercial & Financial Chronicle, New York
REISSNER, FRANK L.
Indianapolis Bond & Share Corporation, Indianapolis
RENCHARD, WILLIAM S.*
Chemical Corn Exchange Bank, New York
RENDIGS, Jr., CHARLES W.
Bache & Co., New York
RENNAU, JOHN W.*
Carl M. Loeb, Rhoades & Co., New York
REX, WILLIAM M.*
Clark, Dodge & Co., New York
REYNOLDS, IRVINE W.
Union-Tribune Publishing Co., San Diego
RICHARDS, CHARLES A.
Field, Richards & Co., Cincinnati
RICHARDS, CLAUDE C.*
R. H. Moulton & Co., Los Angeles
RICHTER, JOHN B.
Butcher & Sherrerd, Philadelphia
RIEGER, MARGARET C.
Investment Bankers Association, Washington
RIGHTER, BREWSTER*
S. D. Fuller & Co., New York
ROBBINS, CHANLDER
M. A. Schapiro & Co., New York
ROBERTS, HARRY A.
Anderson & Strudwick, Richmond
ROBERTS, MALCOLM F.
Garrett-Bromfield & Co., Denver
ROBERTS, WILLIAM J.
Glore, Forgan & Co., Chicago
ROBINSON, ARTHUR R.
Industrial National Bank, Providence
ROBINSON, EDWARD H.
Schwabacher & Co., New York
ROBINSON, RAYMOND L.*
Garrett-Bromfield & Co., Denver
ROCKEFELLER, Jr., AVERY
Dominick & Dominick, New York
RODDY, JAMES E.
Scharff & Jones, New Orleans
ROEHL, ORA C.
The Keystone Company, Boston
ROGERS, DONALD I.*
New York Herald Tribune, New York
ROGERS, Jr., SAMPSON
McMaster Hutchinson & Co., Chicago
ROGERS, TOWNSEND*
Trubee, Collins & Co., Buffalo
ROOSEVELT, JULIAN K.*
Dick & Merle-Smith, New York
ROSE, MIDDLETON
Laird, Bissell & Meeds, New York
ROSENBERG, SAMUEL H.
Asiel & Co., New York

ROSENTHAL, WARNER A.
Straus, Blosser & McDowell, Chicago
ROSSANT, M. J.
Business Week, New York
ROUSE, ROBERT G.
Federal Reserve Bank, New York
ROVENSKY, WILLIAM R.
Hornblower & Weeks, New York
ROWE, ROBERT G.*
Stroud & Co., Philadelphia
RUHL, JOHN H.
Quail & Co., Davenport
RUSSELL, JAMES A.
Van Alstyne, Noel & Co., New York
RUSSELL, P. SCOTT
Glore, Forgan & Co., New York
RUSSELL, RENOUF
F. S. Moseley & Co., Boston
RUTHERFORD, GEORGE P.*
The Dominion Securities Corporation, New York
RYONS, JOSEPH L.*
Lester, Ryons & Co., Los Angeles
SAGE, II, ANDREW G. C.
Lehman Brothers, New York
SANDERS, FLOYD W.
White, Weld & Co., Chicago
SANDERS, JESSE A.*
Sanders & Co., Dallas
SANFORD, Jr., J. B.
White, Hattier & Sanford, New Orleans
SANZ, A. ENRIQUE*
Banco Credito y Ahorro Ponceno, San Juan
SATLER, FRANK L.*
Moore, Leonard & Lynch, Pittsburgh
SAVARD, J. ERNEST*
Savard & Hart, Montreal
SCHANCK, Jr., FRANCIS R.
Bacon, Whipple & Co., Chicago
SCHAPIRO, MORRIS A.
M. A. Schapiro & Co., New York
SCHELKE, WESLEY G.
Seattle-First National Bank, Seattle
SCHERCK, GORDON*
Scherck, Richter Co., St. Louis
SCHLUTER, HAROLD J.
The First National Bank of Chicago, New York
SCHMELZLE, ALBERT M.*
Fusz-Schmelzle & Co., St. Louis
SCHMIDT, WALTER A.
Schmidt, Roberts & Parke, Philadelphia
SCHOENBERGER, CHARLES A.
National Boulevard Bank, Chicago
SCHREDER, HAROLD X*
Distributors Group, Inc., New York
SCHROEDER, FRANKLIN L.
Braun, Bosworth & Co., Toledo
SCHUTZ, JOHN C.
Chiles Schutz Co., Omaha
SCHWABACHER, Jr., ALBERT E.
Schwabacher & Co., San Francisco
SCOTT, BUFORD
Scott & Stringfellow, Richmond
SCULLY, GEORGE G.
The Ohio Company, Columbus
SEBEL, HARRY L.*
Selected Investments Company, Chicago
SEEBECK, ROBERT F.
Smith, Barney & Co., New York
SELLEW, WILLIAM W.*
G. H. Walker & Co., New York
SENER, JOSEPH W.
John C. Legg & Co., Baltimore
SENER, Jr., JOSEPH W.
John C. Legg & Co., Baltimore
SEVERANCE, CRAIG*
F. Eberstadt & Co., New York
SEVING, FREDERICK T.*
Butcher & Sherrerd, Philadelphia
SEWARD, C. CARROLL
Yarnall, Biddle & Co., Philadelphia
SHANKS, WILLIAM S.
The Bond Buyer, New York
SHARP, WILLIAM P.
Mercantile Trust Company, St. Louis
SHAW, LEO G.
Ladenburg, Thalmann & Co., New York
SHEAFFER, THEODORE C.*
Janney, Dulles & Battles, Philadelphia
SHELTON, LOCKETT*
Republic National Bank, Dallas
SHEPARD, ROBERT O.*
Prescott, Shepard & Co., Cleveland
SHERBURNE, H. H.
Bacon, Whipple & Co., New York
SHERRILL, H. VIRGIL*
Shields & Co., New York
SHIELDS, CORNELIUS*
Shields & Co., New York
SHOLLEY, S. L.*
The Keystone Company, Boston
SHORT, JOSEPH P.*
Arthurs, Lestrange & Co., Pittsburgh

*Denotes Mr. and Mrs.

SHREVE, WICKLEIFFE
Hayden, Stone & Co., New York
SHROPSHIRE, OGDEN*
Shropshire, Frazer & Co., Mobile
SIEFERT, RUSSELL E.*
Stern Brothers & Co., Kansas City
SIMON, JAY
City National Bank, Chicago
SIMONDS, CLARKE
G. H. Walker & Co., Providence
SIMONDS, RALPH W.*
Baker, Simonds & Co., Detroit
SIMONSON, Jr., HENRY J.*
National Securities & Research Corporation, New York
SIMPSON, CRAIG, deV.
Bankers Trust Company, New York
SIMPSON, Jr., F. BRADFORD
Hallgarten & Co., New York
SIMPSON, H. L.
Underwood, Neuhaus & Co., Houston
SIMPSON, WILLIAM G.*
Simpson, Emery & Co., Pittsburgh
SIPP, Jr., PAUL L.*
Stern, Lauer & Co., New York
SLEVIN, JOSEPH R.*
New York Herald Tribune, Washington
SMALL, JOHN*
John Small & Co., New York
SMEAL, FRANK P.
Guaranty Trust Company, New York
SMITH, BRYAN F.
Texas Instruments, Inc., Dallas
SMITH, J. RAYMOND
Weeden & Co., New York
SMITH, MARK A.
F. W. Craigie & Co., Richmond
SMUTNY, RUDOLF*
R. W. Pressprich & Co., New York
SOLTIS, PAUL E.
Thomas & Co., Pittsburgh
SORENSEN, WALTER M.
Rotan, Mosle & Co., Houston
SPENCE, W. FREDERICK
Townsend, Dabney & Tyson, Boston
STAFFORD, Jr., JOHN H.*
Lee Higginson Corporation, New York
STAPLES, JACK R.
Fulton Reid & Co., Cleveland
STARRING, Jr., MASON B.
A. C. Allyn & Co., New York
STEARNS, GEORGE R.*
The Economist, Chicago
STEARNS, JAMES P.
Ball, Burge & Kraus, Cleveland
STEARNS, PHILIP M.*
Oscar E. Dooly & Co., Miami
STEEL, WALTER H.*
Drexel & Co., New York
STEELE, HARRY J.*
Steele, Haines & Co., Pittsburgh
STEIN, ELLIOT H.*
Scherck, Richter Company, St. Louis
STEIWER, FREDERICK H.
Alex. Brown & Sons, New York
STETSON, Jr., EUGENE W.
Winslow, Cohu & Stetson, New York
STEVENS, WILLIAM A.
J. C. Wheat & Co., Richmond
STEVENSON, G. C.*
Bacon, Stevenson & Co., New York
STEVENSON, 3rd, ROBERT
Investment Bankers Association, Washington
STEWART, HAROLD S.*
Harold S. Stewart & Co., El Paso
STODDARD, DONALD A.*
Guaranty Trust Company, New York
STOHL, WALTER H.
Fidelity Union Trust Company, Newark
STOLLE, CARL
G. A. Saxton & Co., New York
STONE, Jr., FRED D.*
Marine Trust Company, New York
STRADER, LUDWELL A.
Strader & Co., Lynchburg
STRAUS, FREDERICK W.*
Straus, Blosser & McDowell, Chicago
STRAVITZ, HENRY*
Swiss American Corporation, New York
STUEBNER, ERWIN A.
Kidder, Peabody & Co., Chicago
SULLIVAN, LEONARD R.*
Fitzpatrick, Sullivan & Co., New York
SULLIVAN, Jr., MARK
Auchincloss, Parker & Redpath, Washington
SUMMERS, THOMAS B.
Fahey, Clark & Co., Cleveland
SUPLEE, WILLIAM Z.
Suplee, Yeatman, Mosley Co., Philadelphia
SWINARTON, ROBERT W.
Dean Witter & Co., New York
SWORD, WILLIAM H.
Morgan Stanley & Co., New York
SYKES, MACRAE
Shields & Co., New York

TAYLOR, Jr., FRANK E.*
Fulton National Bank, Atlanta
TAYLOR, GARRETT H.*
Wood, Gundy & Co., New York
TAYLOR, J. BLYTH
Harris & Partners, Toronto
TEGELER, JEROME F.
Dempsey-Tegeler & Co., St. Louis
TERRELL, ALLEN M.
Girard Trust Corn Exchange Bank, Philadelphia
THACKARA, CHARLES V.
Shearson, Hammill & Co., New York
THAYER, ROBERT L.
Lehman Brothers, New York
THEIS, HARRY*
Albert Theis & Sons, St. Louis
THEIS, MRS. HARRY
With Harry Theis, St. Louis
THIERIOT, CHARLES H.
Carlisle & Jacquelin, New York
TODD, WILLIAM H.*
Kuhn, Loeb & Co., New York
TOMASIC, ANTHONY E.*
Thomas & Co., Pittsburgh
TOMPKINS, HENRY B.
The Robinson-Humphrey Company, Atlanta
TORREY, DAVID L.*
W. C. Pitfield & Co., New York
TORREY, GEORGE R.
McCormick & Co., Chicago
TOWBIN, BELMONT*
C. E. Unterberg, Towbin Co., New York
TOWNE, Jr., JOHN D.*
Govt. Development Bank for Puerto Rico, New York
TOWNSEND, WM. H. P.*
E. W. Clarke & Co., Philadelphia
TRESCH, ARTHUR
A. E. Masten & Co., Pittsburgh
TSOLAINOS, K. P.*
Baker, Weeks & Co., New York
TURBEN, CLAUDE F.*
Merrill, Turben & Co., Cleveland
TURNER, ARTHUR C.*
New York Hanseatic Corporation, New York
TURNER, JOHN W.
Eppler, Guerin & Turner, Dallas
UHLER, EDWARD A.
R. S. Dickson & Co., New York
UNDERHILL, ARTHUR J. C.
Arthur Wiesenberger & Co., New York
URELL, WILLIAM H.*
F. S. Smithers & Co., New York
VALENTINE, HENRY L.
Davenport & Co., Richmond
VANEK, WILLIAM S.
Manufacturers Trust Company, New York
VAN TUYL, ROBERT C.
Shearson, Hammill & Co., New York
VARNEDOE, SAM L.
Varnedoe, Chisholm & Co., Savannah
VEAZIE, WILDES W.
Mabon & Co., New York
VIALE, CHESTER W.*
L. F. Rothschild & Co., New York
VICK, MAURICE B.*
M. B. Vick & Co., Chicago
VOSTAL, JOSEPH
Kidder, Peabody & Co., New York
WADSWORTH, ARTHUR L.*
Dillon, Read & Co., New York
WAGNER, ROBERT L.
Leedy, Wheeler & Alleman, Orlando
WALBERT, RICHARD B.
Blyth & Co., Chicago
WALKER, GRAHAM
Gregory & Sons, New York
WALSH, MILES
Blyth & Co., New York
WANDERS, GEORGE*
The Bond Buyer, New York
WARDEN, FRANK R.*
Central National Bank, Des Moines
WASSERMAN, JOHN
Asiel & Co., New York
WATKINS, MILES A.*
Stubbs, Watkins & Lombardo, Birmingham
WATLING, PALMER
Watling, Lerchen & Co., Detroit
WATTERSON, WILLIAM H.
Fahey, Clark & Co., Cleveland
WATTS, Jr., SEWELL S.*
Baker, Watts & Co., Baltimore
WEEKS, Jr., ROBERT S.
F. S. Moseley & Co., Boston
WEHMANN, GILBERT H.
White, Weld & Co., New York
WEHRHEIM, ROBERT V.*
The Philadelphia National Bank, Philadelphia
WEICKER, Jr., THEODORE
E. F. Hutton & Co., New York
WEINTRAUB, ALLAN
Bear, Stearns & Co., New York
WENDT, GEORGE B.*
The First National Bank, Chicago
WERLY, CHARLES M.*
Putnam Fund Distributors, Boston
WESTERVELT, PAUL T.*
Howard, Weil, Labouisse, Friedrichs & Co., New Orleans
WESTON, LEWIS
Goldman, Sachs & Co., New York
WHIPPLE, JAY N.*
Bacon, Whipple & Co., Chicago
WHITE, GILBERT*
R. D. White & Co., New York
WHITE, HARRY H.
White, Hattier & Sanford, New Orleans
WHITE, KELTON E.
G. H. Walker & Co., St. Louis
WHITE, MRS. KELTON E.
With Kelton E. White, St. Louis
WHITESIDE, THOMAS
Chace, Whiteside & Winslow, Boston
WHITLOCK, DANIEL P.*
Ladenburg, Thalmann & Co., New York
WHITNEY, Jr., WHEELOCK
J. M. Dian & Co., Minneapolis
WIDENMANN, HANS A.*
Carl M. Loeb, Rhoades & Co., New York
WILBUR, LeROY A.
Stein Bros. & Boyce, Baltimore
WILDE, BERTRAM M.*
Janney, Dulles & Battles, Philadelphia
WILEY, JOHN E.*
Gairdner & Co., New York
WILLARD, GALE
Brown Brothers Harriman & Co., New York
WILLIAMS, Jr., C. T.
C. T. Williams & Co., Baltimore
WILLIS, ARTHUR H.
Discount Corporation, New York
WILLMORE, Jr., THOMAS F.
Merrill Lynch, Pierce, Fenner & Smith, Detroit

WILSON, ALFRED G.
Newburger, Loeb & Co., New York
WILSON, CARLTON P.*
Robert W. Baird & Co., Milwaukee
WILSON, FRANK
Barron's Weekly, New York
WILSON, HARVEY WRIGHT
Model, Roland & Stone, New York
WILSON, LYLE F.*
Pacific Northwest Company, Seattle
WING, IVAN W.*
Weeden & Co., San Francisco
WINSLOW, SAMUEL R.*
Winslow, Cohu & Stetson, New York
WINSOR, III, JAMES D.*
Yarnall, Biddle & Co., Philadelphia
WISE, JOSEPH B.
J. A. Hogle & Co., New York
WITTER, WENDELL W.
Dean Witter & Co., San Francisco
WITTER, WILLIAM M.
Dean Witter & Co., Chicago
WOLF, PAUL W.
Harris Trust & Savings Bank, New York
WOLFF, JAMES W.
Zuckerman, Smith & Co., New York
WOLL, ALBERT J. T.
Halden, Stone & Co., Boston
WONHAM, FREDERICK S.
G. H. Walker & Co., New York
WOOD, DAVID M.*
Wood, King & Dawson, New York
WOOD, FRANK A.*
Goodbody & Co., New York
WOOD, Jr., GEORGE M.
George M. Wood & Co., Montgomery
WOOD, HAROLD E.
Harold E. Wood & Co., St. Paul
WOODARD, RONALD B.
Raffensperger, Hughes & Co., Indianapolis
WOOLOMES, J. PAUL*
Wulff, Hansen & Co., San Francisco
WRITER, GEORGE S.*
Peters, Writer & Christensen, Denver
WULBERN, EDWARD B.*
Pierce, Carrison, Wulbern, Inc., Jacksonville
YEARLEY, IV, ALEXANDER
The Robinson-Humphrey Company, Atlanta
YOUMANS, PAUL E.
Bosworth, Sullivan & Co., Denver
YUNKER, ROSWELL J.
A. M. Kidder & Co., New York
ZAHNER, VICTOR H.
Zahner & Co., Kansas City
ZEITLER, JOHN R.
Third National Bank, Nashville

With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Ernest V. Anderson, Jr. has been added to the staff of Paine, Webber, Jackson & Curtis, 209 South La Salle Street.

Straus, Blosser Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Howard F. Jaffe is now affiliated with Straus, Blosser & McDowell, 39 South La Salle Street, members of the New York and Midwest Stock Exchanges.

Joins M. B. Vick Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Milton S. Altbach has joined the staff of M. B. Vick & Co., 120 South La Salle St.

New Witter Branch

Dean Witter & Co. has opened a branch office at 521 Fifth Ave., New York City, under the management of Robert F. Sully.

To Be Kamen Partner

R. William Bjork will become a limited partner in Kamen & Company, 25 Broad Street, New York City, members of the New York Stock Exchange, on Jan. 1.

Lawson, Levy Adds

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif. — John J. Roth Jr. is now connected with Lawson, Levy, Williams & Stern, Financial Center Building.

Continued from page 3

The Business Outlook for 1959

is happening to inventories. I have already pointed out that production fell by $20 billion from the third quarter of 1957 to the first quarter of 1958; the last line of the table shows that during the same period sales fell by only $8 billion. In fact, if you compare the figures for the first quarter of 1958 with the first quarter of 1957, you will see that total sales at the bottom of the recession were just as high as they had been in the comparable quarter of the previous year. This shows you how well most of the economy held up in the face of a really drastic inventory adjustment.

It seems to me that businessmen can learn an important lesson from these figures. The lesson is that it is business policy itself which is a prime cause of the periodic recessions which we have experienced in the postwar period. If businessmen will be a little less exuberant during booms in building up inventories and expanding plant, and if they will resist the emotional cutbacks to which they seem prone as soon as a minor business adjustment appears, we are likely to have an increasingly stable, and profitable, economy in the future.

Now let's turn to the recovery period. The bottom of the recession was reached in April. Gross national product rose a small amount in the second quarter and jumped upward a large amount in the third quarter. National output in the third quarter—at a $439 billion rate—approximately equalled the average rate of output during the full year 1957. Looking within the total at the individual segments, you will see that it was not an increase in business spending which first brought about the upturn. Inventory liquidation did slow down somewhat, but capital spending continued to decline. It was government spending and particularly consumer spending which brought us out of the recession. Consumer purchases rose by over $5 billion, to reach an all-time record rate of $291.5 billion in the third quarter. State Government purchases continued steadily upward all through the recession, reaching a new record in each successive quarter.

Paradoxical Decline in Federal Spending

Federal Government purchases also helped, but here I think the figures will surprise you. If you will look at Federal Government defense spending (shown in brackets) you will see that this type of Federal expenditure was actually declining at the bottom of the recession, and in the third quarter of this year was still below the comparable quarter of 1957. It is unfortunate that, during a period when we had idle plant and idle labor, we did not make greater use of the opportunity to secure badly needed defense goods at virtually no real cost to the economy. I do not know the reason for the lag in defense output, but the figures suggest a very poor state of military forward planning.

My estimate of national output in the fourth quarter of this year shows an even larger increase than in the third quarter. All segments of the gross national product are now rising. In some areas, such as business capital spending and foreign trade, the increase is very small. But in others, purchases are moving ahead strongly. Housing is booming at the highest level since the year 1955. State Government expenditures are continuing their inexorable upward march. Consumer purchases are likely to spurt ahead a full $7 billion, and there is a noticeable trend back to durable goods. Federal Government spending is just beginning to boom in earnest. It is an unhappy commentary on the slowness with which government machinery gets underway that Federal Government purchases will probably rise by a larger amount in the fourth quarter of this year than they did in the three quarters from October, 1957 through June, 1958.

Offers Higher Fourth Quarter Projection

Newspaper accounts at present are reporting that government economists unofficially estimate the fourth quarter gross national product at $450 billion. I believe that these preliminary estimates will prove too low. The succession of strikes and delays in the automobile industry hurt national output in October and early November, but I believe this quarter will nevertheless exceed $455 billion.

If my estimate turns out to be accurate, we will end this year at a rate of national output $18 billion ahead of the fourth quarter of 1957, and $12 billion ahead of the peak 1957 quarter. Because of the very poor performance in the opening months of the year, national output for the full year 1958 will barely equal 1957. Referring to the last line of the table, however, you will notice that total *sales* in 1958 will top the 1957 figure by about $5 billion. The 1958 recession will therefore go down in the history books as the sharpest, but by all odds the shortest, of the three postwar business adjustments.

The Business Outlook for 1959

Now, the turning to the year ahead, let's analyze each of the major segments of the economy, comparing what is likely to happen in 1959 with performance in 1958, and thus come up with an estimate of the probable increase or decrease in total national output during the coming year.

Business Capital Expenditures. Business spending on plant and equipment will rise in 1959, but the increase will be a modest one. The low point in business capital expenditures was reached in the third quarter of 1958. The current fourth quarter will probably show a fractional increase because of the beginning of a pickup in purchases of durable equipment. There is as yet no sign of a rise in business construction spending, and many industries are still operating far below capacity. Because of the continued existence of some excess capacity in the first half of 1959, there is unlikely to be any increase in business construction spending until the last half of next year.

Business spending on durable equipment, however, is likely to move ahead steadily from now on. There is of course a necessary connection between business construction expenditures and business expenditures on machinery and other durable equipment. But the emphasis in the coming year will be more on modernization and replacement of equipment and less on expansion of plant. Total plant and equipment expenditures in 1959 are likely to exceed the 1958 figure by about $2 billion.

Business Inventory Purchases. The increase in business spending on inventories is also likely to be moderate. As sales grow, there is of course a need for larger inventories. The need at present is principally at the retail level. The ratio between retail inventories and sales is today lower than at any time in the past eight years. Although it is of course desirable to reduce costs by holding inventory at as low a level as possible, retailers are beginning to realize that profits can be hurt just as badly through lost sales as through lost sales as through high costs. At the manufacturing level, stocks of raw material are likely to rise, but inventories of finished products are adequate in most lines so that total manufacturing inventories will show only a small increase. Principally because of retail stock-building, total business inventories will probably rise in 1959 by about $2.5 billion.

Although this increase in inventories is quite small, the effect on production compared to the 1958 situation will be large. In 1958, production was held $5 billion below sales in order to liquidate inventories; in 1959, production will exceed sales by $2.5 billion in order to build inventories. It is therefore clear that the inventory turnaround *alone* will mean that production in 1959 will exceed the 1958 level by $7.5 billion.

Housing Expenditures. A third segment of the economy which will show a moderate increase in 1959 is residential construction. Housing started the year 1958 at a very low level partly because of the recession and partly because of an unusually severe winter. After the passage of the Emergency Housing Act and the easing in the capital market, however, housing starts began to pick up rapidly and they have risen in every single month since March. They are now running at an annual rate in excess of 1,200,000—the highest level of home construction since 1955.

In thinking about the outlook for housing in 1959, it must be remembered that residential construction in the postwar period has developed into that rare economic species known as a "counter-cyclical industry." That is, housing tends to decline during a business boom and rise during a recession. The mildness of each of the postwar recessions has been partly attributable to the excellent showing of residential construction in the face of otherwise depressed business conditions.

In the recession of 1949, the good performance of this industry was due primarily to the intensity of the backlog of unfulfilled demand built up in the long period 1930-45. In the two more recent business dips, the explanation lies almost entirely in the strange workings of government imposed interest rate maximums on mortgage loans. You are as familiar with the effect of these maximums as I am. Because yields on FHA-VA mortgages are not free to rise except through the medium of discounts, these mortgages become unattractive to lenders when the yield on other securities moves above the maximum mortgage yield. The result is that housing tends to decline when capital markets tighten during a business boom.

The opposite situation occurs when the general business picture weakens and yields on alternative investments decline — abundant mortgage funds become available and buyers are encouraged to purchase homes. The net effect of FHA-VA interest maximums is not to increase the total demand for housing over a period of years —in fact, total housing demand is probably reduced. But some demand is transferrd from prosperous years, when it would normally come into the market, to recession years.

Further Capital Market Stringency

Housing during the past year followed the pattern I have just described. Once the capital market eased and controls on discounts were removed, housing starts bounded upward. They are still soaring, but the tightening in the capital market in recent months once again raises the question whether mortgage funds will continue to be available for FHA and VA loans. Builders have already secured mortgage loan commitments to carry them at a high volume over the next few months, but money is becoming increasingly difficult to get for the financing of older homes and there is bound to be a further tightening in the capital market next year.

MAJOR ECONOMIC MEASURES: 1956-58

(All seasonally adjusted. All, except index of industrial production, at annual rates)

	1957 First Q	1957 Second Q	1957 Third Q	1957 Fourth Q	1958 First Q	1958 Second Q	1958 Third Q	1958 Fourth Q(e)	Full Year 1956	Full Year 1957	Full Year 1958(e)
Gross Natioinal Product (billions)	436.3	441.2	445.6	438.9	425.8	429.0	439.0	457.5	419.2	440.3	439.0
Inventories	1.1	2.9	2.2	—2.3	—9.5	—8.0	—5.0	2.0	5.4	1.0	—5.1
Business capital expenditures	47.6	47.7	47.7	46.3	42.1	41.0	40.7	41.0	45.1	47.4	41.5
Export gap	4.2	4.2	3.6	1.9	0.5	0.5	0.5	1.0	1.4	3.5	0.7
Federal Government purchases	50.5	51.5	50.9	50.5	50.9	51.9	53.4	54.5	47.1	50.8	52.8
Defense	(45.8)	(47.4)	(46.9)	(46.0)	(45.6)	(46.0)	(46.6)	(47.4)			
State Government purchases	35.9	36.0	36.1	37.8	38.6	39.1	39.9	41.5	33.1	36.3	39.7
Housing expenditures	17.2	16.5	16.9	17.6	17.1	16.2	17.9	19.5	17.7	17.0	17.8
Consumer spending	279.8	282.5	288.3	287.2	286.2	288.3	291.5	298.0	269.4	284.4	291.6
Index of industrial production	146	144	145	139	130	128	136	142	143	143	134
Private housing starts (thousands)	943	984	1,028	1,010	950	1,040	1,185	1,210	1,094	993	1,095
Consumption of all goods and services	435.2	438.3	443.4	441.2	435.3	437.0	444.0	455.5	413.8	439.3	444.1

e Estimated.

This tightening in the supply of mortgage funds next year will unquestionably exercise a restraining influence on residential construction. But the election results last month are also a factor to be taken into consideration. It seems to me a safe bet that Congress will push through a new housing bill early in the next session. There is hope that the artificial and uneconomic controls on FHA-VA interest rates will be lifted; there is a greater probability that more government funds will be pumped into the mortgage market through Fanny Mae. Whatever the device chosen, there will be action to prevent a marked decline in residential construction.

Because of the various conflicting forces which I have discussed, housing starts in 1959 are likely to remain close to recent high levels. For the full year, there will be about 1,150,000 private starts, with at least 50,000 publicly financed starts. Total expenditures on new residential construction will exceed the 1958 figure by more than $1 billion.

Goverment Spending. Moving to the government sector of the economy, it is an unfortunate fact that Federal Government purchases of goods and services will show a larger increase next year than they did this year. I have already referred to the ponderous fashion in which government moves. The small increase in government spending earlier this year provided little assistance to the private economy in weathering the recession. Now that business is moving ahead rapidly, government spending programs are just getting into full swing. Whereas Federal Government purchases in 1958 increased by about $2 billion over 1957, the increase in 1959 will be about $3.5 billion.

State and local government spending in 1959 is likely to rise even more rapidly than Federal Government spending. Outlays under the Federal-State highway programs will increase substantially, and voters have recently approved a tremendous volume of state and municipal bond issues to finance new schools, waterworks, and public buildings. The rise in state and local government purchases in 1959 is likely to amount to $4 billion. This will mean that total government spending — Federal, state, and local—in 1959 will amount to the staggering sum of $100 billion.

Consumer Buying. The final piece in the 1959 business outlook will be supplied by the consumer. I believe the rise in consumer spending during the coming year will be large. The trend toward durable goods which began in the last half of 1958 will continue. Employment will increase by about 1,600,000, which will be sufficient to absorb the expected growth of the labor force and to reduce unemployment to a normal level by the second half of the year. Wage rates will continue to rise, although there is hope that increases will be related more closely to improving productivity than in many of the postwar years. The average work week will lengthen slightly. Higher social security and private pension benefits will boost the income of the retired. Corporate profits will improve markedly from the low 1958 levels, although dividends, which have been well maintained during the business adjustment, will not rise proportionately.

The net result of all these factors is that total personal income in 1959 is likely to be up by about $20 billion. Even without heavy resort to credit buying, consumer purchases will probably rise by $16 billion, and the trend toward durable goods which began in the last half of 1958 will be continued next year.

Summary

I have now discussed all the major segments which go to make up national output. My estimates have been that: business capital expenditures will rise by $2 billion; the reversal in inventory policy will have an upward effect on production of—$7.5 billion; housing expenditures will exceed the 1958 figure by more than $1 billion; total government—Federal, state and local—purchases will jump $7.5 billion; and consumer purchases will be up by $16 billion. Summing up these components, national output is likely to rise by $34 billion above the

Continued on page 84

Continued from page 83

The Business Outlook For 1959: McKinley

1958 level, reaching a total for the full year 1959 of over $470 billion.

Prices during the first half of 1959 will probably remain quite stable. There will still be a good deal of excess plant capacity, and unemployment will not be reduced to normal before mid-year. The effect of this excess plant and labor capacity, plus a small decline in food prices, will be to curb the strong forces which are always exerting an upward pressure on prices. But as the year 1959 draws to a close, the economy will near capacity operation and it will be at this point that the threat of renewed inflation will become acute.

The money and capital markets are unlikely to tighten appreciably for the next few months, but thereafter I expect a steady tightening with a slow upward movement in interest rates. I have already commented on special factors which may affect the mortgage market.

The outlook for 1959 is therefore for a prosperous year, with output increasing substantially and prices relatively stable during the first six months. Unemployment will gradually be reduced to normal and industry will move to a more efficient utilization of existing capacity. Toward the end of the year, as the slack in the economy is taken up, we are likely to be reminded once again that with all the progress we are making in business techniques and economic understanding we still have not come up with a workable solution for one of our most serious problems—the chronic erosion in the purchasing power of the dollar.

Joins Shaw, Hooker

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif. — Dolores S. Price has joined the staff of Shaw, Hooker & Co., 1 Montgomery Street, members of the Pacific Coast Stock Exchange.

With William R. Staats

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—William B. Hale has become affiliated with William R. Staats & Co., 111 Sutter Street.

Continued from page 23

Problems of Management In a Technical Business

only $767,717 and since it was acquired late in the year, its acquisition had no material effect on the performance of the parent company in that year.

Important Developments

Several things important to the company are not shown on Figure 3 because their effect on company earnings was not major in the period under consideration.

One of these was acquisition of Houston Technical Laboratories in December, 1953. This company was an instrument maker whose efforts were devoted largely to making gravity meters for oil exploration. Its product was top calibre, and time has shown that this was a good acquisition.

The second important point not indicated by the chart was that in 1952 the management had decided to engage in the semiconductor business and secured a license to operate under patents of Western Electric Co. This was a major decision about which we shall have more to say later.

Third, the company balance sheet had been much improved and its capital structure better balanced by means of a long-term loan from the Equitable Life Assurance Society.

Fourth, through a merger with Intercontinental Rubber Co. and a listing on the New York Stock Exchange, access to public financing was obtained.

Fifth, TI's research effort had for a year been consolidated into a central group and its contributions were beginning to make themselves felt as a very real plus in the picture.

Overall this chart demonstrates that business was good and showing steady and impressive development. Further, our management team had developed some real and justified self-confidence. They worked hard, they worked well together, and they were good.

This chart, however, begins to indicate what the potential of Texas Instruments might be. With the advent of Korea, the manufacturing business grew very rapidly, as can be noted from the sharp upward sales curve depicted. Sales and income were almost quintupled over 1949—reaching $27,000,000 for the former and $1,270,125 for the latter. Employee numbers had increased to 2,227, something less than treble the level of 1949.

Figure 4 shows only one additional year of company history, with a decline of about 10% in company sales and a little less than that in net income. Employee level, however, was almost constant. The drop in sales volume was accounted for by cessation of the Korean fighting and our failure adequately to anticipate the sharpness and severity of cutbacks and cancellations in military work which quickly followed.

Decentralization

There was something else in the picture, too. It was decided to decentralize our organization through creation of product and central staff divisions, one of the better decisions our company management has made. Though it took some fortitude to divert the organization by a major change of this kind, with a resultant decrease in sales and profit, it was worthwhile, for it was necessary to reinforce the foundation beneath the management structure for the strenuous days of expansion ahead.

The three major units of the company are clearly shown here: The Apparatus division manufacturing all our military equipment, the Semiconductor Products division utilizing what was formerly a group in our Engineering department as a base, and the Exploration division represented by GSI.

The company's activities brought to date are shown on Figure 5. Sales for 1958 now are estimated at slightly over $90 million, the number of employees has grown to approximately 7,000, and profits are estimated at $5,210,000 (or approximately $1.60 per share) instead of the $4,722,633 indicated on these charts prepared earlier in the year. It can be seen that the sales of 1957 more than doubled those of 1955, and the sales of 1958 will nearly double those of 1956.

Let me review some of the significant and critical times in the 17-year record portrayed on Figures 1-5 and some management decisions that were basic in achieving the kind of growth pattern the company enjoys today.

These were some of the highlights:

1946: The decision to engage in manufacturing; a true diversification.

1947-49: The increase in functionalization; a beginning of much improved management and controls. In the fall of 1949 the company employed its first full-time salesman, who was later to develop its Marketing Division. It is worthy of note that until this time all company sales were made by management people who normally filled other posts.

1950-53: Increased emphasis on manufacturing and engineering; 1950 first real planning mechanism put in operation; growth during Korean War. TI becomes

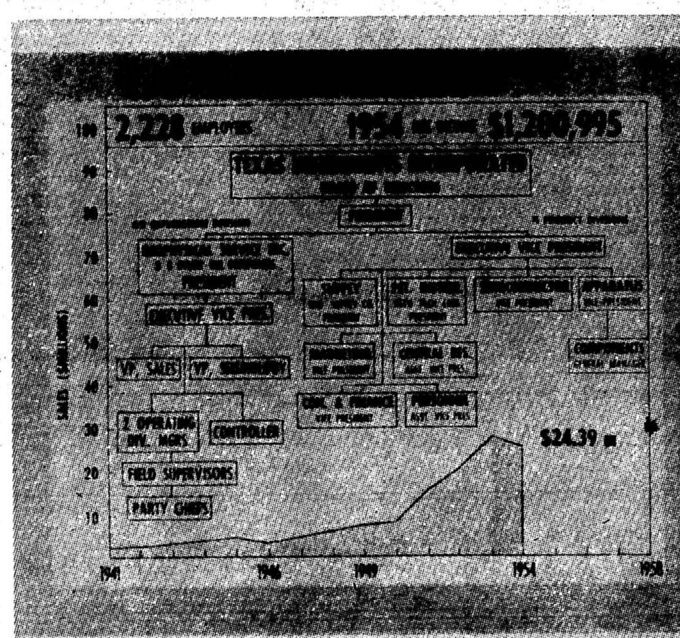


Figure 4

the parent company; we decide to become a "good, big company."

1952: Decision to manufacture semiconductors.

1953: Establishment of Central Research division. Purchase of the "Sonic." Acquisition of Engineering Supply Company. Intercontinental Rubber Company merger. Acquisition of Worden gravity meter business.

1954: Decentralization through divisionalization by product — a most important basic step to make future rapid growth possible. This was the year when the sales department became a Marketing Department. Growth had brought a real boom — now the company could afford staff assistance it had long needed. Introduction of silicon transistor and low-priced germanium transistor.

1955-56: Consolidation of position of each division; staffs built to include men of top quality in each key post. A real lesson was learned here: now we know that each new division must be as completely and capably staffed as the parent from which it descended.

1956: Addition of Mann Optical, now a part of the Apparatus division.

1957-58: Great broadening of product lines. Research & Engineering beginning to show in a major way. A new $5,000,000 plant in 1958 based on a 1955 decision. Our first international manufacturing operation, a plant in England, opens in 1957, becomes profitable in 1958. New English plant scheduled for early 1959 construction. New Dallas research plant construction ($2½ million) begun, fall, 1958. Plans in process to build a twin to the $5 million semiconductor plant. Beginning of serious semiconductive the mechanization and automation in 1958.

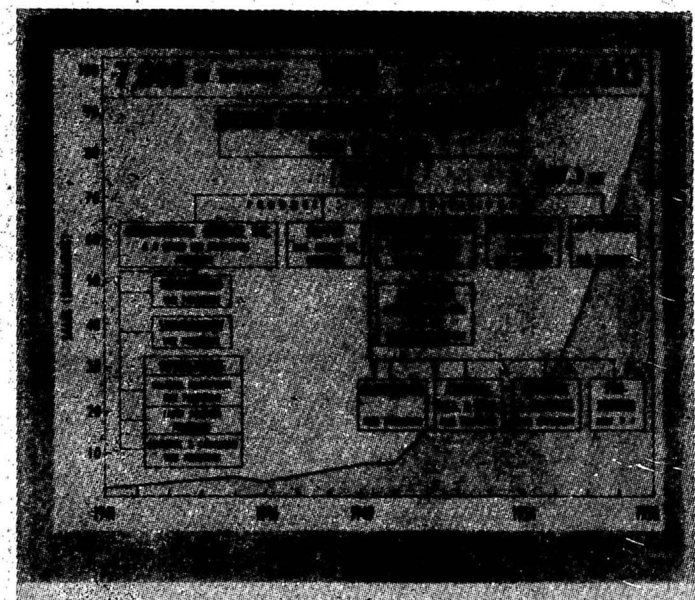


Figure 5

Need for Major Decisions

I think the foregoing has shown that a diversified, growing technical business, such as is illustrated in Fig. 6, requires that many major decisions be made, sometimes a series of them in rapid succession. If one or more are incorrect or inadequate, the company's growth pattern may be permanently inhibited, or the company actually may shrink in size or go broke. In measuring the difficulty of such decision-making, the need to garner ample facts to be presented in simple, orderly form, becomes obvious. Because it may not be equally clear that the manager of a rapidly growing, complex technical business is faced each year with a multiplication of difficulties in this connection, I should like to review a little later one or two of the decisions to which I previously referred and demonstrate how tenuous the line of reasoning was which led to ultimate decisions. I should like to emphasize, too, the sketchy nature of the facts then available which formed part of the basis for those decisions.

Now, may I change the subject, somewhat abruptly, I admit, and talk for a little while about planning. In due course, I shall attempt to relate this to what has proceeded.

The planning process of Texas Instruments is viewed not only as a device for making an orderly pattern for future progress, but as a management training tool of the highest order. Each year final top-level planning is the serious concern of the 25 or 30 managers who control the destinies of the corporation within the policy limits set by the Board. At a convenient time between early September and mid-November, an overall plan for the ensuing five years is put together by these men. Their joint sessions cover about a week of intensive effort. Then, in late November or early December, a detailed one-year plan is constructed to fit within the broad, general scope of the longer-range plan. Laid out as a month-by-month itemization of things to be accomplished by all company divisions, it is kept up-to-date by quarterly revisions and extended for an additional three months at each review date. These plans include the strategy and tactics by which we hope to gain the objectives we seek. Only grudgingly is any ground relinquished on any of them.

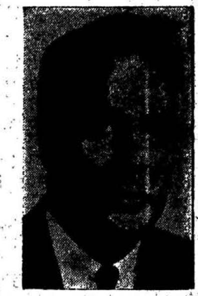
I have observed that many analysts, in referring to the planning process, consider it to be largely a matter of budget. In our company at least, this is not so. It is true that we plan both capital and operating budgets in great detail for the forthcoming periods, but our studies encompass a great deal more than these.

150 New Employees Monthly

Personnel requirements, for example, not only are spelled out month-by-month, but are compiled in very minute detail and give a precise desired schedule for the quantities, qualities, and capabilities of people to be hired week-by-week for specific jobs envisioned during the 12-month period. Since this is done by each division, it is possible to take any one group (such as Central Re-

Continued on page 86

IBA PAST PRESIDENTS

1951-52	1949-50	1948-49
		
Joseph T. Johnson	Albert T. Armitage	Hal H. Dewar

Continued from page 85

Problems of Management In a Technical Business

search) and determine how many scientists, technicians, and the like, of what grade or kind, are to be hired, at what times during the year, and at what approximate rates. This information will have a great deal to do with the kind of operating budgets constructed and will determine, in part at least, what the capital requirements will be. An average of 150 new employees were added each month of 1958. Plans provided not only for hiring these people, but for provision of the space and tools for their work, and for training in their respective endeavors.

Going back one additional step, the fields of research activity, for example, must be determined in advance of any of the foregoing requirements. Potential projects obviously must have been selected on which the planning groups had based their hopes that new products or services ultimately might evolve. Some sort of prediction was necessary as to whether the projects could be brought to fruition through the medium of physics, chemistry, mathematics, or some combination of these or other sciences. The kind and strength of personnel hired naturally would be determined by the best estimates of the planners as to difficulty of the problem and probable potential success of the methods of attack.

Back of the decision to engage in given projects lies the basic concept leading into the projected research, the one which determines the **boundaries** within which work is to be done. For instance, the title of our Semiconductor-Components division clearly indicates that it desires to be a supplier to other manufacturers rather than one selling consumer goods to the public.

Having taken a sketchy look at our planning process and having worked backwards from a personnel budget requirement through the reasons for establishing that budget in a typical division such as Central Research, let us now turn to one of the bits of factual information available to a planning group.

Two Vital Products

In doing this I intend to pick two Semiconductor devices produced in our most rapidly growing division and through them make the point that the 1954 introduction of these two products was essential to the subsequent success of the division. They provided the company with a lead in the semiconductor field that has been retained or widened ever since. You will see from the nature of the problems which beset us as managers that the decisions by which leadership was attained were not to be lightly taken.

A typical price decline curve for the germanium transistor products of the Semiconductor-Components division is shown in Figure 7. This curve encompasses only those products used in the entertainment industry, that is, radio and television, but it represents an average of all the products supplied to that industry. It is presented here to show you how the maturity of a product line affects its price and, through the flattening of the curve, permits some reasonable prediction of the ultimate price level of a line of merchandise. In 1954, when we first supplied the low-cost transistors to the radio industry which made mass production of portable radios possible, such a curve was drawn by our planners. It was based on their best estimates of its ultimate stabilization level when mass markets of this and similar businesses were attained. The original price estimates made by our marketing people, I might add, would not depart too far from those shown here today. Probably this curve projected for several years ahead would show a flattening or stabilization somewhere around the level of 50 cents per unit.

Remember now, if you will, that our first transistor production of any size or importance came in late 1954. Up to the time of the low-priced entertainment transistor, the hearing aid industry was the most prolific source of orders. Many of our products were sold to that industry at prices running as high as $16 per unit. To visualize transistors to be sold to manufacturers at $2.50 each took the kind of thinking that Henry Ford applied to his early automobile. You may remember that Mr. Ford calculated his costs of production and then sold his car at apparent cost. He made his profits by achieving reduction of costs after he had created the market through pricing at a level lower than any envisioned before. In retrospect this situation may not have seemed very complex or difficult. However, let me point out that in our transistor example we are talking about a curve that represents the average of a number of products. In the spring of 1954 when we decided to have a go at this problem, there were **no markets** for the product. Portable transistor radios had not yet been designed except on a breadboard basis in a few laboratories. Since there was no mass market, the processes for making transistors for these markets did not exist. Therefore, neither costs nor profits could be precisely calculated for a given level of production. Germanium and its properties were not thoroughly understood, and though we have come a long way, knowledge of this material and ways to handle it in production is still far from complete today.

Let's go over, now, some of the facts which were known and, more particularly, some of those things which were not known. It was thought that a portable transistor radio would have a limited market as a novelty, and therefore carry a premium price that would make it possible to sell transistors on the manufacturing level for about $2.50 each. It was necessary to assume that they could be produced on a no worse than break-even or small-loss basis for this amount and that processes could be designed to accomplish this. In addition, it was necessary to postulate that a quality could be achieved in certain of the items thus to be provided which would be superior to any heretofore possible except on a small scale laboratory basis.

If the engineering and research problems inherent in developing the processes for manufacture could be solved satisfactorily; and if, indeed, we were right in our estimates of the potential market for such a receiver; and if we could capture a fair share of this market, then it might be possible to begin mass production of transistors a year or two earlier than otherwise would be required for the natural evolution of these markets.

With this kind of background

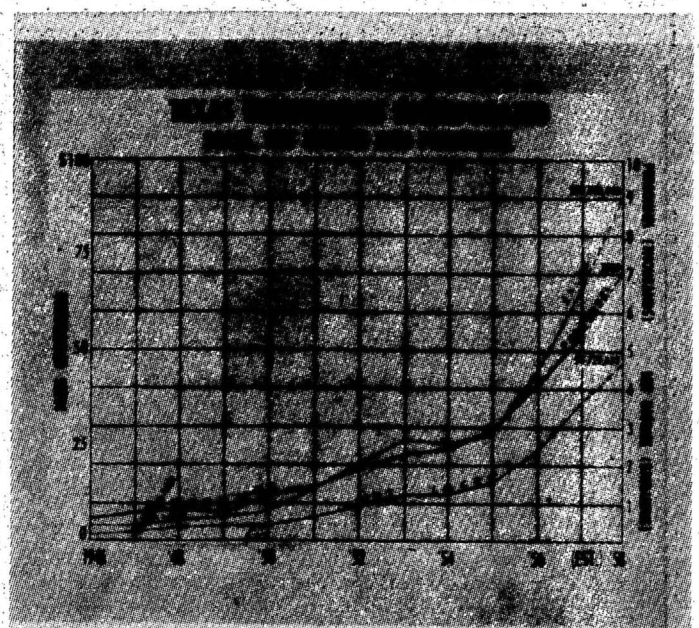


Figure 6

(and we have presented only a few of the many hazards), how would you like to make the decision to build a new plant to house equipment not yet designed, to be operated by people not yet hired or trained, for production of items for new customers not on company books who would sell their products in markets not yet in existence? That was the kind of decision that our managers faced.

The Silicon Story

Leaving germanium products for a moment, let's talk about silicon. Silicon in almost incredibly pure form (only a few parts per million of impurities can be tolerated in transistor manufacture) has many advantages in performance over germanium for military and many industrial transistor application. The principal of these is the ability to withstand high temperatures without losing its valuable transistor characteristics as does germanium under quite common ambient conditions. For this and other reasons silicon products can command higher market prices—a life saver because the material is one of the most difficult of all to fabricate.

The price decline curve for silicon transistors is presented in Figure 8. To make it meaningful, this is expressed in percentages of the 1954 unit price rather than in dollars. Roughly, the range of product prices encompassed on this curve is from about $3.50 to $90. The current average silicon transistor price is about $14. All of these figures are in terms of the current 1958 levels.

Limited production of silicon transistors was announced in May, 1954. It may be seen that the price decline curve is essentially of the same nature as that of germanium although the slope has been more gentle as might be expected for a product more difficult to manufacture. Likewise, a great many new products have been added in a steady stream to the small original group offered in 1954. This, too, has contributed to the somewhat slower decline of prices, since the new products, often for special purposes, carried very high prices because they possessed characteristics extremely difficult to produce.

Now, for a moment, let us place ourselves in the position of the planning and decision-making groups in early and mid-1954, when they could see the probabilities and possibilities for success in marketing these entertainment germanium transistors and silicon transistors whose price curves we have just examined. They viewed optimistically the possibilities that lay ahead for these products if they could be made and brought to market promptly.

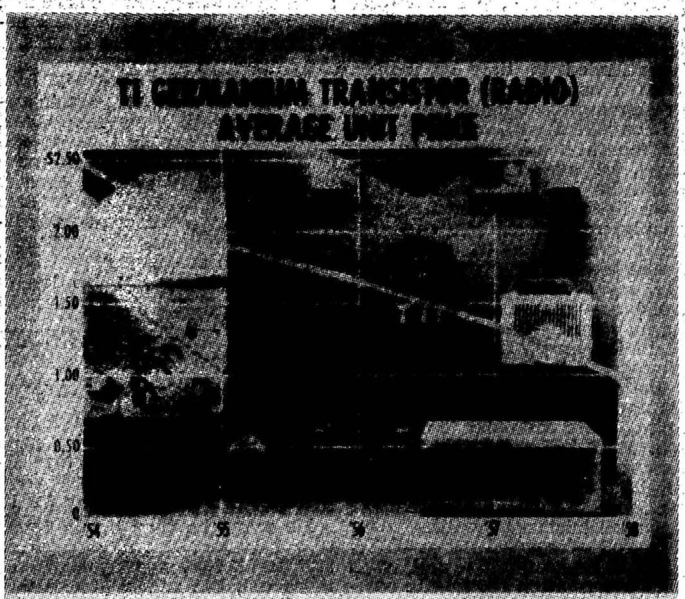


Figure 7

Charting the Unknown

Remember, they were about to embark on a course which would result in the mass marketing of new products at prices which it was believed would make their sales possible, although costs could not be precisely estimated because manufacturing processes had not yet been designed. It was not known whether those processes would give a high-percentage yield of satisfactory products at the end of assembly lines, or whether the percentage of usable products would be low. It was not known what percentage of the market could be captured, if, indeed, a potential major market existed.

It seems reasonable, however, that among those scrambling for markets the manufacturer who "got there fustest with the mostest" would be in the best position. It could not be foretold how long the market would endure if it were developed over a short initial period. How well would the public like the product How much of a premium would it pay for portability and novelty? How well would the manufacturers who supplied the consumer items like to work with them? Could they make enough money to entice them to continue beyond the novelty stage? How fast would competition among manufacturers arise, and how much of the ultimate market could our company retain? These were only a few of the problems that faced the group whose ultimate decision was to go ahead and "devil take the hindmost."

To sum up now, the top management decided to enter an unknown market with products not fully understood either in their manufacture or in their use. It undertook to sell these to unknown customers for uses that the ultimate consumer did not yet dream of, nor did the equipment manufacturer then have a much clearer concept. It took the risk of pricing that product, estimating its profit, making a substantial outlay of capital, and, indeed, staked its entire future on the results.

If the effort succeeded, however, there was more to be gained than capture of a single market for a few new products. The know-how gained in mass production of hundreds of thousands of units could be carried over into other products of similar nature, overhead could be reduced, and staffs in being would be ready to handle still larger orders if they could be secured. Competitors would have to develop comparable know-how and facilities out of capital; TI might be able to do it out of profits.

"Battle With the Giants"

Now, let's look once more at the past before trying to peer into the future. Back in 1952, management decided to enter the transistor field. Already there were many large companies established in this industry, and they had money, facilities, and manpower already in being to attack problems as they arose. For many of them, the adventure in the transistor field was a relatively small one and would not have implications of major import one way or another whether it was a complete failure or an outstanding success. In the battle with giants, all the odds were against the newcomers.

Then, in 1954, entry into the mass market was made by inducing a radio manufacturer to go ahead with TI's products. A second step ahead was the introduction of silicon transistors. These were major advances in the semiconductor art, achieved in a very short period of time, but they were not enough to guarantee that the market captured early could be developed and maintained, nor did they give any real indication that expansions of markets and invasions of other portions of it, such as were to be developed later, could be attained. Yet, in 1955, it was necessary to make one more fundamental decision—to proceed with additional plant, equipment and working capital arrangements so that the effort could be made to become a major manufacturer in the field.

What we see happening to the company's position in the transistor market in 1958 and what will happen in 1959 are based entirely on the decisions made in 1952, 1954, and 1955. This is not to say that there were not, and are not, other problems; many of them, but those I have dwelled on were the three high points upon which the present position of the

Continued on page 88

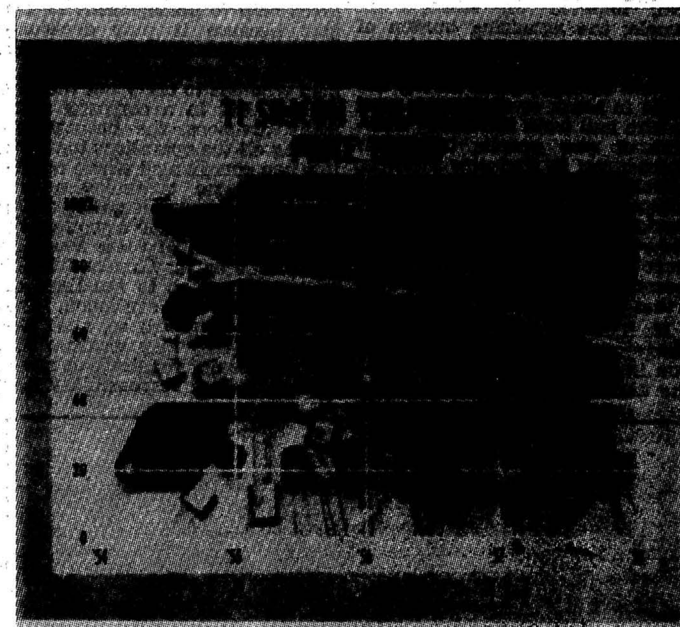


Figure 8

Continued from page 87

Problems of Management In a Technical Business

company well may rest in this field.

If I have told my story well enough, at this point you will know why I wanted to tell it. The technical difficulties; the complexities; the terrifically heavy overloads, both mental and physical, imposed on management people; the agonizing burden of endless important daily decisions; the delicate questions of all-important timing, seldom clearly defined in black or white; the need to hire and train increasing numbers of new people; to review procedures; to find new markets; establish new divisions; meet competition; find money for working capital, to grow, grow, grow—these and a hundred more were the hurdles to be surmounted. No one is prouder than I that our youngsters could do it.

If it were not competitively dangerous, I should like to tell you in detail about our plans for the next five years. Failing this, let me speculate on analogous problems of the managers of tomorrow based on what we have learned here.

Problems of Tomorrow

Decentralization of medium and large-size companies has been a great help to management in the past because it puts decision-making responsibility as close to the job as possible—right on the man who has to carry out the decisions. But in a company with many divisions, the business of pulling all the operations together into one coordinated whole is difficult. Where technologies are advanced and complex, the people at the top must have a good grasp of each branch of these technologies so they may make intelligent decisions as to the lines of business to be continued, expanded or dropped; so, with intelligence, they may measure the performance of the division managers in whom responsibility has been vested; and so, for their own purposes, they may compare the performance of these divisions against standards and against competition. We have seen how great the effect of only a few variables has been on our own modest operation up to now. If these are multiplied many-fold, as they would be in a company of large size, then it can be understood how difficult the work of the central corps is. Add further growth to the present size of large corporations and you have an almost frightening picture of the overwhelming masses of data which must be gathered, assimilated, simplified and reduced to their lowest common denominators. These then must be projected into the future as tentative marketing concepts and tentative plans for submission to executives to decide whether these plans contemplate reasonable risks and satisfactory reward possibilities. Will there be other means to cope with such problems? If so, what will they be and what tools can be found to assist in the handling of them?

Up to now management always has been able to analyze its situation and find a method of coping with it. In a changing world, decentralization may not be the ultimate answer, although at this time it seems to be working very well for most companies. It does seem clear that top management staffs to an increasing extent in technical companies will be composed of extremely high level people if the companies are to succeed. This is particularly true if such management is to be able to envision technological opportunities ahead of competition.

Because of our very rapid technological progress, we are probably scheduled to be snowed under with new products and services in the near future. There is a tremendous backlog of research, development and engineering which has not yet been translated into finished products. The new manager must be the one to foresee the opportunities for creating markets through the application of these advanced technologies. Indeed, he should be able to visualize a consumer's needs and desires long before the consumer himself knows them.

Aid of Automation

To aid this very able technical man and his staff there will be electronic data processing systems which may be applied to business problems—automation in business procedures as well as productive processes. Computers as we know them today are only beginning to make progress in their respective fields. A very high percentage of those now in use are merely replacing other machines for the routine functions of accounting, handling payrolls, sorting and classifying, and other chores in which they may reduce errors and speed up operations, but do not do anything fundamentally very different from the work of earlier and simpler machines. It takes a great deal of time to understand the operation of a modern computer, its potential capabilities and the areas in which it should be used.

Let's examine a few of the ways in which tomorrow's managers may simplify their lives by use of these machines. First, there is the much-talked-of operations research, which, in simplified terms, may be considered to be a means of reducing a business problem in all its detail to a mathematical model capable of analysis. Because the computer works so swiftly, one can tackle complex problems that previously could not be solved economically because of the time consumed. Linear programming, a form of operations research, provides the means for finding the optimum solution to many business problems from mathematical models.

Another phase of operations research is in data handling by application of statistical analysis to great masses of data. Problems such as inventory control, for example, can be greatly simplified by this means.

Let's examine for a moment what we hope we may be able to do with control of the 30,000 inventory items in our own Engineering Supply Company. With so many items to handle, decisions to increase or decrease quantities have in the past been on a rule of thumb or generalized basis. That's all that could be afforded in time or money. With a computer, however, this great number of items can easily be controlled with daily, weekly, or monthly statements, as desired, of conditions. Print-outs could be had only when items were in trouble—in short or long supply, up against a long procurement cycle, etc.—if that were found desirable. In any event, the ideal of control could be achieved—to manage inventories on an item-by-item basis instead of in the mass. How long we've waited for that!

Better advanced planning through proper programming of an adequate computer is possible, too. By this I mean that we can except to run through such a machine a series of sets of information representing hypothetical, expected business conditions over a period of several years. With proper programming and with such information fed in, the computer would give tentative results under each set of conditions.

For example, we could look at hypothetical monthly operating statements over a period of years, based on assumptions of capture of various percentages of market, of desired percentages of profit, of estimated projected cost reduction, on the use of money at predetermined rates, etc. Having fed into the machine information representing the most optimistic, the most pessimistic, and the most probable occurrences in the business for the period ahead, it then should be much simpler for a management reviewing the results of these alternatives to plot a course which anticipates most foreseeable hazards.

If this could be done for one's own business, then also it could be approximated for the case of one's competitor. Why not, for example, using the best judgment at hand, make an estimate of what each major competitor in a given field might intend doing in the coming 5 years, and survey the inter-action of such performance on one's own business? In the past such a task would have been Herculean, but tomorrow it will not be nearly so formidable. It will, however, require a good deal of intelligent sorting of the facts and figures, and decisions on which are meaningful and which are not, and what actions to take as a result of analysis of these figures.

Financing Problems

If business managers are to engage in practices such as these, which should enable them to operate their business much more expertly than at present, then it can also be assumed that these same managers will view their financing problems, for example, with a good deal more sophistication than previously. No longer will it be necessary for such a manager to go to his investment banker, or an insurance company, for long-term financing without first having acquired a precise knowledge of what he will want and need. I can't help thinking that he will have a pretty good idea also of what form that financing should take, and what price he can afford to pay for it.

He won't be thinking in terms of a balance sheet and operating statement that are a month or more old, but rather of one that was cast yesterday and of one for tomorrow. He may ask for financing to handle products difficult to understand for markets nonexistent at the time, and the investment banker will have to give him an answer based on his own thorough understanding of how such financing will work. Thus, it seems to me that I have stirred up my own particular little hornet's nest today, and instead of presenting to you a neat bunch of problems all neatly tied together and solved, I leave you with one.

I believe the investment banking profession and financial people will have their own rapid strides to make technologically, and they will make them as they are needed. However, I likewise think that they will need to forge strong links to the businesses they finance, and that these links should be technical people of their own who are competent to meet the technical manager on his own grounds, discuss his problems with him there, educate him to the problems of the investment banker and work out solutions appropriate for both.

Investment Bankers Must Be Technically Trained

I believe all of this would be much better done if bankers had already been simulating the operations of the clients' business with their own computers and their own staffs. I should like to emphasize, however, that renting a computer and hiring or training programmers and operators is not enough to get the job done. Some of the investment bankers themselves must be technically trained and understand how to use computers in the ways in which they can realize their true potential, or such effort would be fruitless. What I say implies a lot of education, most of it for young people to come, in the schools and colleges of the future.

When manager and banker engage in a transaction, mutuality of interests brings the best results. This is most easily achieved when understanding exists on both sides. To get it I fear even those of us who are oldsters must pursue our education for all our remaining time.

Securities Salesman's Corner

By JOHN DUTTON

The Way the Pros Do It

Although this week's theme will be devoted to the sale of tax exempt and corporate bonds, the suggestions presented can apply as well to the distribution at retail of all classes of securities. The underlying principles that have made some men stand out as top-flight bond salesmen will work if applied to any phase of security salesmanship. Here goes then:

The reason some men sell more bonds than others is first of all they work at it. They plan their work. You don't find the men at the top in this business waiting until the morning of a bond sale before they sit down at their desks and proceed to make some perfunctory calls on the telephone to the first few customers that come to mind. They prepare their work ahead of them.

Planning Ahead in Preparation for the Offering of a "New Issue."

First a study of the bond is undertaken to determine what clients and prospects might have an interest. For example, is the bond secured by revenues or is it a general obligation? Will it be rated, and if so, what rating should be expected? Will bonds be available in maturities attractive to certain accounts? What banks might be interested? What institutions? There are people who will not buy unrated bonds; others that will do so. There are buyers for revenue bonds and others who will only consider general obligations. There are insurance companies that will only buy in large blocks and in maturities no less than 50,000 to 100,000; does this "new issue" qualify on this or any of the other qualifying requirements? Why offer bonds to investors that obviously are unacceptable to them? It will only rate you as an inefficient bond man, waste your customer's time and your own as well, if you offer the wrong bonds to right buyers.

Several days before the offering many bond men make a list of prospective buyers whom they think might have an interest in the new issue. They send preliminary circulars, sometimes with a personal note attached pointing to the outstanding features of the bond. They sometimes mention that they will telephone the offering prices and the scale as soon as possible when the bonds are made available for reoffering to the public. If the issue is likely to have a strong appeal for certain buyers, they will even telephone several days in advance of the offering, mention they are sending a preliminary circular, and suggest that the prospective buyer might give it special study, and set forth a few highlights which they consider particularly strong. Then, when the offering comes to market, they have their list in front of them, telephone numbers and addresses ready to go, and they have a better chance of selling more bonds for a very simple reason—they are offering them to the people who most likely will want to buy them.

They are not trying to catch a fleeting order from a haphazardly selected list of prospective buyers, nor are they always going back to the same few old standbys who once in a while are in the market and have been keeping them going for many years in a piece-meal sort of way.

They know their bonds, and they sell better, because they know how to show their customers why they should buy now.

The bond man who knows his bonds has a story to tell. He puts some imagination into his sales presentation, a bit of art if you will. You won't find that he will telephone again and again like this, "Good morning Mr. Thompson, this is McKinnon of First Securities, we are offering some Podunk Water Revenue 3½s this morning, they are mighty good bonds, priced right from a 2.80 out to a 3.70 in the last maturities. We think they are very attractive.

Instead his preoffering study has shown him that Podunk Water Revenues represent an obligation of a superbly managed water system in a very stable and growing community. Its general obligation debt represents one of the lowest ratios to assessed value of property of any city of its size and comparable growth in the state. The net water revenues securing the bonds have shown a steady increase in coverage for the past 10 years and despite the attendant expansion of the system, stands today at 225% of maximum debt service, including the new issue. In addition, he has compared the offering scale with similar bonds now available in the market and he is in a position to back up his offering with price facts that convince the buyer that the bonds are priced right.

Way Pros Do it

Each bond has a personality of its own. Every bond has certain features that makes it different from every other bond. Find the best points and build your offering presentation around them. Stress the most appealing feature first and bolster it with other salient points that make the bond attractive. That is the way the pros in this business sell. They marshall their facts, they sell themselves first, and then they make their offering in an organized manner to a selected group of prospects whom they believe may be interested in their particular security.

The more you know—the better you will sell.

IBA PAST PRESIDENTS

1947-48	1946-47	1945-46
		
Julien H. Collins	E. Hopkinson, Jr.	Charles S. Garland

E. H. Stern & Co. to Admit

On Dec. 23 Robert L. Oscher will acquire a membership in the New York Stock Exchange and will be admitted to partnership in E. H. Stern & Co., 20 Broad Street, New York City, members of the New York Stock Exchange.

Continued from first page

As We See It

members, but there is no particular reason to expect the larger part of the program thus suggested to be anathema to southern members in general.

The Democratic Program

The electorate would do well to give very careful study to this document with a view to determining in advance what the Democratic majority it so enthusiastically voted into office this year really has in mind for the coming Congressional session. To say that it rings with New Deal ideology and New Deal proposals is to put it mildly. The often rather demagogic excoriation of the Administration and Republicans in general is, perhaps, to be expected upon such an occasion—as is also the highly dubious employment of statistical techniques. But what does this highly influential group of party leaders believe that their party should do to save the country from the acts of an administration which it so vehemently denounces?

Well, the party which once ardently preached the doctrine that ours was a "mature economy" in which no further growth of consequence was to be expected, is now much concerned with what it is able to convince itself is an almost catastrophic slow-down in the rate of growth of the economy under the Eisenhower Administration. Of course, there is not much support for any such notion—certainly no evidence of it in the figures cited to prove it—but real or imaginary it constitutes a basis for a far reaching program to speed up expansion in the years to come. "Government expenditures," they tell us, "keyed to our vital needs and resource capabilities, are in themselves a key factor in maximum economic growth." A moment later it adds that "the amount and purposes of government spending must be determined by wisely balancing needs and capability. It is elementary that a growing nation needs larger public as well as larger private expenditures, just as it costs more to support a family of five than it does a family of three."

Later paragraphs make it clear enough that these leaders of the Democratic party are in truth the type of spenders about which the President has recently warned the country. Take these sentences: "The Administration's attempts to stop the Federal Government from assisting states by vocational education programs should be opposed. These programs are particularly important in the rural areas in which there are dramatic changes in emphasis and ways of life, and where as a consequence the young people must be provided with help and training to meet the challenge of these transitions in our rural economy.

"A Federal scholarship program to meet the truly great challenge facing the United States during the next ten years, as the number of students eligible for colleges and universities more than doubles, should be promptly established.

"We favor a program of Federal assistance to the states for school construction."

Again:

"The need is urgent for an enlarged program of hospital construction, and for loans to local comprehensive health insurance cooperatives. . . . There must be steady effort to increase the funds and resources available for a broad program of medical research and rehabilitation."

In the realm of social security (in behalf of which the Federal Government has already commitments which run into the hundreds of billions) these increased benefits must, so we are told, be provided:

"Hospital care for 50 to 60 days per year. A limited amount of nursing service. Increased monthly social security benefits — 10% as a next step and another 10% in the next three or four years." And more of the same sort.

And Small Business, Too

"New sources of long-term credit and equity capital should be opened up for small business," too. But why labor the point unduly? Many more areas of increased spending are listed and urged. Agriculture, conservation, hydroelectric and atomic resource development, rural electrification, area development, housing, and airport development, are other fields which are listed as needing generous attention from the national government. And, for our part, we are confident that when men of this mind get to work in Washington next year other outlets for public funds will be thought up. This group, this influential group in the Democratic party, are "spenders" incurable. We may well have additional reason to be thankful for the Byrds in the Senate, and for such men of influence as Rayburn in the House and Johnson in the Senate.

And there can be no doubt whatever that many, many members of the Democratic party are itching to discredit the Federal Reserve Board and to end forever the really quite moderate restrictive influence it has been exerting in behalf of financial sanity. The same, of course, is to be said of any part that the Administration has had in putting an end to the absurdly easy conditions in the money market and investment market of the country. This Democratic Advisory Council says so in so many words, and it is common knowledge that a number of members of both houses of Congress have long wished to have a lick at the Reserve authorities and any sort of restrictive action anywhere, any time. The danger of inflation is dismissed with a foolish statement to the effect that "the main key to effective inflation control is sustained full employment and full production, combined with truly competitive pricing."

The President and all moderates in Congress to whatever party they may belong have their work cut out for them this Winter.

With Montgomery, Scott

PHILADELPHIA, Pa. — Montgomery, Scott & Co., 123 South Board Street, members of the New York Stock Exchange and other leading exchanges, announce that Michael A. Cruise has become associated with their Philadelphia office as a registered representative.

Mr. Cruise is well known in financial circles for his talks on the securities markets and has conducted classes in various parts of the city and suburbs on investment securities.

R. F. Lafferty Admits

Wallace J. Gardner, Jr. on Dec. 8 became a partner in R. F. Lafferty & Co., 19 Rector Street, New York City, members of the New York Stock Exchange.

Opens Investment Office

MIAMI, Fla.—Ruth M. Cologne is engaging in a securities business from offices at 227 Northwest Eighteenth Avenue. Miss Cologne was formerly with Frank L. Edenfield & Co. and Francis I. du Pont & Co.

Donahue & White Opens

Donahue & White has been formed with offices in the Grand Central Terminal Building, New York City, to engage in a securities business. Partners are Joseph G. Donahue and Dougald C. White. Mr. Donahue was formerly with Bache & Co. and King Merritt & Co.; Mr. White was with Granbery, Marache & Co., First Investors Corp., and Fund Research & Management, Inc.

Stern & Kennedy Partner

On Jan. 1 Stanley J. Rodi will acquire a membership in the New York Stock Exchange and will be admitted to partnership in Stern & Kennedy, 25 Broad Street, New York City, members of the New York Stock Exchange.

Public Utility Securities

By OWEN ELY

Connecticut Light & Power Co.

Connecticut Light & Power serves electricity and gas to an area representing about two-thirds of the State, although the population of 931,000 is only about 41% of the State's total. The more important cities served include Waterbury, New Britain, Bristol, Meriden, Norwalk, Greenwich, Willimantic, Putnam, Rockville and Winsted. Electricity accounts for 87% of revenues and gas, 13%. Electric revenues are about 43% residential, 17% commercial, 25% industrial, and 15% wholesale (to other utilities).

Connecticut is known as a "machinery" State along with copper and brass products, transportation equipment, rubber products, etc. While there was some moderate setback in industrial activity as the result of the recent recession, a number of nationally known corporations have been building sizable new plants in the service area — Kimberly-Clark, Scovill Manufacturing, American-Standard Corp., Knox Glass and United Aircraft's Hamilton Standard Division.

The company is also in excellent condition to benefit from the trend from city to suburbs, which move is likely to be more pronounced in Connecticut in the future. The State's population is growing at a rate well above the national average. The new Connecticut Turnpike, opened last January, is expected to have important accelerating affect on development of the eastern part of the State. Several industrial customers began using natural gas in 1957, which should provide a substantial increase in gas business.

The company at the end of 1957 had generating capability of 714,000 kw of which 120,000 kw was hydro. Steam capacity was efficient, with Btu per kwh averaging about 11,100. The company is a member of the "Connecticut Electric Exchange" or power pool, organized by the larger electric utilities in the State. Each company receives the cheapest power available at any time. The first unit installed under this agreement was completed by United Illuminating Company in 1957. Connecticut P. & L. completed a 106,000 kw unit at its Devon steam plant in September this year.

The company had already begun construction on a 150,000 kw unit at a new power plant at Norwalk Harbor—it will be the largest steam unit in New England when it goes into operation in 1960. The Norwalk Harbor plant will be located on Manresa Island, and use of this site for a plant has been in litigation since 1952 with the City of Norwalk. However, the company obtained a favorable decision from the State Supreme Court early this year. Also, citizens had voted down a proposal to condemn the island for recreational use.

The company is making a joint study with Emhart Manufacturing of a design for a new steam generating plant in which left-over heat from production of electric power would be employed to convert salt water to fresh water, based on a process developed by Maxim Silencer Company, subsidiary of Emhart.

Connecticut L. & P. is also associated with other New England utilities in the construction of Yankee Atomic Electric's 134,000 kw Nuclear Power plant in Rowe, Mass., expected to be ready in 1960. CL&P is the second largest investor in Yankee and will be entitled to 15% of the output. Unfortunately, this is a pressurized water reactor, the power from which may be relatively expensive. The company is also a member of a group which is doing research on a fast neutron breeder reactor.

The company's expansion program for the three years 1958-60 approximates $100 million. Some $34 million was spent last year and the 1958 budget is about $42 million. In February, 1957, the company sold $15 million common stock on a 1-for-7 basis at a subscription price of $16.50. In January, 1958, $30 million 3⅞% bonds were sold, paying off bank loans and providing for a substantial part of capital expenditures.

The company's earnings record has been marked by stability and modest growth. Share earnings increased from 86¢ in 1948 (adjusted for a 4-for-1 split in 1950) to $1.36 on average shares in the 12 months ended Sept. 30, 1958. However, current earnings probably include about 15¢ for tax savings resulting from accelerated depreciation.

Earnings in recent years have doubtless been retarded by the effects of bad weather. Various parts of the service area were buffeted by very severe storms in each of the fours years 1952-56. Also in 1957 there was a drought which reduced hydro output to 63% of normal and cost the company some $555,000 for additional coal to generate steam power. Despite recession effects on industrial operations, 1958 is showing a good comeback (after a dip in 1957 due in part to the large stock issue) with earnings of $1.36 for the 12 months ended Sept. 30 vs. $1.22 in the previous period, both figures being on average shares.

The stock has been quoted recently over-counter around 23½, and based on the current dividend rate of $1.10 (recently raised from $1) the yield is 4.7%. The price-earnings ratio works out at about 17.

Copley Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

COLORADO SPRINGS, Colo.—William N. Sharp has been added to the staff of Copley & Co., Independence Building.

With Columbine Securities

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Carl F. Dixon is with Columbine Securities Corp., 621 Seventeenth Street.

With H. Eatherton Assoc.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Harold L. Simonson has been added to the staff of Hersch, Eatherton & Associates, C. A. Johnson Building.

Two With Ideal Secs.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — William J. Jones and Salvatore J. Lombardi are now affiliated with Ideal Securities Co., 2185 Broadway.

Two With Everette Ballard

(Special to THE FINANCIAL CHRONICLE)

PARK RIDGE, Ill. — Erna L. Smith and Charles F. Southward are now with Everette E. Ballard, 505 Park Place.

Ingalls & Snyder Partner

Ingalls & Snyder, 100 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Richard M. Rossbach to partnership.

Batchker, Eaton Partner

On Jan. 2 Frank Rubinstein will become a partner in Batchker, Eaton & Co., 120 Broadway, New York City, members of the New York Stock Exchange.

IBA PAST PRESIDENTS

1943 - 44 - 45	1942 - 43	1939 - 40 - 41
		
John Clifford Folger	Jay N. Whipple	Emmett F. Connely

B. W. Pizzini to Admit

B. W. Pizzini & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, on Dec. 23 will admit Chester Bland to limited partnership.

Sage & Co. to Admit

Sage & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, on Dec. 29 will admit Sally Larsh Wreszin to limited partnership.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The short-term sector of the Government market continues to hold the spot-light, since the demand for the most liquid Treasury obligations is still sizable even in face of the larger offerings of these securities by the Government in order to raise new money to finance part of the deficit. Corporations are taking advantage of the offering of 182-day Treasury bills, since there are reports to the effect that they are changing over in many cases from the three months issue into the longest liquid obligation.

The longer-term securities are in much the same area as they have been, as the demand for these issues continues to be limited. Some switches for year-end purposes are being made, but again these swops are not too significant from the standpoint of size. State pension funds, according to advices, have been making selected purchases of the most distant issues.

Good Business Prospects for 1959

The look into the coming year by economists and financial specialists appears to indicate a fair degree of agreement as to how the economy is supposed to behave. It is evident from the predictions which are being made that it is believed the recovery will continue at a good pace, one not dissimilar to that which has been witnessed in recent months. The improvement in the automobile industry, as well as the rebuilding of inventories, is expected to give a modest fillup to the economy.

Based on these forecasts, it seems as though an orderly uptrend in the business pattern would not be out of order in the new year. As against these predictions, are the forecasts of those who hold the view that the recovery will tend to slow down in 1959, and this will take some of the froth off the inflation bias which has been and still is very strong. Nonetheless, none of the forecasts looks for a sharp set back in the economy in 1959.

Tighter Money Market Seen

Since it is evident that the economy will continue to improve, in the opinions of most financial specialists in the coming year, the demand for money and credit is quite likely to grow also. This means that the pressure will be in the direction of somewhat higher costs for borrowings, unless the monetary authorities are inclined to supply more funds to the money market.

Since the prevailing policy of the powers that be, is to keep money and credit pretty much in tow, and not add any more than is necessary to the money supply, so as not to build up the inflation psychology, it is being assumed in many quarters that the free reserve position of the deposit banks could be eliminated, with borrowings or negative reserves again coming back into the picture.

With a modest tightening in the money market, a distinct possibility because of the improving business picture, it would be unexpected to see the discount rate move up, as well as the prime bank rate.

Treasury to Borrow Steadily

The position of the Federal Treasury will also be a very important force in the money market in 1959, since there will be a deficit to finance, which means that the Government will be in the market to get needed funds. The operations of the Treasury of late have been mainly in the near-term sector of the Government market and, as long as this kind of borrowing goes on, the short-term rate is expected to show a rising trend. How long the Treasury can stay in this sector of the money market for its deficit financing is a matter on some conjecture, since the corporations that have been supplying these funds to Government will have use of this credit themselves with an expanding economy.

Possible Rise in Interest Rates

The long-term sector of the market—that is the capital market—will have its trend dictated principally by the amount of money which the Treasury will raise through the flotation of issues with more than a short-term maturity. To be sure, the corporate and tax exempt bonds that will be coming into the picture will keep the interest rate pattern in the capital market pretty much on the firm side, with some financial experts being of the opinion that a modest uptrend would not be a complete surprise. Accordingly, under such conditions, the demand for money and credit is not likely to show very much of a let-up in 1959.

Steckler & Moore Partner

Lee Bottome Fisher on January 1st will become a partner in Steckler & Moore, 120 Broadway, New York City, members of the New York Stock Exchange.

New Walston Branch

MIAMI BEACH, Fla.—Walston & Co., Inc. has opened a branch office at 1100 Kane Concourse, Bay Harbor Islands, under the mangement of Raymond F. Barron.

To Be Picoli, Caulfield Co.

The firm name of F. H. Douglas & Co., 20 Broad Street, New York City, members of the New York Stock Exchange, on Dec. 13 was changed to Picoli, Caulfield & Co.

To Be Weingarten Partner

Weingarten & Co., 551 Fifth Avenue, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Lewis H. Miller to partnership in the firm.

Continued from page 6

Where Are Our Greatest Foreign Investment Opportunities?

of the EEC to provide for a system to coordinate monetary policies. Here the International Chamber has come forward with some practical and hard-headed proposals to prevent inflation in Europe and bring the monetary policies of the six countries into line. In its recent study on international liquidity the International Monetary Fund cites this set of proposals with approval.

The choice of the country wherein a particular plant is to be established will require and deserve the most careful scrutinizing. Many considerations may have to be given their proper weight in such a decision.

The European Common Market may well offer an excellent opportunity for the sale of American capital equipment and for licensing agreements. Indeed, producers of each of the six countries will have to face competition in their domestic markets from manufacturers located in other common market states, unprotected by tariffs or import quotas.

In summary, the prospects for U. S. investment in Europe in the next 10 or 15 years, as well as license agreements and sales of capital equipment, seem very promising.

United States Opportunities in Under-Developed Countries

Let us now discuss the opportunities for U. S. private investment in under-developed countries.

The term "under-developed countries" usually refers to countries backward in technique and with levels of real income and capital per head of population which are low by the standards of North America and Western Europe. As generally used, the term covers the whole of Asia (with the exception of Japan), Africa, Latin America and parts of Eastern and Southern Europe. Defined in this way, the under-developed areas contain about three-quarters of the population of the world.

Under-developed countries differ from each other in institutional arrangements or in natural resources, or in the attitudes and skills of the population. These differences may influence the suitability of a particular country for economic development or the promise of profitable returns to capital investment. As Prof. Peter Bauer remarks, South America and some parts of Africa have no difficulty in attracting large-scale investments without direct government assistance. In other countries, for instance Indonesia, Malaya and Burma, sufficient productive resources may be available to attract external capital profitably but for the presence of political and institutional barriers. Yet other regions, for instance East and Central Africa, might prove suitable for development if certain changes are effected in the method of land tenure and in certain official policies, and also perhaps if certain basic services are provided by government.

Restrictions on the movement of people or on the acquisition and exericse of skills prevent the best use of available human resources. Governments of under-developed countries often support restrictionism by the encouragement of trade unions, or the introduction of minimum wage regulations. The effects on development of official restriction on the entry or activities of foreigners are likely to be particularly serious in the poorer countries.

The low level of capital in under-developed countries implies that capital is relatively expensive and unskilled labor cheap compared with the relationship in wealthier countries. Differences in the relative prices at which capital and labor are available influence the behavior of all who aim at economy in the use of resources. It follows that the economic efficiency (not to be confused with the technical efficiency) of methods of production in under-developed countries cannot be judged simply by comparing them with those familiar in North America or Western Europe. In under-developed countries many economic activities are performed with little or no capital. It is interesting to note that in spite of the rapid economic growth of the last 80 years, mechanization has been slow in Japan, except in a few manufacturing industries.

Because capital per head is high in economically advanced countries, it is usual to deduce that the key to the problem of the development of backward economies is the provision of capital on a large scale. More recent events and developments have made it clear that merely to supply a backward country with capital funds or with the most modern equipment will not ensure economic development even if the capital is given away. It is often nearer the truth to say that capital is created in the process of economic growth.

Many under-developed countries cannot use capital, even when available on reasonable terms, because of lack of entrepreneurship, or the lack of personnel with the required experience and skill. These factors do often curb the economic development of under-developed countries more effectively than the lack of physical capital assets. As Professor Kuznets has put it:

"The major capital stock of an industrially advanced country is not its physical equipment; it is the body of knowledge amassed, and the capacity and training of the population to use this knowledge effectively."

A report of the United Nations illustrates this point by the following incident: In Ethiopia, as in many parts of the under-developed world, the educated are often unwilling to learn jobs that entail "putting on overalls." Once during a display of some agricultural machinery the Emperor was informed that the young man who was sullying his hands in order to demonstrate its performance was a university graduate. "What I need as an exhibit here," said the Emperor, "is not that tractor, but that young man."

It is often said that capital formation in under-developed countries is practically impossible because of a low national income, which means a negligible rate of saving. Yet all the countries which today are economically and technically advanced began as countries which were as poor as some of the under-developed countries are today. Capital accumulation took place as part of a process of economic development, however low the income may have been at one time, because the general conditions and opportunities were favorable for economic growth. In these circumstances foreign capital has also often been available.

There are numerous impediments to private saving and investment in many under-developed countries. These include the imperfect maintenance of law and order, political instability, unsettled monetary conditions, the extended family system with its drain on resources and its stifling of personal initiative and certain systems of land tenure which inhibit saving and investment. All these impair the ability and willingness of people to take a long view, to save and to invest. Prof. Lockwood makes the following remark concerning the economic development of Japan: "The decisive difference between Japan and most of her Asiatic neighbors was not so much a greater disposition to save on the part of the Japanese as it was the more effective inducement to a high rate of investment in productive enterprise. Everywhere the process of capital formation has in some degree this boot-strap character."

Where, in under-developed countries, the general environment is not favorable to productive investment, it is likely that a large part of savings is kept in such forms as precious stones, metals, coins or textiles. Such objects of wealth are more readily concealed in times of trouble than buildings and equipment. Economic and political uncertainty also tends to encourage investment in trading rather than in manufacturing, because the assets are more liquid.

As a general proposition it can be said that when the political, economic and social environment of a country is favorable for domestic investment it will also attract foreign capital.

When the wealthy people of an under-developed country are prompted, because of domestic conditions, to export their capital or their savings, it is usually a very reliable signal that the situation is not favorable for foreign investment.

How Good the United States Prospects?

How good are the prospects for U. S. private investment in under-developed countries?

Narrow nationalism is rampant in all these countries. Are there ways of limiting its damages and canalize whatever constructive forces there are inherent in the nationalistic sentiment toward international cooperation and peace? A patriot understands and admires another patriot, while a rabid nationalist detests everything foreign.

In most of the countries which obtained in recent years political freedom, the anti-western feeling is strong, because it has its roots in the prejudices aroused by the colonial period. Some Asians even condemn the acceptance of foreign capital as a sign of colonial status.

Are these new countries ripe and ready to adopt political institutions and universal suffrage prevalent in the western world? I wonder. Democracy presupposes ability to choose, which implies education. It is hard to get proper political education even in countries without illiterate people. What chances are there for such education in countries where there are large numbers of illiterates, and where the leaders lack the sense of responsibility, when they are not corrupt, as it is often the case?

Many of these leaders are demagogues, with the result that "the revolution of rising expectations" is channelled into socialistic schemes and a welfare state. In most of the countries there is a decidedly anti-capitalist attitude.

One really wonders at times whether many of these countries want private foreign investment. The question arises because most of them are not creating the appropriate climate to attract such investments and encourage their growth. Nowadays, when they speak of foreign investments most of the under-developed countries think of government loans, or grants or aid.

If these countries wish private investment they should ask themselves a very simple question: "Why does a private individual, living in the capitalist countries, reputedly greedy according to socialistic or communistic propaganda, not take advantage of interest rates, as high as 10 or 12%, or even 15%, by investing in under-developed countries?" Should they answer this question candidly they would know what has to be done to attract foreign private investment.

There will not be large-scale private investment in the under-developed nations, if there is no compensation commensurate with the risk, if private foreign rights are violated, if there is fear of nationalization of enterprises, if socialism prevails and is encouraged, and if demagogic labor laws and wages are enacted.

Besides direct open violations of private foreign rights and in-

Continued on page 94

IBA PAST PRESIDENTS

1938 - 39

Jean C. Witter

1936 - 37

Edward B. Hall

1935 - 36

Orrin G. Wood

1934

G. W. Bovenizer

1931 - 32

Allan M. Pope

1930 - 31

Henry T. Ferriss

Continued from page 93

Where Are Our Greatest Foreign Investment Opportunities?

terests, the under-developed countries frequently make things difficult for foreign enterprises. Among them I would list: the withholding of essential raw materials, the refusal of import licenses, excessive taxation, exchange regulations, etc. As a distinguished German banker, Mr. Hermann Abs, put it recently: "Exchange regulations are the high-school of expropriation."

Any under-developed country that wants to do something about the dangers which impair the increase of capital exports to economically less developed countries, dangers deriving from the above - mentioned tendencies to disregard recognized rules of international law, can find all the information on how to proceed in the "Code of Fair Treatment of Foreign Investments" published by the International Chamber of Commerce.

I heartily agree with Mr. Hermann Abs that it is high time to arrive at an effective system of international protection of foreign rights. We must restore the sanctity of private property and private contracts. The capital - exporting countries together must take joint action to defend our rightfully acquired interests abroad. State-guarantees against political risks abroad do not serve the purpose.

Mr. Abs proposes an international convention by which all contracting parties, both capital-export and capital-import countries, undertake to treat foreign capital and other foreign interests fairly and without discrimination and to abstain from direct or indirect illegal interferences with such investment. Such a convention should provide a special court of arbitration which would have the task of determining whether cases brought before it involve violations of the above mentioned principles. The court of arbitration would be entitled by the terms of the treaty to oblige the member countries to refuse new private or public loans and credits to the defaulting country unless it was prepared to restore the infringed interests within a specified period of time.

An international effort should also be made to discourage unprofitable lending to finance exports. Mr. Hermann Abs proposes that we draw up some basic principles to be applied to government assistance granted for long-term export credits.

The Attempt at Acceleration

Many of the under-developed countries are seeking to achieve in a generation an economic growth that took a century and more in the now industrialized states. Economic growth necessitates both domestic savings and foreign investment.

How can the free world make a concerted effort to unite the advanced and retarded areas in common economic enterprises?

To this effect government aid may well be necessary. If sound principles are followed in the granting of such aid, it can lend real support to private capital exports. But excessive reliance upon government aid will discourage private investors in both the capital-exporting and capital-importing countries. It will also encourage in the capital-seeking countries the hope of receiving foreign government funds, instead of providing the right climate for foreign private investment. Yet the capital needs of the under-developed countries are so large, that substantial and relatively rapid economic growth can be achieved only if government aid is supplemented by a great inflow of private foreign investment.

One of the greatest dangers which hangs over any program of government to government aid is that big plans will be drawn up which have little worth even from a political point of view. There is a constant threat that government aid will cause resources, whether foreign or domestic to be misdirected into uneconomic projects. It may be desirable also in the field of government aid for the capital-exporting countries to coordinate policies to be followed in giving financial aid to other nations. For example, public funds should not be invested in foreign countries to encourage socialism or a narrow policy of national self-sufficiency.

Most of the under-developed nations anxious to obtain a rapid economic growth are faced with two important decisions: (1) Whether they should follow a policy in which the government establishes and operates industries, and (2) whether the government should encourage foreign investment.

Some of the wisest men in the under-developed nations advocate that government should undertake only projects of the "social overhead" type (like roads, harbors, irrigation, etc.) while industrial plants should be established and operated as private enterprise.

Others seem to recommend policies for large countries different from those of small countries. They think that in countries with large markets, like India, the government should pioneer a few industrial projects for basic industries, like steel, for instance, which may later be turned over to private ownership, as was the case in Japan and in the Philippines. Smaller countries, however, should not depart from the policy of leaving it to private enterprise to establish and operate industrial plants and commercial organizations.

As you realize, the question of how to make the free world united in a concerted effort to bring together the advanced and retarded areas in common economic enterprises is a very difficult and complex one. It will require a great deal of realistic thinking on the part of our most experienced men, and, as importantly, the close cooperation of all capital-exporting nations.

The potential opportunities for private investment in the under-developed countries are undoubtedly very great. Their profitable realization will be hampered, however, as long as the governments of the capital-exporting and capital-seeking nations will not have taken measures able to eradicate the obstacles to private investment.

A substantial share of the responsibility for creating the climate and conditions favorable to private investment falls on the leaders in the under-developed countries. The most important one is to adopt monetary and fiscal policies which will give the country a sound currency, freely interexchangeable into those of other countries. In this respect I wish to stress our own duty and responsibility. It seems evident to me that monetary order in the free world can be restored only if the United States takes the proper initiative and assumes the leadership which belongs to it because of the colossal economic power it wields in the world. The issue of sound currencies is not only a practical one but also one of morality. There was a time when the big countries of the western world were giving the small countries an example of good behavior. Unfortunately we can't say as much for the policies of our governments nowadays. We have foregone discipline in monetary matters, just as we have become accustomed to the use of expediency in tackling most of our problems.

One of the bitterest complaints of the under-developed countries is the violent price changes of raw commodities. For a number of economic reasons prices for many raw materials are much more unstable than the prices of manufactured goods. As a matter of fact, it is because of these wide fluctuations that many of the under-developed countries wish to industrialize and diversify the products made domestically. Rubber, for example, just in the past four years, has doubled in price once, and then fallen back to roughly the level from which it started. Most other raw material prices have also fluctuated widely. The governments are seeking methods to reduce the extent of these price fluctuations without at the same time creating worse economic problems. Our government rightfully opposes international commodity agreements for the support of raw commodities. However, I share the view that we can and should prevent abnormal or exaggerated swings of the business cycle which are greatly responsible for the violent fluctuations of raw commodities. I entirely agree with the Chairman of the Federal Reserve Board, Bill Martin, that the best way to prevent a slump is to avoid a boom artificially over-stimulated. For instance, it is inexcusable that we should have superimposed credit inflation right on the heels of a money inflation due to the monetizing of debt to finance the war.

Businessmen themselves can make a valuable contribution to the operation of a steady economy. For instance, I for one can find no good excuse for a policy which makes it necessary to produce $7\frac{1}{2}$ million automobiles one year and four million the next year. Neither is it wise to over-stimulate the appetite of the consumer by low down payments and too easy credit terms in properous times. Efforts for increasing instalment sales should be made in times of recession and not in times of boom.

There is no doubt that too large swings of the American business cycle are also dangerous for the countries with which we trade, and particularly for the countries producing raw commodities. The recent American recession has strongly affected those countries. It has created unsolvable problems and, as always, demands for aid from America, leaving aside the ill-will toward our country. It is to the interest of our own country and that of our international relations that we manage our economic and monetary affairs with restraint and wisdom. It can be done, but only with good government and not with the powerful monopolistic labor unions we have at present in our country.

There is still another thing we can do to relieve the international economic tensions and pressures. Economic nationalism and the often unjustified efforts made toward national self-sufficiency would not obtain the support of so many nations if our international trade policy were more liberal, and if we would prevent abnormal swings in our business cycles. Our recent enactment of quotas on imports of lead and zinc are a good example of our inconsistent actions. The most sound and most effective way of obtaining well-being in the world and the benefits of technological progress occurring in the industrialized countries is freedom of international trade.

Doubts About Prevalent Concepts

At the beginning of my speech I referred to the opinion that our best chance to prove to the yet uncommitted countries the superiority of freedom is to make India the show window of free enterprise. It is being contended that we have scattered our aid over too many countries, with the result that the effect was slight in each country. It is suggested that we concentrate on the economic growth of India in order to show what a non-communistic economy can produce. It is maintained that if communism succeeds in raising the rate of economic growth in China substantially above that of India in the next decade, the lure of communism will be tremendously increased and it will sweep the under-developed countries.

While this theory has taken hold of the imagination of many people I doubt whether it is a realistic view. One of the most abundant resources available to under-developed countries are human resources. In communist countries like Russia and China the human resources are intensively exploited by totalitarian methods. This policy does not seem possible in a country like India, which enjoys all the technical trappings of a democracy and which still has social institutions like the caste. These circumstances do not make for an efficient exploitation of human resources. It has always seemed to me that one of the secrets of the American economic growth and development was precisely the optimum utilization of human capabilities. Besides, there are religious taboos in India which make a great part of the cattle an economic liability instead of an asset.

Secretary Dulles in his press conference of Nov. 27, probably having in mind the same issue, made the following remarks: "I don't anticipate that it is practical or necessary that the rate of capital development be as rapid in all of these countries (in south and southeast Asia) as it is in the case of the communist countries which use slave labor on a massive scale. Obviously you can do something more rapidly if you turn everybody into slaves, if you disregard family feelings, family relationship, separate the men and the women, separate the children, make all work just like packhorses. I don't think that you can match the rate of progress that is made by that sacrifice of human value. It is not necessary to have that rate of progress. It is necessary to have enough progress so that there is a feeling of dynamism, and that the people are getting out of what I refer to as a permanent stagnant condition."

It is good that the Secretary of State should have said these things because otherwise in a few years we may draw wrong conclusions by comparing situations which have no common measure.

When we Americans look abroad we must keep in mind that we are living in the most revolutionary period of human history. There are a half-dozen forces loose in the world today, anyone of which might tear apart the seemingly solid fabric of our life here in America. Nationalism, and narrow nationalism at that, the awakening of great masses of people to a desire for a better life, the most rapid growth of world population in history, and the technological revolution are all at work. Each of these forces alone would be enough to cause serious disturbances in the world. Coming together as they do they create a highly explosive mixture. The destiny of the free world will depend on the manner in which we meet this awesome challenge of our times.

It will require more intelligence than dollars, enlightened selfishness and unselfishness of the free nations, and a great sense of responsibility of their leaders, if we are to stave off the flux of the barbarians. So help us God.

Continued from page 6

This Growing Economy And the Federal Budget

level of output than the United States, so that the absolute gains, distinguished from the percentage gains, are much greater in the United States.

In absolute terms, the total value of U. S. S. R. production has been estimated to be about one-third the U. S. level. Then, too, the Soviets have been able to apply advanced technology and industrial techniques already in existence to produce these results. As they approach the American state of industrialization and mechanization, they will find that they will be less able to benefit from existing available methods.

For the long run, our own expectations for continued growth rest on the fact that the forces which have generated our past growth are still very vital and very strong.

Our population is still growing and we are living longer and healthier lives.

Our productivity is still climbing. From 1947 to 1956, the average annual increase in output per man-hour was between 3 and 4%, compared to the long-run 2%. Although the increase did slow during the past couple of years, it seems to be about to make up the loss.

Our technological process shows no sign of slackening. Research on both the private and public levels continues its amazing output of new inventions and new ways of doing things.

The skill of our labor force and of our managerial staff improves, both from experience and as a result of our broadening educational base.

These and other factors combine to make us confident. The Committee for Economic Development, in a recent report, has estimated that if we continue at the average annual rate of growth since 1900, our Gross National Product by 1975 would exceed $700 billion, as compared with $440 billion in 1957. This is not a prophecy, but an arithmetic which takes into account the human and material resources of our Nation.

The Job Ahead

There are three broad objectives, as I see it, which should guide national policies in the coming years and decades, if we are to maintain our position in the world.

First, I believe that it is important for all of us to be confident of the built-in strength of our economy, and aware of the stabilizing factors now existing in government programs, so that we do not panic into demanding massive Federal intervention at the first signs of downturn. And it is just as important to exercise judgment and discrimination when we do decide on government actions to accelerate recovery.

I hope we have learned some lessons in the past year, as to when government action is effective—and when it is not—in dealing with unemployment and a slowdown in the economy. You may remember — certainly I remember! — the loud chorus of demands for all kinds of new WPA-type programs and spending panaceas. Public works were the favorite solutions advanced, and some of them were enacted into law despite the administration's contrary advice. For its part, the administration put forward a sound plan for extending unemployment insurance benefits, and this also was enacted. The added unemployment payments were immediately put to work in the economy, and they did exactly what they were supposed to do, and in time. By contrast, very little resulted from the public works authorizations in time to do the recession any good, for the reason that public works are slow in getting under way. Instead of meeting the needs of the recession, the added public works programs are only now beginning to take hold, after the fact, and at a time when, by all standards, we ought to be spending less, not more.

We have had an expensive lesson in economics as well as in national psychology. If we remember it, and profit from it, we may have acquired a little more perspective and maturity with which to approach the future.

Second, we must advance without inflation, or our growth will be seriously undermined. A growing economy is only in part a matter of restless technology, high employment, good wages, and expanding markets. It is just as dependent on a sound foundation of relatively stable costs, wages, prices, purchasing power, and public budgets. I think it is fair to say that the inflation fears that are now the center of public attention have been triggered to a considerable extent by the unexpected magnitude of the Federal

Continued on page 96

IBA PAST PRESIDENTS

1929 - 30 | 1926 - 27 | 1925 - 26 | 1915 - 17

Trowbridge Callaway | Pliny Jewell | Ray Morris | Lewis B. Franklin

Continued from page 95

This Growing Economy And the Federal Budget

budget deficit of more than $12 billion in this fiscal year.

I think the American people *should* be concerned about the threat of inflation as a consequence of deficit financing during a period of vigorous economic recovery. This is the whole point in what the President is trying to accomplish in containing expenditures in the forthcoming Federal budget. We just cannot satisfy all the demands for government spending, and still balance the budget within foreseeable revenues.

Third, in any budget — yours, mine, or the government's—first things must come first. After the bare necessities are provided for, other programs can be considered out of what income remains, if any. We need the kind of budget for the next several years which puts some definite choices up to the American people.

If we can't afford what some special group asks, the government shouldn't spend it.

If one group of our citizens has grown accustomed to subsidies or benefits which are out of all proportion to reality, the government should scale those benefits and subsidies down to what we can afford.

If we cannot carry out the wishes of the majority with the present tax structure, the government should spell out what new taxes must be raised.

If the people want protection in a world of tension and danger, without more taxes, the government should remind them of the sacrifices they will have to accept.

It is time for realism in government finances — in the Federal Budget.

This is one practical way to reduce the risks of inflation and to help our economy to "grow" in the right sense of the term.

This is not an easy course. It means that we must find a way to finance our defense needs, our needs for the security of the free world, and our needs for domestic public services, all without impairing necessary private investment or family consumption, and without raiding the tax base required for essential functioning of state and local governments.

This sounds like a Budget Director's dream of the impracticable, if not the impossible. Nevertheless, it is precisely what lies at the heart of fiscal policy planning at the Federal level.

Submits Startling Figures

Some of the figures are startling. Today, the combined governmental tax take in this country — Federal state and local — already amounts to over 26% of national income. The cash expenditures of the Federal Government alone constitute about $95 billion in a total Gross National Product of roughly $450 billion. In constant dollars the Gross National Product has more than doubled from 1929 to 1957, but total Federal expenditures have increased 12 times!

But these trends will not easily be reversed. Foremost, I think we must accept the prospect that military costs will continue to absorb about 50% of the total Federal budget for years to come, unless some secure resolution of world tensions is achieved. Defense comes high, in this age of technological advance. We can insist that defense dollars be stretched through careful management and strict standards of economy, but this will produce little relief, in the dimensions we are dealing with. When you add to direct defense expenditures the other bills we must pay for the costs of past wars and for international security for the free world, the total comes to 77% of the going budget.

Meanwhile, our society is not standing still. Other imperatives are pressing for consideration. The space age is with us, and to meet its challenge will be expensive. Education, health research, the rebuilding of our cities, the irrigation of our lands, the development of practical new forms of energy, the building of highways and airways to handle tomorrow's traffic, the need for recreation facilities, the demands of our aging population for new services —all these and other responsibilities are being urged upon government at every level, as the character of our society changes, and as a growing economy generates new requirements without releasing government from any of its present responsibilities.

The problem comes down to one of resources — human, material, and financial. We cannot take our resources for granted, or assume that they are without limits, or expend them thoughtlessly. In every ordered society, there is a sense of values, a recognition of priorities. Paramount in preserving our values is the belief in financial stability as an essential of a social system built upon order. Without that stability, there can be no solid growth, no secure achievement. Without priorities in our purposes, there can be no balance, no equity, no adherence to realities.

Government can do only so much, and there is a responsibility on every citizen and every pressure group to think well on their stake in a sound economy, free of the cancer of inflation. The old-fashioned test of ability-to-pay needs to be dusted off and put back on the mantel piece as a reminder that there are limits on the capacity of government to render services of every description, without veering dangerously close to pulling the rug from under the society we prize so highly.

Growth—and Responsibility

It is a striking paradox, at least to me, that so many Americans in positions of influence and power can be most eloquent in describing our country's fabulous economic growth, without realizing at all the necessity for dealing responsibly with the new conditions which have been created by that very growth.

Why is it that some business leaders join taxpayers organizations to bring pressure on the government to cut expenses, and yet support industry groups seeking more government subsidies?

Why is it that some labor leaders press hard for wage increases to keep up with the cost of living, and then urge a massive program of legislative action which, if adopted, would lead to more deficit spending, higher taxes, and inflation—all of which could only demoralize the value of wages earned?

Why is it that some farmers at once embrace the new farm technology which multiplies crop production, and demand a structure of government price supports and other benefits and services which, at an annual cost to the American taxpayers of between $7 and $8 billion, is exceeded only by defense expenditures and debt service?

Why is it that many politicians, sensible of responsibilities, too often choose to play the demagogue in an age when the people are waiting to be offered not cake and circuses, but evidence that their future—and their children's future — is the first concern of representative government?

We cannot safely run this country on a mixture of selfishness, provincialism, voting blocs, sectional or economic antagonisms or coalitions, nor a simple faith that —no matter what happens— everything will turn out all right in the last chapter. That might have been good enough 50 years ago, if then, but we live today in an entirely different world, and horse-and-buggy thinking will not pull us through the strains and crises which lie across our path to survival and achievement.

The Test We Face

I return to the point which I made at the beginning, my plea for sanity in government finances as one essential way of guarding our economy.

In a very few weeks the President will submit a new budget to the Congress, for fiscal year 1960. It will be a budget tailored to the facts of our economic life. It will be as tight a budget as the President can make it, in the fact of existing laws.

The new budget will run into sharp criticism because of the very fact that it will be tight. It will likewise be met by criticism on the part of those who think it should be even tighter.

We can't have it both ways. If the thinking people of this country, including the economists who know the difference between a strong economy and an inflationary economy, will unite to hold expenditures from exceeding the budgeted levels, we will have a good chance to stabilize our affairs and consolidate our financial position. We must do these things, and accept some sacrifices, for tomorrow's sake as well as for today's.

We are facing a test. We can unite and meet it, or we can divide and escape it—but we will not escape it for long, and it will be that much harder to deal with when it returns. That we can be sure of.

The Image of America Abroad

We have always risen to tests confronting us as a nation. Now, it is easy to recognize the signs of danger where aggression or open war is involved. We can equally recognize danger when our economy is sliding downhill. But it is a very hard thing to persuade people to become concerned when their economy is showing boom signs, when wages are going up, when money — both private and public—is flowing plentifully, and credit is available to anyone who seeks it. How do we dramatize the danger of threatened inflation and its corrosion of the value of our dollar?

Let me tell you that throughout the world at this moment, our economic way of life is beginning to be doubted. In Europe and in the East, the nations which have been victimized and demoralized by inflation are watching to see whether the people of the greatest free enterprise nation on earth will face the present emergency and deal with it effectively. We are being tested, and much hangs in the balance for our hopes of persuading the remaining outposts of the free world that our system can endure.

A year and a half ago, in a memorable speech in Chicago, August Heckscher of the Twentieth Century Fund carried this thought further, although in a different context. After speculating on the coming changes in American life, he said:

"In such a world, we shall never be able to escape the realization that we are being watched and judged. The underdeveloped countries look to the United States with eager but critical eyes. We export a revolution. Let us not delude ourselves into supposing that we shall be able to escape spelling out at home the full consequences of that revolution. We cannot pause, even if we would. We dare not hold back. Men's hopes wait upon us; men's enmity and envy wait also, to see whether we shall fall short of the promises we have made. Either industrialism shall prove in us to be capable of achieving leisure and abundance and dignity for man, or else we, together with the freedom we have upheld, shall do down in history as a tragic failure. With that alternative before us, is there any choice but to summon all the wisdom, all the humanity we are capable of, and to bring these fierce energies and this feverish plenty into the full light of the service of man?"

Conclusion

I have faith in our power to sustain a growing economy. If there is a danger, it is one of our own making. We can become so absorbed by the illusions of growth that we may lose sight of the realities. Our opponent across the Iron Curtain is a realist, and his strategy is a triple-threat offensive. We must match realism with realism. There can be no victory without some cost, some sacrifice. It will not come easily, but it will come if we face up to the facts and be guided by them.

In your university, where perspective flourishes and is respected, these problems can perhaps be most wisely thought through. The great ideas which inspired men have bred from intellect and vision, and in what Cardinal Newman called "a pure and clear atmosphere of thought," are treasured here. As thinking men and women — alumni, teachers, and students—you have both the opportunity and the responsibility to come to grips with the issues of our times, and, in the process, to preserve, to illuminate, and to enrich this great, growing and widely-shared American economy.

Continued from page 4

The State of Trade and Industry

Ford Motor Co., American Motors and Studebaker - Packard plants fattened their assembly programs a week ago with six-day and overtime efforts.

General Motors car production was prepared to reach its highest level since December 3 to 8, 1956; Ford Motor Co.'s goal was its greatest since November, 1957; American Motors was shooting for an all-time company peak and Studebaker-Packard programmed its heaviest volume in three years.

The present assembly rates indicate the four millionth car of calendar 1958 will be built Wednesday, December 17 declared "Ward's." Through the past week the total stood at 3,940,044. A figure approximately 4,250,000 units for entire 1958 appears likely at this time.

"Ward's" estimate for trucks last week was 22,592 units compared to a similar 22,596 count the week before. A strike-caused closedown of International Harvester plants entered its fifth week the past Thursday.

Through this week, 1958 truck output stood at 820,456 units. The 12-month total will neighbor 875,000 units, "Ward's" indicated.

The dollar value of new construction put in place declined less than seasonally to $4,400,000,000 in November from the prior month's $4,700,000,000, but exceeded the $4,200,000,000 of November 1957, the United States Departments of Commerce and Labor report. At $45,000,000,000 the total for the first 11 months of this year was nearly 2% higher than the $44,300,000,000 of the comparable 1957 period.

Although the number of new business incorporations fell noticeably in November from the prior month, the level was sharply above a year ago and the highest for any November on record. The number of new charters issued in November was 12,090, or down 19.1% from October's all-time record of 14,951, but exceeded the 9,270 of November 1957 by 30.4%.

For the first 11 months of this year, new company formations came to 133,822, or an increase of 6.1% over the 126,122 of the similar 1957 period. The current level is the highest 11 month aggregate on record.

Steel Output Expected to Increase This Week to 75.4% of Ingot Capacity

Steelmaking operations last week were at the highest point of the year and the current week should be about equal, "Steel" magazine stated on Monday last.

Mills operated at 75.5% of capacity, up one point from the previous week. Production was about 2,038,000 net tons of steel. Ten out of 12 steelmaking districts reported higher rates or operations at the same level as follows: Detroit at 97% of capacity, down 3 points; St. Louis at 94, up 6 points; Cincinnati at 86, up 4.5 points; Chicago at 85.5, up 0.5 point; Wheeling at 83.5, up 0.5 point; Western district at 79, down 1 point; Cleveland at 73.5, up 3.5 points; Pittsburgh at 72, up 5 points; Eastern district at 71, no change; Buffalo at 68.5, up 2.5 points; Birmingham at 65, up 2.5 points; and Youngstown at 60, without change.

The United States Supreme Court gave steelmakers a big Christmas present and assured them a happier New York the past week in reversing the Memphis decision.

The metalworking weekly observed that a resurgence of line pipe demand in 1959 can be counted on as natural gas companies resume expansion programs that were shelved 13 months ago. Shipments of line pipe may jump 30%, it declared.

The Supreme Court reversed a lower court decision of November 1957 that companies could not raise rates without customer consent. Previously, six months' notice was required and increases were subject to review by the Federal Power Commission.

Pipeline people lost much of their zest for expansion. The combined forces of law and recession pulled line pipe shipments down from 1957's record high of 4,200,000 tons to this year's estimated 2,600,000 tons.

Manufacturers of drill pipe, tubing and casing hope the revival of interest in pipeline programs will also mean better business for them.

About one-third of United States metalworking plants will expand in 1959, a "Steel" survey shows. Of those, 10% will build new plants; 35% will make additions and 70% will buy equipment. In all, plant operation capacity will be hiked 2.6%. Metalworking management has taken a look at long range prospects and the future appears to be so good they want to get ready.

The major appliance industry is approaching 1959 with cautious optimism, the magazine reported. Industry leaders anticipate a 5 to 10% increase over 1958 sales, but price cutting on the retail level and low profit margins are worrying appliance executives.

"Steel's" composite on the prime grade of steelmaking scrap dropped again for the fourth consecutive week. Down 50 cents, it stands at $39.17 a gross ton.

The magazine reported that scrap sales are off 50% in the first eight months of 1958, as against the same period in 1957 and consumption is off 39% for the first nine months. Inventories are up 25% above year ago levels as of Oct. 31.

Two main problems confront the industry, this trade weekly added. Advancing technology has caught up with scrap and steelmakers are using less of the material. Steel operations went up 59% from October 1957 to April 1958, while scrap usage increased only about 35%. Many big automakers and other large scrap generators are selling directly to steel mills, "Steel" magazine concluded.

The American Iron and Steel Institute announced that the operating rate of steel companies will average *126.7% of steel capacity for the week beginning Dec. 15, 1958, equivalent to 2,036,000 tons

Continued on page 98

Continued from page 97

The State of Trade and Industry

of ingot and steel castings (based on average weekly production for 1947-49) as compared with an actual rate of *123.6% of capacity, and 1,985,000 tons a week ago.

Output for the week beginning Dec. 15, 1958 is equal to about 75.4% of the utilization of the Jan. 1, 1958 annual capacity of 140,742,570 net tons compared with actual production of 73.5% the week before.

For the like week a month ago the rate was *124.5% and production 2,000,000 tons. A year ago the actual weekly production was placed at 1,742,000 tons or 108.4%.

*Index of production is based on average weekly production for 1947-1949.

Electric Output Set a New All-Time High Record in the Past Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Dec. 13, 1958 was estimated at 13,450,000,000 kwh., according to the Edison Electric Institute. Output last week recorded a new all-time high record. The previous all-time high was reported in the week ended Dec. 6, 1958 at 13,017,000,000 kwh.

For the week ended Dec. 13, 1958 output increased by 433,000,000 kwh. above that of the previous week and by 880,000,000 kwh. above that of the comparable 1957 week and by 1,230,000,000 kwh. above that of the week ended Dec. 15, 1956.

Car Loadings Rose by 10.3% in Post-Holiday Week Ended Dec. 6

Loadings of revenue freight in the week ended Dec. 6, 1958 were 55,285 cars or 10.3% above the preceding holiday week.

Loadings for the week ended Dec. 6, 1958 totaled 594,476 cars, a decrease of 23,360 cars, or 3.8% under the corresponding 1957 week, and a decrease of 143,775 cars, or 19.5% below the corresponding week in 1956.

Car Output Curtailed the Past Week by Labor Trouble at Chrysler Plants

Passenger car production for the week ended Dec. 12, 1958, according to "Ward's Automotive Reports," was cut by strikes and production halts stemming from strikes at Chrysler plants.

Last weeks' car output totaled 142,609 units and compared with 147,361 (revised) in the previous week. The past week's production total of cars and trucks amounted to 165,201 units, or a decrease of 4,756 units below that of the previous week's output, states "Ward's."

Last week's car output dropped under that of the previous week by 4,752 units, while truck output declined by 4 vehicles during the week. In the corresponding week last year 145,503 cars and 22,691 trucks were assembled.

Last week the agency reported there were 22,592 trucks made in the United States. This compared with 22,596 in the previous week and 22,691 a year ago.

Lumber Shipments Rose 1.9% Above Output in the Holiday Week Ended Dec. 6, 1958

Lumber shipments of 464 reporting mills in the week ended Dec. 6, 1958 were 1.9% above production, according to the "National Lumber Trade Barometer." In the same period new orders were 3.1% above production. Unfilled orders amounted to 33% of stocks. Production was 14.8% above; shipments 1.5% above and new orders were 11.5% above the previous week and 13.2% above the like week in 1957.

Business Failures Turned Downward the Past Week

Commercial and industrial failures declined to 267 in the week ended Dec. 11 from 294 in the preceding week, Dun & Bradstreet, Inc. noted. Casualties were slightly lower than last year when 269 occurred, but they continued above the 249 in 1956. Compared with the prewar level, failures were off 1% from the total of 270 in the similar week of 1939.

Liabilities of $5,000 or more were involved in 229 of the week's casualties, falling from 254 in the previous week and 235 a year ago. On the other hand, small failures under $5,000 dipped to 38 from 40 last week, but exceeded the 34 of this size in 1957. Twenty-three of the failing concerns had liabilities in excess of $100,000 as against 28 in the preceding week.

Retail failures dropped to 122 from 155 a week earlier, construction to 40 from 48 and commercial service to 19 from 23. In contrast, the toll among manufacturers climbed to 54 from 40 and among wholesalers to 32 from 28. More businesses failed than a year ago in manufacturing and trade lines. Only construction and service mortality dipped below 1957 levels.

Geographically, all of the week-to-week decrease was concentrated in four regions. East North Central casualties fell to 30 from 47, West South Central to 13 from 20, Pacific to 68 from 74 and New England to 8 from 14. Increases, on the other hand, prevailed in five regions, including the Middle Atlantic States where the total edged up to 97 from 95. Trends from a year ago were mixed with three regions suffering heavier casualties, five had lower failures, while one area reported no change. The most noticeable decline from last year occurred in the East North Central States, whereas the South Atlantic States reported the sharpest rise from 1957.

Business failures, running contrary to the usual seasonal rise in November, fell 12% to 1,121, the second lowest toll this year. The decline occurred among concerns of small and medium size, in all types of business except construction and in six of the nine major geographic regions. Casualties were 4% less numerous than in November of last year. Concerns were failing at an annual rate of 56 per 10,000 listed enterprises, off fractionally from the rate in 1957.

Despite the downturn in number of casualties, their dollar liabilities climbed 20% to $56,700,000 in November, boosted by a rise in failures involving liabilities above $100,000. This size group was also responsible for the 7% increase in liabilities from November a year ago, Dun & Bradstreet, Inc., reports.

Wholesale Food Price Index Declined Below Last Year for Second Straight Week

For the second consecutive week, the Dun & Bradstreet wholesale food price index slipped below that of the similar date a year ago. On Dec. 9 the index stood at $6.38, down 1.1% from last year's $6.45 and 0.2% below the $6.38 of the preceding week.

Moving upward in wholesale cost the past week were oats, barley, hams, butter, sugar, milk, cottonseed oil and hogs. Lower in price were flour, wheat, rye, bellies, lard, coffee, cocoa, eggs, potatoes and steers.

The index represents the sum total of the price per pound of 31 raw foodstuffs and meats in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Recorded Further Losses in Latest Week

The general commodity price level fell moderately again the past week, for the third consecutive weekly decline. The decrease was attributed to lower prices of lard, hides, cotton, rubber and steel scrap. On Dec. 8, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., stood at 275.41, compared with 275.64 a week earlier and 278.46 on the corresponding date last year.

Mixed trends prevailed in grain prices during the week. Although trading was unchanged, corn prices closed slightly higher than in the prior week. Improved mill demand, increased flour bookings and better export trade resulted in a fractional rise in wheat prices. Supplies of oats were light and prices edged upward. The call for oats was close to that of a week earlier.

Reflecting the strength in the meal market, soybean prices matched those of the preceding week. Wholesalers in most markets and especially Minneapolis, reported a marked decline in soybean trading.

After several weeks of sluggish activity, flour trading picked up noticeably during the week. There was a slight rise in export sales to Venezuela. Flour prices rose fractionally as stocks were reduced. Flour mills in October operated at 92.5% of capacity compared with 93.3% in the prior month and 88.7% in October 1957.

There was a marked rise in rice exports during the week, but prices were unchanged. Although purchases of cocoa were steady, prices declined somewhat. A moderate expansion in sugar trading occurred and spot prices moved up into higher ground. Following a moderate dip in sales at the wholesale level, coffee prices slipped during the week.

The salable supply of hogs in Chicago rose noticeably from the prior week and prices, as a consequence, declined moderately. Cattle receipts were off a trifle, but prices remained close to the preceding week. Lamb trading was sluggish and prices registered moderate losses.

Cotton prices on the New York Cotton Exchange fell during week to the lowest levels since early August. Influenced by the prospective sharp rise in crop production and a sluggish export market, cotton trading dipped appreciably. Exports of cotton during the week ended Dec. 2, amounted to about 56,000 bales compared with 87,000 bales in the prior week and 80,000 in the similar week a year ago. Total exports for the current season to date came to about 1,055,000 bales as compared with 1,743,000 in the comparable year ago period.

Trade Volume Aided in Past Week By Cold Weather and Sales Promotions

Cold weather and sales promotions spurred Christmas shopping last week and total retail trade moderately exceeded that of a year ago. The most noticeable year-to-year gains occurred in men's and women's apparel, traditional gifts, toys and lamps. According to scattered reports, sales of new passenger cars moved up again with the volume close to that of a year ago.

Total dollar volume of retail trade in the period ended on Wednesday was 1% to 5% higher than a year ago, spot estimates collected by Dun & Bradstreet, Inc., reveal. Regional estimates varied from the comparable 1957 levels by the following percentages: Middle Atlantic States +4 to +6%; East South Central +3 to +7; South Atlantic +2 to +6; Mountain and Pacific Coast +1 to +5; East North Central and West North Central 0 to +4; West South Central —1 to +3; and New England States —4 to 0%.

Shoppers stepped up their buying of women's sportswear, dresses, lingerie and fashion accessories. The volume appreciably exceeded that of last year. Increased purchases of men's furnishings and topcoats during the week boosted over-all sales of men's clothing moderately over that of the similar 1957 week. The call for children's merchandise was up somewhat with the most noticeable gains in boys' slacks and sweaters and girls' dresses and skirts.

Furniture stores reported moderate year-to-year gains in sales of occasional tables and chairs, but interest in upholstered chairs and bedding was down somewhat. Although volume in television sets, lamps and lighting fixtures climbed over last year, the call for most other major appliances was down somewhat. Slight year-to-year declines occurred in floor coverings, linens and draperies. Following several weeks of sluggish activity, an upsurge in the buying of toys and traditional gifts occurred during the week, expanding sales substantially above the level of a year ago.

Food sales moved up slightly from a week earlier. Housewives were primarily interested in canned fish, vegetables, baked goods and some dairy products. Volume in frozen foods, fresh meat and poultry remained unchanged.

Wholesalers reported a marked rise in orders for men's Spring suits during the week and volume moderately exceeded that of a year ago. Re-orders for men's furnishings matched those of the prior week. The recent upsurge in the buying of women's Winter coats and suits resulted in an appreciable gain in re-orders at wholesale. The call for children's Winter clothing climbed somewhat with principal gains in girls' sweaters and skirts.

Over-all textile trading slackened last week, but remained somewhat higher than a year ago. Transactions in woolens and worsteds slipped during the week, but sales of carpet wool were steady. There was a moderate decline in orders for cotton gray goods, wide industrial fabrics and man-made fibers. Mid-Atlantic dyers and finishers reported that incoming orders were sustained at a high level.

Attracted by openings in New York City, buyers stepped up their orders for draperies the past week. Volume was equal to that of last year. Interest in floor coverings, furniture, linens and most housewares were sustained at the preceding week's level. Although interest in lamps and lighting fixtures moved up appreciably, the buying of refrigerators, laundry equipment and television sets held unchanged from a week earlier. There was a last minute rush in re-orders for toys and volume was moderately higher than in the similar 1957 week.

Food buyers stepped up their orders for canned goods, frozen foods and fresh produce the past week. Interest in dairy products, fresh meat and poultry held steady, but the call for flour, cocoa and coffee slipped slightly.

Department stores sales on a country-wide basis as taken from the Federal Reserve Board's index for the week ended Dec. 6, 1958 advanced 7% above the like period last year. In the preceding week, Nov. 29, 1958 an increase of 1% was reported. For the four weeks ended Dec. 6, 1958 a gain of 3% was registered. For the period Jan. 1, 1958 to Dec. 6, 1958 no change was recorded from that of the 1957 period.

According to the Federal Reserve Board's index, department store sales in New York City for the week ended Dec. 6, 1958 increased by 9% from that of the like period last year. In the preceding week, Nov. 29, 1958, an increase of 1% (revised) was reported. For the four weeks ended Dec. 6, 1958 a gain of 2% was noted. For the period Jan. 1, 1958 to Dec. 6, 1958 an increase of 2% was registered above that of the corresponding period in 1957.

J. Augustus Barnard

J. Augustus Barnard passed away Dec. 3rd at the age of 87 following a long illness. Mr. Barnard was a limited partner in Dominick & Dominick.

Harold W. Pierce

Harold W. Pierce, limited partner in Tucker, Anthony & R. L. Day, passed away Dec. 1.

Walters, Peck & Co. Partner

Bradford C. Laube on Dec. 24 will acquire a membership in the New York Stock Exchange and will become a partner in Walters, Peck & Co., 11 Wall Street, New York City, members of the New York and Midwest Stock Exchanges.

IBA GROUP CHAIRMEN

WESTERN PENNSYLVANIA	NORTHERN OHIO	OHIO VALLEY
		
Addison W. Arthurs *Arthurs, Lestrange & Co., Pittsburgh*	**Jack R. Staples** *Fulton Reid & Co., Inc., Cleveland*	**Charles A. Richards** *Field, Richards & Co., Cincinnati*

Continued from first page

We Must Preserve The Dollar's Integrity

truth. The Federal Reserve's paramount purpose is to contribute, so far as it can, to sustained economic progress without the painful setbacks that mean waste of human and material resources.

There are many types of unemployment and many causes of unemployment. All of the factors that go into unemployment must be carefully considered and sympathetically studied. For residual unemployment, or temporary unemployment, we have unemployment compensation benefits. The major problem, however, is how to get people to work and give them jobs which will be permanent and profitable. How easy this would be if we could only achieve it by just spending more money. Unfortunately experience has demonstrated you cannot spend yourself rich. Lasting prosperity only comes from hard work, producing goods and services which people need and want at prices they are willing and able to pay. At the moment we have unused capacities in industry and larger levels of unemployment than we would like to have. Why has this come about? Because of tight money? Not a bit. It has come about because inflation got ahead of us as evidenced by the fact that at one time in 1957 we were losing more than $1 billion a month in prices in our Gross National Product without additional goods and services being produced for the consumer. The seeds of inflation were sprouting into the temporary over-capacity which we now have and a decline was inevitable.

Stable Price Level Is Misleading

Let us not be misled by comments to the effect that the consumer price level is now stable. The process of inflation in this country started over 10 years ago during our war-time period and with minor interruptions from time to time has persisted ever since.

The Federal Reserve System leaned against the wind whenever it has been clear which way the wind was blowing. In 1957-58, when a decline was under way, we pursued an easy money policy, in order to give whatever assistance an enlarged availability of money could give to alleviating distress and laying the groundwork for recovery. This was largely achieved by the end of April of this year. Accordingly, Federal Reserve policy was modified, as it always should be, in adaptation to the change in economic conditions. At the present time, with increased demands for funds, with improved productivity, we are witnessing a strong economic comeback and we are now beginning to see a gratifying decline in unemployment figures, although the total is still higher than any of us would like it to be.

Let us not succumb to the belief that these unemployed people will be assisted by flooding our economy with a stream of easy money. The better way to get these people back to work is to concentrate on fundamentals that permit the forces of the market to operate. Rising interest rates, when they reflect a response to improving business conditions, have never been a sign of weakness. When artificial forces prevent their rise it may well lead to knots which would complicate rather than assist our progress. If business conditions continue to improve it is normal to expect interest rates to rise; if business stays where it is interest rates will probably stay about where they are, and if business begins to decline interest rates will decline. But let us not be carried away into thinking that interest rates are such a dominant force in the economy that they possess some magic so that they alone can determine the level of employment, unemployment, and use of capacity—at high or low levels. To me it is vital that we understand this crucial point.

Notes Foreign Distrust

A recent trip to several countries of the Far East gave me a welcomed opportunity to see ourselves as others see us. One distressing experience was to find among intelligent and perceptive men in those countries a growing distrust over the future of the American dollar. Whether or not it is justified — and certainly I think it is not—it is important to recognize that this feeling exists.

To the foreigner, much more than to Americans, the dollar is a symbol of this country's strength. A decline in the value of the dollar would suggest to him a decline in the faith and credit of the United States, signaling in his mind a decline not only in American economic strength but also in moral force.

Naturally I was interested in the basis of distrust. Two matters appeared uppermost. One was a conviction that, not necessarily at the moment but in a fairly short time and more markedly in the extending future, American goods are going to find themselves priced out of the market. Indeed, I was told that some countries to which we have made loans conditioned upon the purchase of American goods would, except for that restriction, already be turning elsewhere for their purchases.

You will recall that this same sort of talk was directed at Britain for about a year before the British got into trouble and had to devalue the pound sterling. I don't think it is going to happen here. I wouldn't talk about it if I did. But it is something for us to be concerned about.

Fear Deficit

The other thing cited to me as a reason for foreign distrust of America's ability or will to preserve the buying power of the dollar was the $12 billion deficit that has developed in the United States budget, plus possibilities that further deficits may follow.

It was amazing to me how closely our budgetary developments were being followed in such remote areas as Thailand and Hong Kong, and how many people there knew our precise budget figures better than most Americans.

Of course a simple fact of human nature has added intensity to their interest. They all know, many through personal experience, of the stern lectures America has given foreign countries about their need to have the moral fiber to put their finances in order. And, as a widely traveled American businessman recently suggested to me, it is only natural that foreign countries should be wondering if we have the capacity to take the medicine we have so freely prescribed for others.

Now I don't think anyone abroad or at home questions the ability of the richest country in the world to "afford" whatever amounts are needed for the national defense of the United States and for social benefits the American public demands as well. Certainly I do not question it myself.

Printing Paper Money

The question that I ran into was something else: since Americans clearly can **afford** these expenditures, why don't they **pay** for them? That is, why don't they pay in taxes or reduce other programs instead of giving I.O.U.'s or simply printing more paper dollars? That also is something to think about.

Now let's discuss this matter of the budget. No reasonable man believes that budgets can always be balanced. Likewise, no sensible person believes that an unbalanced budget is a desirable way of life. This, of course, has moral connotations as well as economic.

We are a rich country. There is no reason to be ashamed of it and we do not need to apologize about it. We must recognize that some people in our society are not as rich or well off as we would like them to be. As a nation, however, we can afford to expand whatever is required for national defense and foreign aid. Naturally we don't want waste in these projects. Whatever is required we can afford to spend, but we cannot afford to spend it if we are unable to find the means of paying for these expenditures in any other way than by printing money. Regardless of what facile justification or technical obscurantism is used to persuade us that we can have our cake and eat it too, we can have no hesitation in stating flatly, "It just isn't true."

We must face up to the reality of either raising taxes or revising our tax structure to produce more revenue or reducing the priorities of some other programs until we can get things in better balance. Whatever the justifications for deficit financing in time of recession — and at best I sometimes think there is a good bit of wishful thinking involved—there can be no question that when business is improving and moving actively toward higher levels, a budget deficit becomes fuel on the fire of inflation. In effect, it pumps air into the business structure as if it were a balloon and eventually leads to more serious recession when the balloon pops than would have occurred if it had not been indulged in. Again let me say, this is not pleasant, but with due respect to these people who talk about modern times and outmoded classical theories what I am saying is based on time-honored and time-tested principles that are as valid and inescapable today as they have been down through the ages.

Realism Toward Interest Rates

Likewise, it is time we stopped shilly-shallying around about this matter of interest rates and faced up to realities. We have had far too much talk about so-called "tight" money and "soft" money without adequate understanding of the role of interest rates in our economy. We already have too many preferential interest rates established by statute as though it were possible to ignore completely the workings of the market place. Interest rates are the prices charged for credit. They are a wage to the saver as well as a cost to the borrower. In a private enterprise economy they are established by the interplay of market forces. They perform the important function of influencing the volume of credit that flows into specific channels of enterprise. They are essential to pricing the assets on which holders expect to receive income over a succession of years. It is through flexible rate movements that the incentives and disincentives are provided for balancing out supply and demand factors in our economy.

The most striking illustration of their usefulness and effectiveness in recent years occurred nearly eight years ago when the decision was made to unpeg our Government securities market. This restored to that important market some of the influence which had been denied it by Government policy for a period of years during which regulation of the money supply gradually became almost ineffective.

Once this decision was taken, the credit mechanism began to function as a governor on the flywheel of our economy and the process of stabilization became a useful part of the adjustments necessary in a healthy economy. We are compelled to recognize, whether we like it or not, that you can alter the nature of demand and change the composition of supply but you can no more ignore the law of supply and demand than you can ignore the law of gravity.

"That's Different"

Sometime ago a top industrialist who had complained bitterly about rising interest rates told me he now recognized that some adjustments were probably desirable, but he said, "Don't let interest rates go above 3%." Although there are technical differences between the commodity he is manufacturing and this man-made device of money, I asked him how he would like it if the Government laid down a decree that the product he was manufacturing, regardless of cost and price factors, could not be sold to the public above a fixed price. The only answer I received to this suggestion was "That's different."

Now I want to go one step further and talk about the most difficult aspect of all of our problems. This is the subject of confidence. It is the subject we frequently avoid because we are afraid of upsetting confidence by discussing it. All of us know of cases of irresponsible and hysterical individuals who contribute to tearing down confidence. We are more likely ot recognize them than we are the equally irresponsible individuals who over-paint, over-sell, over-emphasize the optimistic side of things in the name of inspiring confidence. In any event, confidence is perhaps the fundamental factor in money and currency. Those of us who are charged with responsibility for our monetary affairs recognize this clearly. Money must not only be a medium of exchange and a standard of value, but it must be something in which people have basic confidence.

Must Stop Inflation

Because of the interrelationships of interest rates and budgets and the present position of the United States in international trade, it is a serious matter when an important segment of world opinion has begun to question the fiscal and monetary integrity exemplified by our American dollar. It is not something we can lightly pass over in hope it will go away. The battle against inflation is at a crucial point, and a setback in the United States would be a serious setback for the entire free world. I would like to be able to state here and say flatly, "There will be no inflation." I cannot do so. For any one man, that would only be idle talk. What we need now is not talk nor long debate nor lengthy analysis, but resolute actions — continuing over time—which will demonstrate to doubters the good sense and character of the American people.

A pressing need for such action confronts us as we approach 1959. The fear of inflation is earnest, and it is having a damaging impact already. Today, when the level of savings in our country has been steadily rising, we could, in my opinion, be selling long-term Government bonds at interest rates substantially lower than current levels if the holders of these savings were convinced that there will be no inflation—convinced that we will conduct our affairs on a basis which will make inflation improbable.

I am well aware of the fact that some of these remarks may be interpreted pessimistically. They are not so intended. We have already made a good start on the road to improving this situation. However, the progress we have already made gives no ground for complacency. Improvements in business efficiency effcted during the sharp but short recession are helping in the current recovery movement that is continuing on a rather broad basis. And it is not news to any that the Federal budget is getting determined attention in more than one quarter. Let us press forward on these sound lines and no one can doubt our success.

The recent trip to which I referred impressed on me as never before that the eyes of the world are on us. Responsible officials in many countries are watching us closely to see whether we intend to practice what for many years we have preached to them. The future is not entirely within our control but we do have it within our power to maintain the integrity of the American dollar if we have the will to do it. Until or unless the people, through the Congress, change the Federal Reserve Act I can pledge to all of you that the Federal Reserve System will do everything in its power to safeguard our currency.

Continued from page 4

"Shall We Repeat the Mistake of the 1920s?"

national commercial transactions are conducted, cannot be identified as a hard currency. Yet should there be a deterioration in the value of sterling expressed in terms of dollars, the volume of world trade would shrink, prices would be adversely affected, our internal structure of values would be undermined, and the vitality of our internal economic affairs would be subjected to enervating influences. The historical evidence on this particular point is unimpeachable.

The strength and vigor of our internal economic system are affected favorably or unfavorably as the stability and orderliness of sterling in relation to the dollar are preserved for undermined. It is perhaps well to be reminded of the experience which commenced in 1929, and which lasted until the threat of war and wartime activities reduced to a manageable figure the permanent and massive body of our unemployed that was one of the unique phenomena of the thirties. The depression which started in 1929 with the stock market collapse, intense though it was, was manageable until in September of 1931, the British were forced to abandon gold payments, and sterling depreciated against the dollar. Within six months of this historic milestone, unemployment rose by over five millions—it almost doubled—the price of commodities went tumbling down, the stock market plummeted downwardly a greater percentage than had been its fall during the entire preceding two years. All values began to wither. The volume of world trade shrunk; and the foundation was laid for the banking crisis and credit demoralization which we experienced in the early months of 1933 when unemployment rose to the alarming figure of over 14 million.

I refer to this historical experience to punctuate the frequently demonstrated — but unhappily not widely understood —relationship between our own internal economic welfare, the vitality and the strength of our industrial activity and the maintenance of a sound world currency. Why, you may well ask, did this catastrophic financial debacle occur? The answer to this question is to be discovered in the far-reaching changes that occurred in the position of the United States vis-a-vis the rest of the world in commerce and finance as a result of World War I. Before this violent disturbance, in what had been the general tranquillity of human life throughout almost a century of experience, we had been a debtor nation. Since the close of the Civil War, with but two brief intervals, we had been adopting a progressively protectionist policy. Provided we owed sterling and French francs to investors from Britain and France and other European countries, the question of stability of international exchange rates was never critical, so long as the great creditor, Britain, pursued a policy of free trade. We could exclude imports. We could protect many of our industries — as indeed we did—because our problem was not how to permit others to earn dollars to service their debts to us or to produce a return on our equity investments abroad, but rather how to obtain foreign currencies in order that we might discharge our debts to others and that others might earn a return on their equity investment in our own country. We, for example, needed sterling and francs. The British and the French did not need dollars.

When Our Postion Changed

But World War I completely reversed the position. We emerged from this first great world conflict since the Napoleonic wars as a great creditor nation. Moreover, our industrial system had gathered weight and strength and a vitality which were to make it one of the most impressive economic systems in modern history. Accordingly, we developed, throughout the period of the twenties, a surplus of the trade account which, combined with our position as a great creditor, made it imperative that we allow others to earn dollars in order to service their debts to us and, to redress their adverse balance of trade and thus preserve stability in foreign exchange markets.

At the very time when, in our own interest, this became imperative for us to do, we followed precisely the opposite course. We reversed the tendency toward lower tariffs established under the provisions of the Underwood Tariff Act. We enacted the emergency tariff legislation of 1921,

Continued on page 102

IBA GROUP CHAIRMEN

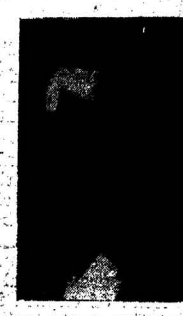
CENTRAL STATES

Erwin A. Stuebner
Kidder, Peabody & Co., Chicago

MICHIGAN

T. F. Willmore, Jr.
Merrill Lynch, Pierce, Fenner & Smith, Detroit

MINNESOTA



Arthur H. Rand, Jr.
Woodard-Elwood & Co., Minneapolis

Charles Vesce Opens

Charles Vesce is conducting a securities business from offices at 46 Watts Street, New York City.

Harry Weinstein Opens

Harry Weinstein is engaging in a securities business from offices at 673 Broadway, New York City.

Forms Inv. Programming

BROOKLYN, N. Y. — Samuel Abraham is conducting a securities business from offices at 189 Montague Street under the firm name of Investor's Programming Service.

Allard Co. in New York

Allard & Co., Inc. is engaging in a securities business from offices at 25 Broad Street, New York City.

William Black Opens

William Black is conducting a securities business from offices at 425 Lexington Avenue, New York City.

Irving Fine Opens

FOREST HILLS, N. Y.—Irving Fine is engaging in a securities business from offices at 69-10—180th Street.

Continued from page 101

"Shall We Repeat the Mistake of the 1920s?"

and supplemented it with the Fordney-McComber Tariff Act which provided for the highest protective barricade American industry had ever had before in our history.

The fundamental weakness in the exchange position, which was caused by the policies we pursued and by the inflexibilities that had developed in the internal economies of other countries, was for many years concealed by the large volume of capital invested by us on private account, principally in South America and Central Europe, throughout the decade of the twenties. But despite this large export of capital by private investors in foreign countries, gold flowed almost continuously throughout the 10-year period in a westerly direction to the United States. It was only through this westward movement of gold that the imbalance in international accounts could be redressed. It was this westward current of gold which was to make sterling so vulnerable when at last the illusion of the 1920's vanished and the stark naked fragility of the situation became apparent. When the stock market broke in the fall of 1929, the exportation of dollars on private account as well as public account came to an abrupt halt.

Our Stubborn Position

The fundamental weakness in the exchange position then began to become sharply silhouetted. But we stubbornly clung to the same policy. The Smoot-Hawley Act further restricted imports and further restricted the ability of others to earn the dollars necessary to service their debts to us. The migration of gold westward continued at an accelerated rate; the termination of the loans that had been made to Central Europe created a crisis which forced the Credit Anstalt suddenly to withdraw its short-term balances from The Bank of England. The gold reserve of the sterling area evaporated, and by September, 1931, Britain had no option but to discontinue gold payments. Sterling fell sharply against the dollar.

The international monetary machinery lay in ruins, international trade withered and shrunk as it had not shrunk since Waterloo. The Depression was upon us with an intensity heretofore unexperienced throughout the course of more than a century.

Now our position — not necessarily for today but for long-term — is even graver than it was in the twenties, and our surplus on trade account, after all the substractions are made on account of foreign aid, is probably the largest of any country in modern history. Others must, therefore, earn more dollars than was ever necessary in the twenties if orderliness in the exchange markets is to be preserved, and if we are to avoid the consequences of a deterioration in the value of sterling against the dollar. And yet the paradox of the situation is that, despite what moderate downward adjustments have been made in our impediments to imports, our public policy prevents others from earning the dollars that, in our interest, it is so essential that they earn.

It would, I suggest, create internal difficulties of great intensity were we to reduce too suddenly our protectionist policy.

How then, if we will not, in the immediate future, allow others to earn dollars in order to maintain orderliness in the exchange markets, can there be achieved the orderliness and stability which are so important to the lives of our countrymen?

Why We Must Export Dollars!

If we won't permit others to perform services for us, and to import enough to collect dollars from us and thereby to lay a solid foundation for confidence in exchange rates, then we must, on public account, export the dollars that we will not allow others to make. Instead of calling the program which, heretofore, since the close of the war has been called Foreign Aid, it should, in fact, be called a Device to Preserve Stability in International Exchange Rates—for this is now the basic purpose of the exportation of dollars.

This problem of preserving stability in the foreign exchange markets would be with us if the Soviet and ourselves and the communist world and ourselves were living in complete amity. This problem would still be with us if there were no chasms that divided the world into two parts. This problem of exchange stability would still be with us were there no international threat whatsoever to our security.

I recognize that there has been an outflow of gold during the course of the last 12 months, but this has been in large measure a product of the difference in interest rates and the more favorable terms of trade which the decline in the price of basic raw materials has established for the United Kingdom. It is in some measure, too, the product of perfectly normal, natural, temporary deviations from the long-term trend.

I recognize also that the volume of American exports has fallen more than has the volume of foreign imports. But even after making all the adjustments, the brute fact still remains that there is a very large and ominous deficit in the balance of payments. If this deficit continues and is not made up, either by an improbably large and permanent volume of imports, or by a corresponding export of dollars, we can expect a period of exchange disequilibrium and confusion at some time in the future. This deterioration of other currencies, and particularly of sterling against the dollar, is apt to produce here at home a serious economic convulsion not unlike the one that was produced in the early thirties when the same sort of deterioration occurred for much the same reasons.

Foreign Aid Criticism Notwithstanding

It would be deceptive to deny that there have been some infirmities in the administration of the Foreign Aid Program, or to deny that frequently it has failed to make friends. But even the validity of these criticisms — if they are valid—of foreign aid does not destroy the case, or lessen the need for the exportation of dollars necessary to preserve a stability of exchange rates. Our own national interests require it.

An alternative solution to the problem would be to become free trade and to eliminate foreign aid. This course is philosophically logical, and it is logically philosophical. But to expect that this will happen within any reasonably limited period of time is, to quote Adam Smith, to expect Utopia. Moreover, if it were done too suddenly it would cause serious dislocations here at home. It is perhaps cynical to argue that, because large segments of our private economy are being subsidized through tariff quotas and other restrictions on imports, they should receive a double subsidy by insinuating dollars on public account, and therefore from the taxpayers, into the channels of foreign trade which the tariff and other restrictions on imports and services prevent others from earning. But this, for a creditor nation, is the cost of protectionism. The alternative—a shake-out in exchange rates which could, during a period of deflation, rock us on our economic foundation—is a far more alarming and distressing picture to contemplate.

Also, We Need Strong Allies

There are, of course, other aspects of the problem of the exportation of dollars. We do live in a perilous world. We are under the potential threat of external attack with the most frightful lethal weapon. We do, therefore, need Allies that are strong in an economic sense and that can muster some military might. It is not debatable that the communist world is attempting to capture the more primitive and undeveloped parts of the world and to imbed them within their own communist dominion. On these scores the American dollars are necessary. But I have deliberately divided the problem up into segments and have tried to confine the major weight of the case to the economic situations that touch vitally our internal national economic welfare.

I have so divided the whole problem and have dealt with the economic considerations, because others have dealt so adequately with other aspects of the problem. I have done so, also, because administrative officers and legislators, in their highly commendable efforts to save dollars, may strike at one of the very items in the budget which might, in a certain economic environment, cause this country the greatest pain and suffering, and which might upset our position in the world, diminish our prestige, and even cause a lamentable weakening of our North Atlantic Treaty Alliance, if indeed it might not shatter it to bits. This would be a frightful catastrophe, for the North Atlantic Treaty Alliance is the heart, the bone and the sinew of our national security and the foreign policy of most of our Western Allies.

There are a number of factors such, for example, as the progress of others toward making their currencies convertible, the extent to which we, in fact, reduce our impediment to the flow of international trade and investment, and the effectiveness of measures taken here and elsewhere to restrain and check the powerful inflationary forces that have been pressing prices upward. All these and several others might form a realistic basis for determining the amount of dollars that the Congress should authorize to achieve exchange equilibrium.

I can do no more than to plead for a re-examination by everyone of his own conception of reality and of the environment in which he lives. For, as a great historian has put it, "There are times when we can never meet the future with sufficient elasticity of mind, especially if we are locked in the contemporary systems of thought."

This is one of those times.

$8,755,000 Hempstead Bonds Placed on Market

The Chase Manhattan Bank, Bankers Trust Company and C. J. Devine & Co. are joint managers of an underwriting syndicate which won award Dec. 16 of an issue of $8,755,000 Town of Hempstead, N. Y., Various Purpose Bonds, due March 1, 1959 to 1988, incl. The group bid 100.257999 for the bonds as 3½s, for a net interest cost of 3.46% to the Town of Hempstead.

Public reoffering of the bonds is being made at prices to yield from 1.80% to 3.75%, according to maturity.

Participating in the offering are: Salomon Bros. & Hutzler; Harris Trust and Savings Bank; Ladenburg, Thalmann & Co.; Francis I. duPont & Co.; Roosevelt & Cross Incorporated; W. E. Hutton & Co.; Schoellkopf, Hutton & Pomeroy, Inc.; Coffin & Burr Incorporated; Bacon, Stevenson & Co.; J. R. Williston & Beane.

Stern, Lauer & Co.; John Small & Co., Inc.; Granbery, Marache & Co.; Courts & Co.; Herbert J. Sims & Co., Inc.; M. B. Vick & Co.; Tilney & Co.; Talmage & Co.

William F. O'Bryon

William Francis O'Bryon, partner in Wm. C. Roney & Co., passed away Dec. 5.

Randall M. Keator, Sr.

Randall M. Keator, Sr., proprietor of Randall M. Keator & Company, Rumson, N. J., passed away Dec. 5th at the age of 70.

Philip Platzer Opens

JAMAICA, N. Y.—Philip Platzer is engaging in a securities business from offices at 92-03 173rd Street.

Robert J. Levy Branch

CHICAGO, Ill.—Robert J. Levy & Co. has opened a branch office in the First National Bank Building under the management of Irving B. Harris.

Prize Investors

BROOKLYN, N. Y.—Prize Investors Corporation has been formed with offices at 2026 Ocean Avenue to engage in a securities business.

Continued from page 9

Fiscal and Monetary Policy as Factors in Economic Growth

from this source rises approximately $150 million.

More Revenue Without General Rate Increase

We have here the elements of our problem: prospective government expenditures conservatively estimated at $80 billion and prospective government revenues most liberally estimated at $78 billion, and this in a time of full employment. It is not unlikely that the expenditure decisions will be influenced by groups that are greatly interested in the benefits of particular programs and are not primarily concerned with their tax consequences. On the other hand, it is likely that any tax decisions that would be made in this situation would be influenced by groups that disapproved many of the expenditure programs in the first place and would therefore violently resist a dollar tax increase to pay for the programs that they did not approve.

As I see the problem, it is this. How can we get the Congress and the public to make the decision as to whether or not they want an expenditure program adding up to say $83 billion in the the light of the tax program that those expenditures would involve in order to obtain a balance in fiscal affairs?

It is not clear that such a tax program would necessarily involve a general rate increase. A great deal of revenue could be provided by a broadening of the tax base, a removal of some special deductions and preferences, and an increase in rates on some specially favored income. Even here, however, carrying out such a prospective expenditure program without inflation would require a mobilization of public opinion to carry through on a tax program of broadening the base. It is easy to concede that there are considerable social benefits in encouraging this or that particular industry by some present tax favoritism. If, however, we leave particular groups of taxpayers with more money after taxes to acquire particular resources, and, at the same time, spend borrowed government money to acquire these resources for particular government programs, the result will be inflation.

Let us strive for economy in government expenditures, but let us not assume that an economy wave such as existed in early 1957 is now as evident. Such expenditure programs as are finally adopted could lead to further inflation if we are unwilling to face the tax consequences required for a balanced budget.

Another observation on the tax situation is to repeat the principle that I have mentioned frequently before, that economic decisions should be made on the basis of market considerations and not on the basis of tax considerations. To the extent possible, I think we should avoid trying to make it preferable taxwise for an individual to do a certain thing that he would not do in the absence of tax considerations. This would suggest that the first line for raising increased revenue, if that is necessary, should be through measures aimed at broadening the tax base rather than through general rate increases. I seriously question the advisability of increasing present rates of taxation on the present tax base because of the concern which I have for the effect of such action on opportunities for future economic growth.

Taxing Mutual Savings Banks

Thus mutual savings banks along with other types of activities which enjoy some degree of preference under existing tax law must awaken to the possibilities, so long as these high spending programs continue, of the tax base being broadened in such a way as to alter their present tax status. I do not desire to alarm you into believing there is presently being considered for the agenda of the Ways and Means Committee for the 1st Session of the new Congress any program affecting the taxation of mutual savings banks.

I would be less than honest, however, if I did not alert you to the possibilities that exist should present levels of spending by the government be maintained that in some future session consideration may be given to the taxation of mutual savings banks. If I may advise you, and I shall not charge for the advice, I would suggest that your organization begin to think of some possible approach a future Congress might take, if the facts should require a broadening of the tax base so as to affect your industry, without impairing the ability of your organization to continue to render great service in future years in the development of orderly savings and thrift. I feel certain that the Ways and Means Committee in any Congress would look with great consideration on suggestions which come from the industry itself should it feel compelled to make changes in the tax laws as they affect you.

It is unnecessary for me to conclude my remarks on Taxes and Economic Growth by a lengthy expression of reasons why you should be concerned that tax and expenditure policy be so constructed as to bring a greater degree of balance to Federal fiscal policy, for you perhaps more than others realize the destructive force exerted upon savings through imbalance in government fiscal policy. You also realize the deterring effect upon savings of constantly rising levels of tax rates based on a narrow tax base to meet the levels of over-rising government expenditures.

Monetary Policy

As we think in terms of monetary policy, it is clearly to the interest of the savings bank community that credit should be as free as possible. The extent to which we can avoid particular credit restraints depends, of course, upon our ability to keep some reasonable balance in the tax and expenditure situation. One lesson of the past few years has certainly been that there are great drawbacks to using credit policy as a crutch for inadequate fiscal policy. The sort of opposition that developed to high interest and credit restraints in the last few years could result in a general public unwillingness to use credit policy at times when it may really be necessary.

There is no doubt from our recent experience that a high interest rate policy bites much harder at particular parts of the economy than it does at others. It is small businesses with inadequate credit lines that are first to lose their ability to borrow necessary working capital. The prospect of using high interest rates over a period of several years to make up for large consistent deficits is to me an appalling one. This places even more emphasis on the importance of the problem of obtaining consistent expenditure and tax decisions, on the basis of the lowest possible expenditure and the fairest, most equitable, and most neutral tax system.

Conclusion

In conclusion, I would say that over the next several years we do face the problem of inflation. I see it as a problem of inconsistent tax and expenditure decisions. We are told by economists that this country has the resources to increase considerably government expenditures and taxes if these are deemed necessary. There should be no doubt in any of our minds that we could maintain a far larger defense program if this was required by the international situation. Any of these expenditure programs, however, would be inflationary if we will not make consistent tax decisions. The problem of getting consistency requires sincere efforts on both the tax and expenditure side.

On the expenditure side, consistency requires that government programs be evaluated in terms of what must be given up by the increased taxes necessary to pay for them. The increased taxes will obviously cut down private expenditure and thus cut down growth in the private part of the economy. Government programs should only be adopted if we can assure ourselves that they will make a sufficient contribution to the national welfare to justify this loss of private growth.

On the tax side, consistency requires that once these decisions are made in the light of their tax consequences, public opinion must support the enactment of a tax program that will permit these expenditures to be made without inflation. To pay for growing expenditure programs by continued deficits and inflation will undermine our main bulwark for stability, the willingness of people to save, and such action will do as much or more to impede economic growth in real terms as would an increase in tax rates.

IBA GROUP CHAIRMEN

MISSISSIPPI VALLEY	SOUTHWESTERN	TEXAS
		
Hunter Breckenridge	**Joseph M. Luby**	**John P. Henderson**
McCourtney-Breckenridge & Co., St. Louis	*Commerce Trust Co., Kansas City, Mo.*	*M. E. Allison & Co., Inc., San Antonio*

Form I. and I. Plan

JAMAICA, N. Y.—The I. and I. Plan, Inc. has been formed with offices at 89-30 161st Street to engage in a securities business.

Inter-County Planning

VALLEY STREAM, N. Y.—Inter-County Planning Corp. has been formed with offices at 448 West Sunrise Highway to engage in a securities business.

M. & J. Kaplan Open

Murray S. Kaplan and Jerome I. Kaplan are engaging in a securities business from offices at 1740 Broadway, New York City, under the firm name of M. & J. Kaplan Company.

Kenneth Kass Opens

BROOKLYN, N. Y. — Kenneth Kass is engaging in a securities business from offices at 139 Joralemon Street.

Now First Pacific Equities

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Ore. — The firm name of First Pacific Investment Corporation, American Bank Building, has been changed to First Pacific Equities Corporation.

Continued from page 11

Bright Business Outlook

the hope is justified that the next decades can be marked with as much or more accomplishment as in the past.

IV

Where We Are — Risks

And now let's consider what it would be more pleasant to ignore: the risks.

I have given what seems to me the most likely course of events in all three of the subjects discussed: The current business cycle, long-range economic trends, and the pharmaceutical business. In all three cases I have said that the most likely prospect seems to me for further improvement.

But as is always tritely said, few facts about the future on this earth are certain. There are only probabilities. And while I judge the probabilities to be as stated, there are risks that these will not materialize. The most major and significant risks seem to me to be five in number, and while all are serious, the fifth which I shall discuss is much the most serious of all.

(1) **The first is the international struggle.** The United States and the free world are faced with a most vigorous and powerful group devoted with great determination to overwhelming us. I mean of course the Communist in both Russia and China. There are some I know who feel that this risk is far away and usually exaggerated. My view is exactly the opposite. This risk can scarcely be exaggerated. If the free world is to continue to exist and to expand, I believe that it must put forth even greater and more skillful efforts than it has done over the last dozen years.

(2) **The second risk is rising costs and inflation.** In an increasing number of lines of business the United States is pricing itself out of world markets. Also in much of the free world including the United States, the economy is making an effort to invest more than we are willing to save, and to spend more than we are willing to produce. This has set upon us the dreadful enemy of inflation. Inflation can destroy us—make no mistake about it. Inflation divides us into competing power groups, it discourages saving which is the essential for economic progress by providing the wherewithal for investment, and it impairs and finally wrecks monetary systems which are the instruments through which this society utilizes the beneficent operation called specialization or the division of labor.

(3) **The third risk is political strangulation of economic institutions and it exists both here and abroad.** Under the most plausible and persuasive guises of need or justice or defense, a whole host of pressure groups demand restrictions upon the endeavors of other groups to become more efficient, to grow, to provide more employment. These are the forces that would limit world trade and thus impoverish some countries and drive them to anarchy and Communism. These are the forces that call for and impose measures that make people work less efficiently than they could, and work less than they could and would. These are the forces that encourage economic effort to be made to produce goods either not wanted by the market place or at costs that limit their use.

(4) **The fourth risk is the development of a huge and ruinous speculative spree.** It has become a significant risk particularly in the United States. The progress made in curtailing—I do not say eliminating—the extent of business fluctuation is engendering a confidence that, as it is said: "The business cycle has been mastered." When this is coupled with the defeatist view that inflation is inevitable and continuing, we have the makings of another of the great speculative sprees that nearly every generation of Americans has had to experience. While there are defenses against such a spree in the form of greater knowledge from the past, and limitations upon over-extension and over-commitment, current psychology seems to me to provide the basis for apprehension.

(5) **But the greatest of all risks, greater than all the above added together, exists because of a non-existent individual.** That is the individual named George. His first name is Let, and his last name is Doit. Nearly all of us have come to rely inordinately on George when it comes to the major problems of our country and the world. Another way of saying all this is that this society has become unduly apathetic in the face of serious risks. It was not through letting George do it that the citizens of the United States from earliest times made this into the most productive country with the highest standard of living and the greatest amount of freedom ever achieved anywhere in the world in all time. The myth of George and the growing assumption that this non-existent fellow George will take care of the problems presented by Communism, by inflation, by political strangulation, and by speculation is the greatest danger among us, is the greatest disease with which we or any other society has been afflicted. This is deadly dangerous. If it persists and spreads then all of the promise for the future which I have postulated will be lost.

V

Conclusions

Where then are we going?

Are we going to try to lean on George and since he isn't there fall on our faces when we try to lean?

Or are we, everyone of us citizens, going to become more diligent and resolute in doing something *ourselves* about the problems that threaten our continued progress?

We have the most remarkable record of economic achievement ever made by any country in all history. We have the most remarkable array of skills that any people has ever possessed. We have a highly developed set of institutions which have proved their serviceability and compatibility with conditions which have resulted with our remarkable progress. We have an unprecedented and unequalled supply of natural resources. We have a great capacity of equipment and people and laboratories. We have a supply of knowledge which, however imperfect, is greater than ever possessed before in history. We have remarkable power, sufficient to protect us in all probability from external physical threats for at least a considerable period.

We have in short a cornucopia greater than ever any people possessed before.

Have we the wit and the diligence and the resolution to continue to take advantage of our capacities and potentials as have earlier generations who put us where we are today? Have we the diligence and resolution that they had?

I think we have—but I am sure this dreadful fellow George does not. I look forward to the future with confidence—and that confidence would be greater if I saw all of us relying less on George. I believe we have an even greater future than the great past we have had—if we don't let George take that future away from us.

I do not want to be misunderstood. I wish to bring a vision of great things that ought to come. I do not wish to appear as the young man of limited concept recounted in the Book of Zachariah:

"I lifted up mine eyes again, and looked, and behold, a man with a measuring line in his hand.

"Then said I, whither goest thou? And he said unto me, to measure Jerusalem, to see what is the breadth thereof, and what is the length thereof.

"And behold, the angel that talked with me went forth, and another angel went out to meet him.

"And said unto him, run, speak to this young man, saying, Jerusalem shall be inhabited as towns without walls for the multitudes of men and cattle therein."

This is my view of what the future can and should hold for our industry, for our country, and for the Free World: they should be regions without walls—that is without limits. The future to me is exciting and challenging and has unlimited potentialities and promises; its opportunities for accomplishment are enormous—far beyond the vision of those of little faith. I stand on the side of the angel: I believe the challenges can be met and that the opportunities can be realized.

A. Savedoff Opens

GREAT NECK, N. Y.—Abraham Savedoff is engaging in a securities business from offices at 11 Hickory Drive.

Summit Secs. in NYC

Summit Securities, Inc. is now conducting its securities business from offices at 130 William Street, New York City.

Forms Utility Inv.

Albert Spino is engaging in a securities business from offices at 1619 Broadway, New York City, under the firm name of Utility Investments.

Form Investors Discount

Investors Discount Corporation has been formed with offices at 1752 Park Ave., New York City, to engage in a securities business.

Gerstley, Treasurer of Phila.-Balt. Exchange

PHILADELPHIA, Pa.—William Gerstley II, Senior Partner of Gerstley Sunstein & Co., members of the Philadelphia - Baltimore, New York and American Stock Exchanges, was appointed Treasurer of the Philadelphia-Baltimore Stock Exchange at a recent meeting of the Board of Governors. He fills the vacancy created by the death of S. K. Phillips, who served as Treasurer since 1951.

Mr. Gerstley has been a member of the Board of Governors since 1954. He is a member of the Bond Club of Philadelphia and a director of the Blue Ridge Mutual Fund of New York.

Irving Wharton Opens

ROSLYN HEIGHTS, N. Y. — Irving Wharton has opened an office at 113 Schoolhouse Lane to engage in a securities business.

Alm, Kane, Rogers Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Ralph J. Wood, Jr. has been added to the staff of Alm, Kane, Rogers & Co., 39 South La Salle Street.

Rubin Garfinkel Opens

GREAT NECK, N. Y. — Rubin Garfinkel is conducting a securities business from offices at 8 Wooleys Lane.

Joins Baron, Black

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Richard K. Allen is with Baron, Black, Kolb & Lawrence, Incorporated, 253 North Canon Drive.

Toboco Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Martin M. Cohen has been added to the staff of Toboco & Co., Inc., 9235 Wilshire Blvd.

With Clement Evans Co.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga. — E. Dargan Cole is now with Clement A. Evans & Company, Inc., 11 Pryor Street, S. W.

Joins Selected Investments

(Special to THE FINANCIAL CHRONICLE)

WILMINGTON, N. C.—Marcus L. Goldstein has become affiliated with Selected Investments, Insurance Bldg.

With First Southern Corp.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga. — Wayne W. Thompson has joined the staff of The First Southern Corp., 652 Peachtree Street, N. E.

Continued from page 16

News About Banks and Bankers

and until his death, served on countless committees and devoted much time in directing various campaigns.

* * *

According to an announcement by Ralph T. Tyner, Jr., Board Chairman and Harold J. Marshall, President, **National Bank of Westchester, White Plains, N. Y.** John J. Stout, recently-appointed Manager of the Bank's Peekskill Office, was promoted from Assistant Vice-President to Vice-President. Prior to taking charge of the Peekskill Office, Mr. Stout was manager of NBW's Eastchester branch and was formerly with the **New Rochelle Trust Company, New York** before its consolidation in National Bank of Westchester.

Edward H. Townsend, Methods Supervisor in the Bank's Operations Department, located in the Main office in White Plains, was promoted from Assistant Cashier to Assistant Vice-President. A veteran banker of more than 30 years experience, he began his career at **Chase National Bank of New York in 1927.** Mr. Townsend was with the New Rochelle Trust Company from 1931 to 1951, which later merged with National Bank of Westchester. Appointed Administrative Assistant at NBW in 1954, he was named to his present assignment two years later and was subsequently elected Assistant Cashier.

* * *

The First National Bank of Easton, North Easton, Mass., with common stock of $150,000; and **The Machinists National Bank of Taunton, Taunton, Mass.,** with common stock of $200,000 have merged, effective as of the close of business Nov. 28. The consolidation was effected under the charter of The First National Bank of Easton and under the title **The First-Machinists National Bank of Taunton.**

* * *

Elected President of the **Trust Company of New Jersey, Jersey City, N. J.,** was Lawrence B. Carey. He will succeed the late Charles E. Clifton.

* * *

The National State Bank of Newark, New Jersey, announced that it will pay a stock dividend of 24,000 shares at the rate of one new share for each 19 held.

In addition, the bank plans to offer 80,000 additional shares, par value $12.50, for subscription by the shareholders at $50 per share on the basis of one for each six shares of capital stock held, after giving effect to the stock dividend. Warrants for such subscription rights would be issued.

The latest stock dividend and additional subscription would increase the bank's capitalization to 560,000 shares from 456,000 and capital stock from $5,700,000 to $7,000,000. Surplus account would increase from $15,000,000 to $18,000,000.

Both the stock dividend and the new stock subscription are subject to approval of the Comptroller of the Currency and the bank's shareholders, who will vote at the annual meeting on Jan. 13.

* * *

The annual meeting of the shareholders of **The First National Bank of Toms River, N. J.,** will be held at the banking house of the corporation Jan. 13, at which time the shareholders will be asked to elect 22 directors for the ensuing year, and to pass upon resolutions to amend the Articles of Association for the purpose of permitting the declaration and payment of a stock dividend as of Jan. 30 of 1/33rd part of a share for each share of common capital stock outstanding, and to authorize an increase in the capital stock by the sale of additional shares to shareholders of record July 15, 1959.

With the approval of the shareholders, it is planned to increase the common capital stock of the bank outstanding from $990,000 to $1,020,000 by payment of a stock dividend and simultaneously transfer of $300,000 from undivided profits to capital account and $150,000 from undividend profits account to surplus account, increasing the surplus account from $2,250,000 to $2,400,000.

The shareholders are also being asked to authorize a further increase in the capital stock from $1,020,000 to $1,050,000, which amount will be divided into 210,000 shares of the par value of $5 each, and the shareholders of record as of July 15, 1959 would be accorded the right to purchase 6,000 new shares at $30 per share in proportion to their respective holdings of common stock of the bank, which would be one new share for each 34 shares held on July 15, 1959. The sale of the 6,000 shares at $30 a share, $30,000 would be applied to the capital account and $150,000 would be applied to the surplus account, further increasing the capital account from $1,020,000 to $1,050,000 and the surplus account from $2,400,000 to $2,550,000.

* * *

Roy F. Duke, President of the **Fidelity Union Trust Company of Newark, New Jersey** announced the election of C. Malcolm Davis as a Senior Vice-President and the appointment effective Dec. 31 of John S. Bacheller, a Vice-President and Trust Officer, to head the Bank's Trust Department, and of George Zabriskie, Jr., now a Vice-President, to head the Comptroller's Department.

Also announced by Mr. Duke was the election of Clement Cambon, Jr., Peter Cartmell, William F. Greenley, Jr., and Raymond B. Weatherby as Vice-Presidents.

Mr. Davis, in charge of Fidelity's commercial loans, was a Vice-President at the **First National City Bank of New York** before joining Fidelity as a Vice-President in 1955.

Mr. Bacheller has been associated with Fidelity since 1928 and was named an Assistant Trust Officer in 1937. Elected a Trust Officer in 1948, he was also named a Vice-President in 1953.

Mr. Zabriskie was elected an Assistant Comptroller of the Bank in 1942, a Second Vice-President in 1950 and has been a Vice-President since 1955.

Mr. Cambon, head of Fidelity's Personnel Department since 1957, has been with the Bank since 1922. He became an Assistant Treasurer in 1931 and a Second Vice-President in 1943, and from 1952 to 1957 headed the American Office.

Mr. Cartmell, a commercial loaning officer and in charge of the Credit Department, joined the Bank in 1946 and was elected an Assistant Treasurer in 1951 and a Second Vice-President in 1955.

Mr. Greenley, who is engaged in special research and planning in the Banking Department, joined Fidelity in 1955 and was elected an Assistant Treasurer that year and a Second Vice-President in 1957. He had previously been with **Bankers Trust Company of New York.**

Mr. Weatherby, in charge of investment programming in the Trust Department, has been with the Bank since 1942 and became an Assistant Trust Officer in 1948 and a Second Vice-President in 1951.

As the new head of the Bank's Trust Department, Mr. Bacheller succeeds Leslie G. McDouall, Senior Vice-President, who, after nearly 50 years of service, will retire. He will continue as a Director and Trust Consultant. Mr. Zabriskie, in his new responsibility, succeeds LeRoy F. Murphy, Vice-President and Comptroller, who is also retiring after over 40 years of service.

* * *

The common capital stock of **The Warren National Bank, Warren, Pa.,** was increased from $1,250,000 to $1,500,000 by a stock dividend, effective Dec. 1. (Number of shares outstanding—60,000 shares, par value $25.)

* * *

Provident Tradesmens Bank and Trust Company, Philadelphia, Pa., announces the following promotions: To Assistant Vice-President, Albert J. Bauhaus, William C. Burleigh, Charles W. Habgood, Roger S. Hillas, W. Patton Kinsey; Charles R. Polk, Jr., to Trust Investment Officer; J. Richard Boylan, to Trust Officer; Frederic E. Mygatt, III, to Real Estate Officer; Harry Werner and the appointment of Frederick Y. Butler as Assistant Treasurer.

* * *

DeHaven Develin, President of **The Bryn Mawr Trust Company, Bryn Mawr, Pa.,** announced that Robert J. Farr, Comptroller, was elected Vice-President and Comptroller and James H. Halward, formerly Assistant Trust Officer was promoted to Trust Investment Officer.

Mr. Halward has been associated with The Bryn Mawr Trust Company since October, 1955. Prior to joining The Bryn Mawr Trust, has was associated with the investment department of the **First Pennsylvania Banking & Trust Co.**

* * *

The First National Bank in East Chicago, East Chicago, Ind., with common stock of $200,000; and **The Union National Bank of Indiana Harbor at East Chicago, Ind.,** with common stock of $200,000 have consolidated, effective as

Continued on page 106

IBA GROUP CHAIRMEN

NEW YORK	NEW ENGLAND	CANADIAN
		
Cushman McGee	**Robert S. Weeks, Jr.**	**Eric S. Morse**
R. W. Pressprich & Co., New York	*F. S. Moseley & Co., Boston*	*W. C. Pitfield & Co., Ltd., Montreal*

Continued from page 105

News About Banks and Bankers

of the close of business Nov. 28. The consolidation was effected under the charter of The First National Bank of East Chicago and under the title First National Bank of East Chicago, Ind.

* * *

By a stock dividend, **The First National Bank of Springfield, Ill.,** increased its common capital stock from $1,000,000 to $1,300,000, effective Dec. 2. (Number of shares outstanding — 65,000 shares, par value $20.)

* * *

The Board of Directors of **Harris Trust and Savings Bank, Chicago, Ill.,** took action at its meeting on Dec. 10 to recommend to the bank's stockholders an increase in the bank's capital from $15,000,000 to $20,000,000 and the declaration of a one-for-three stock dividend, it was announced by Kenneth V. Zwiener, President.

If this recommendation is approved by the stockholders at their annual meeting to be held on Jan. 14, the capital increase will be brought about by transfer of $5,000,000 from undivided profits to the capital account on Jan. 19. This will bring the bank's combined capital and surplus accounts to $40,000,000.

Stock certificates representing the capital increase would be issued on Feb. 2 covering one additional share for each three shares held by stockholders of record Jan. 19. Upon completion of this action, the bank will have one million shares of $20 par value stock outstanding.

Mr. Zwiener also announced promotions at the Harris Trust and Savings Bank. Heading the list were three new Vice-Presidents: J. Brooks Corwine, in charge of the trust new business division; Kent W. Duncan, and Carl S. Stanley, both serving in loan divisions of the banking department. All three were formerly Assistant Vice-Presidents.

Mr. Corwine joined Harris Bank in 1929. He was appointed Assistant Secretary in 1947 and Assistant Vice-President in 1953. Mr. Duncan joined the Harris in 1936. He became an Assistant Cashier in 1947 and Assistant Vice-President in 1949. Mr. Stanley joined the bank in 1940, was made an Assistant Cashier in 1949 and Assistant Vice-President in 1952.

* * *

Holman D. Pettibone, Chairman, and Paul W. Goodrich, President of **Chicago Title and Trust Company, Chicago, Ill.,** announce the retirement of Mr. Pettibone as an officer of the company effective Dec. 29. The post of Chairman will be discontinued. Mr. Goodrich will continue as President and Chief Executive Officer. Mr. Pettibone will remain a member of the Board of Directors.

Mr. Pettibone entered the employ of Chicago Title and Trust Company on July 5, 1911, became President on July 8, 1931 and Chairman on Dec. 1, 1953.

* * *

Directors of **Manufacturers National Bank of Detroit, Mich.,** Dec. 15 approved the transfer of $5,000,000 from undivided profits to the bank's surplus account, it was announced by William A. Mayberry, President.

As a result of this transfer, the new loan limit for a single borrower—10% of capital and surplus—is raised to $4 million. This is an increase of $500,000 from the former limit. Capital funds of the bank now exceed $52,000,000.

David J. Barry, Harold S. DeOrlow, Anthony L. DeTemple, Vernon C. Johnson, William B. McAvoy and Thomas D. Nichols were elected Vice-Presidents of the bank.

* * *

By a stock dividend the common capital stock of **The Farmers National Bank of Webster City, Webster City, Iowa,** was increased from $100,000 to $200,000, effective Dec. 2. (Number of shares outstanding — 2,000 shares, par value $100.)

* * *

Arthur F. Boettcher, Vice-President and Director has been elected Senior Vice-President, and David H. Morey, Vice-President and Trust Officer, was elected Senior Vice-President and a Director of **Boatmen's National Bank, St. Louis, Mo.** Appointed Vice-President was Ethan A. H. Shepley, Jr.

* * *

Merger certificate was issued approving and making effective, as of the close of business Nov. 28, the merger of **The Union National Bank of Lenoir, Lenoir, N. C.,** with common stock of $150,000; and **Bank of Lenoir, Lenoir, N. C.,** with common stock of $200,000; into **First Union National Bank of North Carolina, Charlotte, N. C.,** with common stock of $2,165,000. The merger was effected under the charter and title of First Union National Bank of North Carolina.

* * *

C. E. Thwaite, Jr., President of **Trust Company, Atlanta, Ga.,** has announced that the Board of Directors at its meeting on Dec. 9 authorized an increase in the bank's surplus account to $11,000,000 by the transfer of $4,690,000 from the undivided profits. This raises the combined capital and surplus accounts to $15,090,000. The last published statement of the bank on Sept. 24, showed combined capital accounts (including reserves for contingencies) of $19,731,538.

* * *

The common capital stock of **The Barnett National Bank of Cocoa, Fla.,** was increased from $300,000 to $400,000 by a stock dividend, effective Dec. 4. (Number of shares outstanding—16,000 shares, par value $25.)

* * *

Wiley R. Reynolds, Jr., President and Chairman of the Board of the **First National Bank in Palm Beach, Fla.,** called a staff meeting on Dec. 11 and announced that at the regular monthly meeting of the Board of Directors two employees were elected Assistant Cashiers: Mary Barrett, who has been with the bank over six years, now in the Auditing Department, and William Howell of the Commercial Loan Department, who joined the staff in 1953.

* * *

The Brooks Field National Bank of San Antonio, San Antonio, Tex., received permission from the Office of the Comptroller of the Currency to open a new bank. S. F. Ramsey is President and Robert N. Oman is Cashier. The bank has a capital of $200,000 and a surplus of $300,000.

* * *

Algur H. Meadows was elected a director of the **Republic National Bank of Dallas, Texas,** it was announced by Karl Hoblitzelle, Chairman of the Board.

* * *

By the sale of new stock, the common capital stock of **The Valley National Bank of Phoenix, Ariz.,** was increased from $7,645,000 to $8,154,665, effective Dec. 3. (Number of shares outstanding — 1,630,933 shares, par value $5.)

* * *

Elliott McAllister, Chairman of the Board of **The Bank of California, N. A., San Francisco, Calif.,** announced the following changes in the offical staff.

At the San Francisco Head Office, Robert L. Cox was appointed Assistant Vice-President, Assistant Trust Officers Fred D. Bennett and William E. Whisten became Trust Officers, Thomas B. Shaw advanced to Assistant Cashier and J. Rowell Jackson to Assistant Comptroller.

The offical staff of the new Sacramento office, which will open for business about Jan. 5, will be John E. Miller, Manager, with Benjamin F. Greenough and Melvin H. Gott serving as Assistant Cashiers.

* * *

Frank L. King, President of **California Bank, Los Angeles,** Calif., has announced the election of H. T. Lundahl, Leighton B. Tuck, and Tony L. Westra to positions as Vice-Presidents of the bank.

Vice-President Lundahl joined California Bank in 1957 and was assigned to the staff of the bank's public relations section, City Division.

Vice-President Tuck has been with the bank in the real estate loan department since 1942. He was named Assistant Secretary of the department in 1953 and Assistant Vice-President in 1955.

Vice-President Westra began his career in banking with the **Northwest Security National Bank, Sioux Falls, S. D.** Mr. Westra became associated with California Bank in 1955 and was elected an Assistant Vice-President in 1956. He is assigned to the bank's Bellflower Office.

* * *

Directors of **Pacific National Bank of San Francisco, Calif.,** have approved an increase in the bank's capitalization through the issuance of 74,511 shares of new capital stock. Subscription rights will be issued to present stockholders on the basis of one new share for each three shares now owned.

The proposed financing will be submitted to the bank's stockholders at the annual meeting on Jan. 13. If it is approved, rights will be mailed immediately thereafter to stockholders.

* * *

Three hundred and sixty thousand shares of capital stock of **The Bank of Nova Scotia, Toronto, Canada,** were offered to shareholders on Dec. 12.

F. William Nicks, President of the Bank of Nova Scotia, which ended its fiscal year Oct. 31, 1958 with a 26% increase in total assets, said that the bank shares are being offered at $40 a share to shareholders of record Dec. 12. The ratio is one share for every five shares held. The issue will increase paid up capital from $18,000,000 to $21,600,000 and the reserve account will be increased from $54,000,000 to $64,000,000.

The last issue of the bank's stock, he pointed out, was in May, 1956, when 300,000 shares were issued to shareholders at $38 a share in the ratio of one share for each five shares held. Since that time the bank's assets have increased from $1,244,000,000 to $1,704,000,000. Subscription warrants for the new shares will be issued on Dec. 17 and the right to subscribe may be exercised up to March 13, 1959, when the offer expires. The warrants may also be sold at any time between the issue and the expiry dates. Warrants will not be issued for fractions of shares as this is not permitted under the Bank Act.

The new shares may be paid for in 10 equal monthly instalments of $4 per share, commencing March 13, or may be purchased outright after Dec. 31.

Dividends will be payable on the new shares in proportion to the paid-up amount of the purchase price.

Shareholders domiciled in the United States will receive subscription warrants which they may sell, but since the new issue is not registered under the U. S. Securities Act, the shares themselves are not being offered in the United States.

New Walston Branch in Fla.

CORAL GABLES, Fla.—Walston & Co., Inc. has opened a branch office at 216 Andalusia Avenue under the management of George U. Robson. Mr. Robson, who has been in the investment business in Florida for many years, was formerly a resident manager for Francis I. du Pont & Co. in Miami.

Form National Shares

National Shares Corporation is engaging in a securities business from offices at 14 Wall Street, New York City.

D. Dean McCormick

D. Dean McCormick, head of McCormick & Co., Chicago, passed away Dec. 4.

Continued from page 13

Prosperity Not Guaranteed

Federal Reserve, assuming some responsibility to help preserve the integrity of the dollar, may fell compelled to restrain credit somewhat. This could slow down some construction, but if we overload the economy something has to give.

But, here as in the past, the Federal Reserve is more likely to follow the loan fund market than to lead it, the great bulk of borrowing and lending being done through financial institutions which are not within the commercial banking system and under the control of the Federal Reserve.

Federal Reserve policies, even though they affect directly only a part of our financial system, have been fairly effective in restraining the boom, cushioning the recession and paving the way for recovery. Unlike the previous serious recessions, commercial bank investments have not been allowed to run off; indeed, their loans and investments have increased steadily, and now stand nearly $12 billion higher than a year ago. For this reason, currency and total deposits have risen and stand more than $12 billion above a year ago.

This policy of maintaining liquidity (since the currency and deposits are all owned by individuals and business) has prevented financial strains and credit stringencies — thereby keeping the economy effectively lubricated.

Although the FED has many critics, its performance during boom, recession and recovery has greatly helped to avoid untold potential human suffering, which in the absence of this carefully thought-out policy-making, would have been inevitable. It is only necessary to remind ourselves that a year ago a growing number of economists concluded that we were headed for a serious old-fashioned capital goods depression. Although conditions were ripe for such a contraction, depression didn't happen. A major reason, as stated above, lies in the field of monetary management.

Summary

No one can forecast the future. The ability to call turning points is an underdeveloped or nonexistent art. All that is possible is to try to assess and weigh the contractionist and expansionist forces. However feeble the art of forecasting may be, the businessman, nevertheless, must make decisions based on his best judgment of events to come.

Since, at the close of 1958, the recovery which began last April continues, and there are no obviously massive hurdles in the way, it seems safe to assume that expansion will continue in the period ahead, but, possibly at a reduced rate. GNP should rise by $25 billion from the current level and reach a new high of $470 to $480 billion next year; and in 1960 we should, with ease, cross the $500 billion mark at today's prices.

The recovery has been substantial, but without much benefit from capital goods revival or the automobile industry. Since the combined effect of these two large sectors is likely to be on the plus side, this will give added strength to recovery forces.

The construction industry is likely to contribute, but only moderately, to expansion above 1958 levels. The demand for loan funds (including heavy U. S. Treasury deficit financing) will tend to keep interest rates firm or, possibly rising a bit.

Since the consumption of goods has exceeded production and inventory liquidation appears to have come to an end, production now will have to be stepped up, even if there is no rise in demand. If incomes rise and demand grows, as seems probable, production will be further stimulated.

Productivity has been improving somewhat more than last year (a characteristic of early recovery), and if wage changes were limited to long-range productivity gains, it is possible to have a relatively stable price index. If employers fully explain to their employees the folly of the economic "bulb snatching" involved in the wage-price race and determine to refuse to accede to uneconomic wage demands, the cost of living index could achieve relative stability throughout 1959. Wholesale and spot commodity prices have shown no serious inflationary trend.

The expanding factors have the edge, but not by an overwhelming margin. Prosperity has to be earned.

Edward J. Phillips Philadelphia-Baltimore Exchange Member

PHILADELPHIA, Pa. — The Philadelphia-Baltimore Stock Exchange announced that Edward J. Phillips, a general partner in the investment securities firm of Samuel K. Phillips & Co., 1500 Chestnut Street, has been elected to membership on the Exchange.

Edward J. Phillips

Mr. Phillips has been associated with the firm, which was founded by his late father in 1904, since 1927, and has been a general partner in the firm since Jan. 1, 1939. During World War II he was on leave of absence to serve in the United States Army, returning to the firm in late 1945.

Two With Schwabacher

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—James C. Riewerts and Roger E. Towne have become affiliated with Schwabacher & Co., 100 Montgomery Street, members of the New York and Pacific Coast Stock Exchanges.

With Wilson, Johnson Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Donald C. Poussette has become associated with Wilson, Johnson & Higgins, 300 Montgomery Street, members of the Pacific Coast Stock Exchange. Mr. Poussette, who has been in the investment business for many years, was formerly with Merrill Lynch, Pierce, Fenner & Beane.

Blalack Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

SAN MARINO, Calif.—Thomas Hirsch has been added to the staff of Blalack & Co., 2486 Huntington Drive.

With Baikie & Alcantara

(Special to THE FINANCIAL CHRONICLE)

SANTA CRUZ, Calif.—James C. Elgin has become affiliated with Baikie & Alcantara, 1517 Pacific Avenue.

With First California

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif.—Matthew F. Kelly Jr. has become affiliated with First California Company Incorporated, 436 Fourteenth St.

IBA GROUP CHAIRMEN

EASTERN PENNSYLVANIA

William Z. Suplee
Suplee, Yeatman, Mosley Co., Inc., Philadelphia

SOUTHEASTERN

Harvey B. Gram, Jr.
Johnston, Lemon & Co., Washington, D. C.

SOUTHERN

Rucker Agee
Sterne, Agee & Leach, Birmingham

Two With Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Milton Ponitz and Charles Villa have become associated with Dempsey-Tegeler & Co., 210 West Seventh Street. Mr. Villa was formerly with Marache, Dofflemyre & Co. and J. Logan & Co.

Joins Fairman Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Walter W. Fisk has joined the staff of Fairman & Co., 210 West Seventh Street, members of the Pacific Coast Stock Exchange. He was formerly with Bennett - Manning Company.

Eastman Dillon Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert T. Cosgrove has been added to the staff of Eastman Dillon, Union Securities & Co., 3115 Wilshire Boulevard. He was previously with Morgan & Co.

Lester, Ryons Adds

(Special to THE FINANCIAL CHRONICLE)

LON ANGELES, Calif.—Steven W. Miller has been added to the staff of Lester, Ryons & Co., 623 South Hope Street, members of the New York and Pacific Coast Stock Exchanges.

Continued from page 14

The European Common Market And American Business

Common Market countries as 162,000,000 in 1955, with Gross National Products equal to $126,000,000,000—or roughly one-third that of the U.S.

In the same year, 1955, the combined population of the 17 countries comprising the proposed Free Trade Area was 285,000,000 with a gross product of approximately $350 billion, or about the same as that of the U.S.A.

In 1955 the U.S.A. exported goods and services, world-wide, to the value of $15 billion, of which $4.5 billion, or 30%, went to the Free Trade Area countries. In 1957 this gross export figure had grown to $19.5 billion, a sum greater than the domestic sales of the entire U.S. automobile industry.

Obviously, either group of countries represents a huge potential market for American industry and commerce.

How the Common Market Will Affect Europe

Apart from some chronic unemployment in Southern Italy, which is now being remedied, Europe has full employment. Germany is over-employed and workers there are now agitating for a reduction of their average workweek of 45-54 hours. Forty per cent of the population in Great Britain is reported to be gainfully employed—a notably higher percentage even than in this country. And, in spite of its political and financial difficulties, French production is booming. Austria, the last European country to be liberated, is thriving and advancing its production at the rate of 6% a year.

But Europe is fast approaching the limits of its employable citizens, and its present plant and machine capacity. If the market is going to expand at its present rate, it can do so only by increasing exports and by giving workers more leisure to consume the products they produce—and more spending money in their paychecks. These ends can be achieved only by increased productivity through greater worker efficiency, increased mechanization, and plant modernization. European industrialists appreciate that increased production and efficiency can come only by increasing the efficiency of individual workers by on-the-job training, better work incentives, better supervision, and more enlightened management. Also, they are looking for modern machinery, increased mechanization, automation, and modern methods of handling paper work and cutting through traditional and bureaucratic methods. They are realizing that they can increase their total of productive workers only by eliminating or reducing unproductive or indirect work.

A few outstanding companies like a leading Italian manufacturer of tires, electric cables, and other rubber and plastic products, visualized these needs several years ago and, with the assistance of American consultants, took energetic steps in preparation for this new competitive situation in Europe which they considered to be inevitable. This company, like most European industries, recognizes that mass production can come only through mass distribution based on a free competitive system.

Cartels and similar restrictive devices are considered to be on their way out although they may expire slowly.

The Need for Capital

Converting European industry to the needs of a large and growing mass market will require large amounts of capital for the development of nuclear energy, extension of present conventional power facilities, modernized transportation services, and the transformation of existing factories. These factories will need improved plant layout and new equipment including more automatic and high-speed devices. Many new factories and much new equipment are already on order. Italy, for example, to take care of increased road transportation, is now building extensive national toll roads at a huge cost financed by the leading industries. Austria, with the assistance of American specialists, is examining its woolen and cotton industry from the viewpoint of producing and marketing under the new Free Trade market conditions which they foresee.

An indication of the magnitude of these capital requirements is supplied by the example of Austria with a population of 7,000,000. The general manager of the largest bank in Austria estimates that $800,000,000 will be needed to modernize Austrian industry and facilities to enable Austria to take her place in the Free Trade Area.

If a comparable per capita amount were needed for the remainder of the countries in the Free Trade Area, with 285,000,000 population, or the European Common Market, with a population of 162,000,000, a total of between $18 and $32 billion would be required. Rough as this estimate may be it helps visualize the magnitude of the problem and the modern industrial potentials lying in this heretofore fragmented continental area.

Selling in a Mass Market

European businessmen who, until now, have been confident of maintaining their trade position under existing competitive forces are asking themselves how well prepared they are to survive or prosper under the newer and wider competitive situation now being created. Many recognize that they must soon decide, for example, whether they are going to simplify their merchandise lines and specialize on fewer items at lower unit prices or specialize on quality short runs at high prices. Many are aware that their present sales organizations are inadequate for the new selling task ahead of them. Salesmen must now be equipped to travel and sell internationally. They must know at least one other foreign language and, in most cases, be university or college trained. Today European salesmen are too frequently routine order-takers, provincial in outlook, with the limitations that these qualifications imply.

Better selection and training of salesmen is already being undertaken. Here, too, European businessmen are looking to the U.S.A. for guidance, and European branches of National Sales Executives Inc. in Italy, Germany, and Austria are enthusiastically supported and attended by businessmen and sales executives. Many are brushing up their English as rapidly as possible in order to tune in on American experience.

It seems apparent that designers and stylists will have a much larger market for their talents, and their salaries will consequently show considerable augmentation. It is safe to suppose, also, that as time goes on European stylists and designers will have a greater influence on the U. S. A. and world markets than ever before.

Wholesaling, as we know it in the U. S. A., has never been widely practiced in Europe. It is likely that with a mass market, greater distances to be shipped, and larger quantities to be handled, a wholesaling distribution function, as we know it, will be developed. It is noteworthy that at least one European wholesaler-oriented voluntary chain store organization has been developed and is operating successfully in the grocery field. Its methods were adopted completely from a leading voluntary grocery chain store organization in this country. This chain is growing rapidly in Holland, Belgium, England, West Germany and Austria. Thus this company found itself able to adopt, almost overnight, American wholesaling-retailing methods which have taken a generation to develop in the U. S. A.

It is now obvious to European industrialists and merchants that merchandising and distribution systems developed in the fiercer competitive climate of the U. S. A. are often readily adaptable to the European scene. And this will be increasingly true as time goes on and the Common Market develops competitively.

Packaging in Europe, both for transportation and for merchandising, is far behind the U. S. A. This applies to all kinds of packaging: paper-based materials, plastics, and other forms. Paper consumption is approximately one-third that of the U. S. A. and packaging is so backward that the sale of consumer goods is being seriously impeded. For some years pulp and paper products will find an increasing market in Europe, and it should be noted that U.S.A. exports of paper products to Western Europe in 1956 were $100,000,000.

The preservation, canning, and packaging of foods is under-developed by U. S. standards. The contracting of crops, scientific growing and harvesting of vegetables or fruits for freezing, canning, packaging, pricing, and sales promotion, leaves a large margin for future development in Europe. Quality is not uniform and prices are high as compared with American imports. For some years a growing market will exist for American foods, patricularly canned and frozen varieties.

Trade associations, until now only regional or national in scope, will, by amalgamation, become European. Statistical reporting will take on additional value, and modern office machines, in this instance as in many others, will become an imperative need. This activity—new methods and new machinery for new work—will set a standard for large industries, municipalities, and local governments in the handling of statistics and paper work. A new market and new pace will be set in the sale and installation of modern office machinery.

The Common Market is now the livest topic of conversation among economists, bankers, and businessmen in Europe, and will continue to be so. One Italian businessman connected with an international multiplant company says this is the subject that dominates all their thoughts and meetings. An Austrian Government official said to the writer, "We have had German and Swiss experts and consultants in our industries, but now, with the Common Market, our need is for American specialists and consultants on the management level."

The European Atomic Energy Community

Probably the most potent factor in the development of the European Economic Community, as it is now termed, is the creation of the European Atomic Energy Community. Thus, while the Common Market program must rationalize a huge complex of trading practices and regulations, developed over centuries of competitive and nationalistic contest, the present stage of nuclear energy development permits, in fact compels, an immediate and total approach to this one important aspect of international policy by all western Europe. Thus, in a real sense Euratom will be the key and anchor to the forces of European unification.

The preamble to the treaty of Jan. 1, 1958 among the six nations states that the participating governments are:

Resolved to create the conditions required for the development of a powerful nuclear industry which will provide extensive supplies of energy, lead to the modernization of technical processes and, in addition, have many other applications contributing to the well-being of their peoples.

The activities of Euratom are to be devoted to the peaceful uses of atomic energy. Since nuclear research requires significant numbers of highly qualified people, and very expensive equipment and raw materials, Europeans recognize that only by coordination and consolidation of all their efforts can they accomplish worthwhile objectives. They recognize that their efforts must be all coordinated to minimize duplication and wasteful effort. Two basic approaches will be: (a) a common program for training and research and, (b) a program to stimulate and coordinate the efforts of the six member countries. It is noteworthy, too, that in order to promote technological advances, patent laws, as they apply to nuclear technology, will be amended.

The stated objectives of Euratom call for a goal, over the next 10 years, of 15 million kilowatts of electrical energy from nuclear sources. Depending on the character of the program finally agreed upon, this might involve an expenditure in the order of $6,000,000,000. It is felt that the cost of energy from nuclear sources would be comparable with the cost of electrical energy from more conventional fuel sources.

While the United States acknowledges unreservedly the basic research contribution of European scientists to the development of atomic energy, it was the exigency of World War II that pushed this country to the forefront in the development of the bomb and later to the peaceful uses of nuclear energy—exploration for uranium ores, building atomic piles, the design and construction of reactors, the uses of isotopes, and the application of nuclear energy to electrical and other power developments. It is for this reason that it may be expected that Euratom will benefit from American technological progress in the nuclear field and, as time goes on, the United States, in turn, should be the recipient of practical and tested advances in nuclear technology related to industrial and commercial uses. As stated by the 20th Century Fund—"Euratom," dated February, 1958:

"The United States has the technology, skill, and capital to develop nuclear energy, but no urgent need for it. Western Europe must have nuclear energy to grow and prosper, but still lacks the means to produce it on an adequate scale. By an imaginative policy of cooperation with Euratom we can combine Europe's need with our capability and, thereby, achieve the prompt and effective mobilization of an important resource of the West to the mutual advantage of both Europe and America."

It is too early to predict, with any certainty, the practical course Euratom will follow from concept to realization. However, a clearer picture will emerge as the Euratom organization begins to implement the various international agreements which are the foundation of Euratom itself. Various aspects of this program will undoubtedly be commented on at the Geneva Conference, and the action of our own Congress will certainly have a significant bearing upon the immediate program Euratom will undertake.

One positive indication of the dynamic character of this movement was illustrated by a press association release from Washington, dated Aug. 29, 1958 stating that President Eisenhower had signed legislation that day providing U. S. help to West Europe in building a million kilowatts of atomic power capacity.

This legislation makes available $328,000,000 of assistance to Euratom. Its declared purpose is to further European unity, and to further a joint program to erect in Europe six nuclear power reactors with a total capacity of 1,000,000 kilowatts of electricity and to improve power reactor technology through a broad scope research program.

This aid includes:

An export-Import Bank loan of	$135,000,000
A grant for research development	$3,000,000
Guarantee that atomic fuel elements will meet U. S. performance standards	$90,000,000
An advance for Uranium fuels	$100,000,000

This will be in addition to $215,000,000 which Western Europe itself will raise, making a total expenditure of $543,000,000.

Looking Ahead

The United States will continue to encourage European economic integration and the Common Market as an important element of its foreign policy.

European countries will continue to encourage American investment in their countries. As freely stated by the Netherlands Government, the quickest way of acquiring American experience and technology is by enticing American plants to Holland by preferential treatment in regard to local and national tax remission, liberal treatment regarding export of profits and, generally, creating a friendly working climate. The same may be said of Italy and of other European countries.

United States companies now operating in Europe will review all their existing facilities, locations, operating and sales methods, and personnel to determine what changes will need to be made to meet the expanding market conditions both for sales inside Europe as well as for export sales.

United States companies now exporting to Europe and other parts of the world should lose no time examining the advantages of starting European operations to serve their European and other overseas Markets, for example as a wholly owned American company in Europe, or in partnership with a European company, or by licensing the manufacture and sale of their product line to one or more European manufacturers. Each of these companies will need to decide which of the many European countries is best suited for their manufacturing and marketing needs. The obvious choice may not necessarily be the best.

There will be an accelerated increase in licensing agreements for the manufacture and sale of products and processes by American to European companies and by European to American companies. In this context there will be an increasing use of agreements for exchange of technical information and technical personnel.

Some manufactured products now exported from the United States to Europe will find the Common Market import tariffs too steep to climb. Other overseas markets will prove more difficult to hold. On the other hand, Europe will become a larger importer of raw materials, agricultural products, and special machinery including machine tools.

In the wake of these major considerations it will be found, as is now in evidence, that there will be an increasing need for:

(a) Industrial specialists—engineers, technicians and designers in such fields as process and industrial engineering, plant engineering, production incentives, plant layout, transportation, materials handling and packaging, training within industry, electronic data processing, and the like.

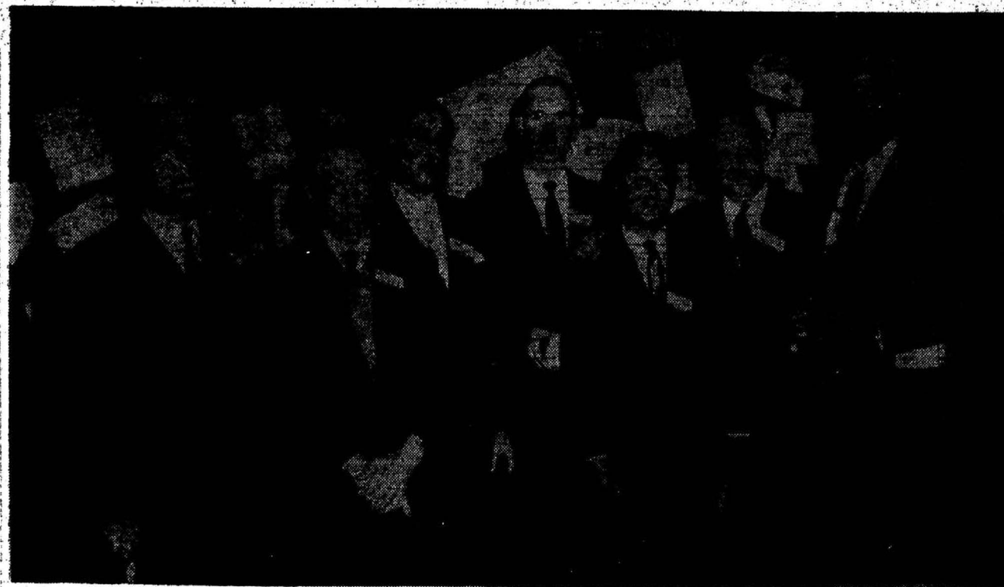
(b) Professional consultants in the broad field of marketing: advertising, sales promotion, sales training, merchandising, and research in these fields.

(c) Atomic energy specialists to follow the progress of Euratom.

Similarly in other fields of scientific research and development.

It is too early to pinpoint and specify what changes and advantages are going to be found in specific industries, functions, or companies. There is every reason to believe, however, that the tide is flowing for the good of Europe, and the benefit of Europeans, and all those associated with this unique economic revolution.

KING MERRITT SALES CONFERENCE



Peter Cross, Vice-President, Van Strum & Towne (Canada) Ltd.; Dr. Harry L. Franklin, King Merritt & Company, Inc., Representative, Frankfurt, Germany; Emile G. Speeger, European Regional Manager, Munich, Germany; Dale Weaver, Regional Manager, Seoul, Korea; Thomas Suzuki, Divisional Manager, Honolulu, Hawaii; R. A. Goudey, St. John's, Newfoundland; King Merritt, President, King Merritt & Company, Inc.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated Steel operations (per cent capacity)	Dec. 21	§75.4	*73.5	75.1	68.1
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 21	§2,036,000	*1,985,000	2,000,000	1,742,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Dec. 5	7,067,285	6,983,385	7,003,385	6,849,710
Crude runs to stills—daily average (bbls.)	Dec. 5	¶7,666,000	7,785,000	7,686,000	7,807,000
Gasoline output (bbls.)	Dec. 5	28,146,000	28,141,000	27,654,000	27,670,000
Kerosene output (bbls.)	Dec. 5	2,221,000	2,234,000	2,286,000	2,447,000
Distillate fuel oil output (bbls.)	Dec. 5	12,620,000	13,291,000	12,352,000	12,896,000
Residual fuel oil output (bbls.)	Dec. 5	6,712,000	6,536,000	6,849,000	7,592,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 5	174,305,000	173,600,000	169,210,000	188,087,000
Kerosene (bbls.) at	Dec. 5	31,009,000	31,932,000	32,369,000	31,283,000
Distillate fuel oil (bbls.) at	Dec. 5	155,826,000	161,439,000	165,354,000	163,145,000
Residual fuel oil (bbls.) at	Dec. 5	65,137,000	66,199,000	68,095,000	58,839,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 6	594,476	539,191	658,086	617,836
Revenue freight received from connections (no. of cars)	Dec. 6	514,560	530,163	571,850	528,911
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 11	$353,298,000	$399,132,000	$374,316,000	$226,549,000
Private construction	Dec. 11	170,871,000	160,005,000	123,630,000	114,409,000
Public construction	Dec. 11	182,427,000	239,127,000	250,686,000	112,140,000
State and municipal	Dec. 11	139,233,000	208,675,000	197,415,000	105,251,000
Federal	Dec. 11	43,194,000	30,452,000	53,271,000	6,889,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 6	8,625,000	*7,565,000	8,600,000	9,230,000
Pennsylvania anthracite (tons)	Dec. 6	460,000	371,000	419,000	453,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Dec. 6	245	171	148	230
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 13	13,450,000	13,017,000	12,378,000	12,570,000
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Dec. 11	267	294	274	269
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 9	6.196c	6.196c	6.196c	5.967c
Pig iron (per gross ton)	Dec. 9	$66.41	$66.41	$66.41	$66.42
Scrap steel (per gross ton)	Dec. 9	$39.83	$40.17	$42.33	$32.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 10	28.550c	28.575c	28.675c	26.375c
Export refinery at	Dec. 10	26.525c	27.100c	31.250c	23.150c
Lead (New York) at	Dec. 10	13.000c	13.000c	13.000c	13.000c
Lead (St. Louis) at	Dec. 10	12.800c	12.800c	12.800c	12.800c
‡Zinc (delivered) at	Dec. 10	12.000c	12.000c	11.687c	10.500c
Zinc (East St. Louis) at	Dec. 10	11.500c	11.500c	11.187c	10.000c
Aluminum (primary pig. 99%) at	Dec. 10	24.700c	24.700c	24.700c	26.000c
Straits tin (New York) at	Dec. 10	99.125c	99.000c	99.875c	92.625c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 16	87.00	78.94	88.48	92.88
Average corporate	Dec. 16	90.63	90.48	90.06	91.62
Aaa	Dec. 16	95.16	95.16	94.71	99.20
Aa	Dec. 16	93.52	93.08	92.93	94.86
A	Dec. 16	89.92	90.06	89.64	91.48
Baa	Dec. 16	84.30	84.30	83.79	82.03
Railroad Group	Dec. 16	88.67	88.40	87.72	88.54
Public Utilities Group	Dec. 16	90.48	90.48	90.20	91.91
Industrials Group	Dec. 16	92.64	92.64	92.50	94.56
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 16	3.71	3.61	3.57	3.11
Average corporate	Dec. 16	4.37	4.38	4.41	4.30
Aaa	Dec. 16	4.06	4.06	4.09	3.80
Aa	Dec. 16	4.17	4.20	4.21	4.08
A	Dec. 16	4.42	4.41	4.44	4.31
Baa	Dec. 16	4.84	4.84	4.88	5.02
Railroad Group	Dec. 16	4.51	4.53	4.56	4.52
Public Utilities Group	Dec. 16	4.38	4.38	4.40	4.28
Industrials Group	Dec. 16	4.23	4.23	4.24	4.10
MOODY'S COMMODITY INDEX	Dec. 16	390.6	391.3	398.0	392.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 6	344,015	259,412	345,836	316,667
Production (tons)	Dec. 6	277,282	286,263	311,196	258,322
Percentage of activity	Dec. 6	84	88	93	84
Unfilled orders (tons) at end of period	Dec. 6	438,091	369,636	460,078	409,957
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Dec. 12	110.61	110.54	109.48	107.81
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:					
Transactions of specialists in stocks in which registered—					
Total purchases	Nov. 22	2,802,270	2,996,500	2,684,510	1,887,080
Short sales	Nov. 22	582,460	616,710	561,150	437,600
Other sales	Nov. 22	2,248,140	2,340,070	2,194,000	1,231,200
Total sales	Nov. 22	2,830,600	2,956,780	2,755,150	1,668,800
Other transactions initiated on the floor—					
Total purchases	Nov. 22	612,100	740,440	770,620	431,530
Short sales	Nov. 22	53,700	35,200	104,700	70,100
Other sales	Nov. 22	621,810	626,820	756,320	417,280
Total sales	Nov. 22	675,510	662,020	861,020	487,380
Other transactions initiated off the floor—					
Total purchases	Nov. 22	958,335	1,060,270	987,739	761,850
Short sales	Nov. 22	149,100	218,860	181,680	149,450
Other sales	Nov. 22	1,016,092	1,061,428	869,100	537,606
Total sales	Nov. 22	1,165,192	1,280,288	1,050,780	687,056
Total round-lot transactions for account of members—					
Total purchases	Nov. 22	4,372,705	4,797,210	4,442,869	3,080,460
Short sales	Nov. 22	785,260	870,770	847,530	657,150
Other sales	Nov. 22	3,886,042	4,028,318	3,819,420	2,186,086
Total sales	Nov. 22	4,671,302	4,899,088	4,666,950	2,843,236
STOCK TRANSACTIONS FOR ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON N. Y. STOCK EXCHANGE — SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—†					
Number of shares	Nov. 22	1,900,583	1,884,230	1,553,096	1,305,322
Dollar value	Nov. 22	$98,492,604	$89,140,083	$70,838,537	$53,691,351
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Nov. 22	1,892,415	1,884,693	1,672,709	1,070,306
Customers' short sales	Nov. 22	9,669	10,092	10,122	25,031
Customers' other sales	Nov. 22	1,882,746	1,874,601	1,662,587	1,045,275
Dollar value	Nov. 22	$89,780,578	$90,715,850	$76,078,809	$43,988,883
Round-lot sales by dealers—					
Number of shares—Total sales	Nov. 22	598,270	603,110	567,270	284,930
Short sales	Nov. 22	------	------	------	------
Other sales	Nov. 22	598,270	603,110	567,270	284,930
Round-lot purchases by dealers—					
Number of shares	Nov. 22	582,920	609,380	455,820	569,110
TOTAL ROUND-LOT STOCK SALES ON THE N. Y. STOCK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):					
Total round-lot sales—					
Short sales	Nov. 22	947,950	1,006,060	1,102,400	1,054,470
Other sales	Nov. 22	20,989,220	20,820,850	19,953,420	13,189,350
Total sales	Nov. 22	21,937,170	21,826,910	21,055,820	14,243,820
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):					
Commodity Group—					
All commodities	Dec. 9	119.0	119.0	119.2	118.1
Farm products	Dec. 9	90.2	*91.1	92.2	91.8
Processed foods	Dec. 9	108.8	*108.5	109.7	107.^
Meats	Dec. 9	102.3	101.7	104.8	94.1
All commodities other than farm and foods	Dec. 9	127.0	*127.0	126.8	125.8

*Revised figure. ¶ Includes 867,000 barrels of foreign crude runs. §Based on new annual capacity of 140,742,570 tons as of Jan. 1, 1958, as against Jan. 1, 1957 basis of 133,459 150 tons. †Number of orders not reported since introduction of Monthly Investment Plan. ‡Prime Western Zinc sold on delivered basis at centers where freight from East St. Louis exceeds one-half cent a pound.

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of November (in millions):			
Total new construction	$4,416	$4,726	$4,174
Private construction	3,087	3,173	3,005
Residential buildings (nonfarm)	1,709	1,753	1,524
New dwelling units	1,315	1,335	1,140
Additions and alterations	337	364	333
Nonhousekeeping	57	54	51
Nonresidential buildings	760	750	842
Industrial	178	175	287
Commercial	327	319	332
Office buildings and warehouses	167	165	183
Stores, restaurants, and garages	160	154	149
Other nonresidential buildings	255	256	223
Religious	81	81	78
Educational	52	53	47
Hospital and institutional	50	51	52
Social and recreational	42	44	28
Miscellaneous	30	27	18
Farm construction	114	134	114
Public utilities	487	519	510
Railroad	21	22	36
Telephone and telegraph	71	79	84
Other public utilities	395	418	390
All other private	17	17	15
Public construction	1,329	1,553	1,169
Residential buildings	83	76	56
Nonresidential buildings	379	426	368
Industrial	30	31	36
Educational	230	259	235
Hospital and institutional	36	40	26
Administrative and service	47	55	34
Other nonresidential buildings	36	41	37
Military facilities	125	140	108
Highways	485	630	405
Sewer and water systems	117	124	107
Sewer	72	76	67
Water	45	48	40
Public service enterprises	36	45	31
Conservation and development	88	95	86
All other public	16	17	8
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of October:			
Manufacturing number	215	187	214
Wholesale number	124	96	99
Retail number	657	506	544
Construction number	176	163	176
Commercial service number	99	87	89
Total number	1,271	1,039	1,122
Manufacturers' liabilities	$12,141,000	$18,167,000	$11,601,000
Wholesale liabilities	6,947,000	5,937,000	7,691,000
Retail liabilities	16,103,000	14,172,000	16,947,000
Construction liabilities	6,771,000	7,841,000	7,994,000
Commercial service liabilities	5,306,000	2,046,000	3,195,000
Total liabilities	$47,268,000	$48,163,000	$47,428,000
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of October:			
All manufacturing (production workers)	11,778,000	11,943,000	12,896,000
Durable goods	6,480,000	6,584,000	7,413,000
Nondurable goods	5,298,000	5,359,000	5,483,000
Employment indexes (1947-49 Avge.=100)—			
All manufacturing	95.2	*96.6	104.3
Payroll indexes (1947-49 Average=100)—			
All manufacturing	151.7	*155.7	162.6
Estimated number of employees in manufacturing industries—			
All manufacturing	15,553,000	15,744,000	16,783,000
Durable goods	8,678,000	8,808,000	9,718,000
Nondurable goods	6,875,000	6,936,000	7,065,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of October:			
Weekly earnings—			
All manufacturing	$84.35	*$85.39	$82.56
Durable goods	90.91	*92.46	88.75
Nondurable goods	76.83	*76.83	74.10
Hours—			
All manufacturing	39.6	*39.9	39.5
Durable goods	39.7	*40.2	39.8
Nondurable goods	39.4	*39.4	39.0
Hourly earnings—			
All manufacturing	$2.13	$2.14	$2.09
Durable goods	2.29	2.30	2.23
Nondurable goods	1.95	1.95	1.90
METAL PRICES (E. & M. J. QUOTATIONS)—November:			
Copper—			
Domestic refinery (per pound)	28.665c	27.310c	26.339c
Export refinery (per pound)	29.476c	28.573c	23.109c
††London, prompt (per long ton)	£242.975	£236.288	£187.929
††Three months, London (per long ton)	£236,588	£229,772	£191,887
Lead—			
Common, New York (per pound)	13.000c	12.642c	13.500c
Common, East St. Louis (per pound)	12.800c	12.442c	13.300c
††London, prompt (per long ton)	£75.584	£74.049	£83.167
††Three months, London (per long ton)	£75.838	£74.576	£83.327
Zinc (per pound)—East St. Louis	11.367c	10.838c	10.000c
§§Zinc, prime Western, delivered (per pound)	11.867c	11.338c	10.500c
††Zinc, London, prompt (per long ton)	£75.275	£70.467	£67.527
††Zinc, London, three months (per long ton)	£72.803	£69.492	£67.063
Silver and Sterling Exchange—			
Silver, New York (per ounce)	90.125c	89.966c	90.368c
Silver, London (per ounce)	77.419d	77.989d	78.173d
Sterling Exchange (check)	$2.80553	$2.80328	$2.80261
Tin, New York Straits	99.022c	96.558c	89.359c
Gold (per ounce, U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$227.045	$232.769	$226.957
¶Antimony, New York, boxed	32.590c	32.590c	36.590c
Antimony (per pound), bulk Laredo	29.000c	29.000c	33.000c
Antimony (per pound), boxed Laredo	29.500c	29.500c	33.500c
Platinum, refined (per ounce)	$55.864	$57.000	$84.000
†Cadmium, refined (per pound)	$1.45000	$1.45000	$1.70000
‡Cadmium (per pound)	$1.45000	$1.45000	$1.70000
§Cadmium (per pound)	$1.45000	$1.45000	$1.70000
Cobalt, 97% grade (per pound—ounce ton)	$2.00000	$2.00000	$2.00000
Aluminum, 99% grade ingot weighted average (per pound)	$26.800	$26.800	$28.100
Aluminum, 99% grade primary pig	$24.700	$24.700	$26.000
Magnesium ingot (per pound)	35.250c	35.250c	35.250c
**Nickel	74.000c	74.000c	74.000c
Bismuth (per pound)	$2.25	$2.25	$2.25
NEW YORK STOCK EXCHANGE:			
As of Oct. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total customers' net debit balances	$3,311,000	*$3,231,000	$2,607,562
Credit extended to customers	123,000	122,000	39,354
Cash on hand and in banks in U. S.	346,000	345,000	353,958
Total of customers' free credit balances	1,140,000	*1,719,000	878,913
Market value of listed shares	255,116,603	248,388,149	196,674,919
Market value of listed bonds	108,044,677	107,710,859	99,014,578
Member borrowings on U. S. Govt. issues	285,000	254,000	104,908
Member borrowings on other collateral	1,933,000	1,972,000	1,847,500

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Average of quotation on special shares to plater. ¶Domestic five tons or more but less than carload lot boxed. §§Delivered where freight from East St. Louis exceeds 0.5c. **F.o.b. Fort Colburne U. S. duty included. ††Average of daily mean and bid and ask quotation at morning session of London Metal Exchange. ‡‡Increase all stocks.

Texas Fund Assets At All-Time High

Mr. W. T. Carter, III, President of Texas Fund, Inc., states in the November quarterly report that total net assets of Texas Fund have reached an all-time high of $36,267,456. In the 12 months ended Nov. 30, 1958 the net asset value per share increased from $7.48 to $9.29, a gain of 26.9%, adjusted for the 20 cents capital gains distribution of Aug. 31, 1958.

Mr. Carter further remarked that a shareholder who had purchased $100 of Texas Fund on Sept. 1, 1949, when the Fund started, and who had left his dividends and capital gains distributions to be reinvested, could have liquidated his shares for a little over $400 in November, 1958.

Major portfolio changes include the addition of Jefferson Lake Sulphur and Union Oil & Gas Corporation of Louisiana. Increase in common stock holdings were made in Arizona Public Service; Community Public Service; Arkansas-Louisiana Gas; Signal Oil & Gas "A"; Southland Life Insurance; Sinclair Oil; and Transcontinental Gas Pipe Line.

Eliminations in common stock holdings were made in Fort Worth National Bank; Columbian Carbon and River Brand Rice Mills. Decreases were made in Gulf States Utilities; Oklahoma Gas & Electric; Anderson, Clayton & Co.; Gulf Oil; and Texas Utilities.

E. D. Manacher Opens

WHEATRIDGE, Colo.—Eugene D. Manacher is conducting a securities business from offices at 6901 West 32nd Avenue.

Form Mutual Fund Inv.

LOS ALMITOS, Calif.—Mutual Fund Investments has been formed with offices at 2732 Bostonian Drive to engage in a securities business. Donald A. Coscarelli is a principal of the firm.

Mutual Funds

By ROBERT R. RICH

Forecasts 30% Rise in Steel Output

The steel industry next year will produce almost 30% more steel than in 1958, predicts The Milwaukee Company in its December report to investors released.

Output in 1959 should amount to 110 million tons, the report says, compared with only 85 million tons expected this year.

"Vastly improved inventory balance, a pickup in automobile demand, a swelling of new construction volume and many new cost reduction programs" favor an improved outlook for the steel producers in the years ahead, the investment firm believes.

Consumption of steel is now rising at a time when inventories are at a five year low. Steel consumers are starting to rebuild their supplies, the report, called "The Griffin Speaks," says.

The steel industry felt the recession primarily because of weak demand for automobiles, it says. "However, better auto sales seem to be in the offing. Many consumers who bought their cars on time in 1955 (the automobile industry's biggest year) have completed their payments and are now ready to assume new auto loans." The report points out that 17.9% of 1957 steel shipments (14.2 million tons) went to the auto manufacturers.

"Probably the most assuring long-term growth factor favoring the steel industry is new construction," the report emphasizes, adding that this industry could reach a $52.3 billion volume in 1959, 5% higher than in 1957.

Steel makers have reduced their break-even point by new cost-cutting techniques in connection with automation and quality control. These together with new steelmaking methods such as direct reduction of raw materials into semi-finished and finisned goods are permitting major producers to make "comfortable profits" operating at only 50% of capacity. (The report points out that the industry should produce at 75% of capacity in 1959.)

The steel industry has almost doubled its earnings per share since 1947, which is "equal to or better than the record of the chemical, electronics, drug and other growth industries," according to the report.

Bullock Fund Sales Climb Sharply

Sales of new shares of Bullock Fund, Ltd. for the first 10 months of 1958 were 48% greater than for the calendar year 1957, it was announced by Hugh Bullock, President, in the letter accompanying the year-end (Nov. 28) dividends of seven cents per share from net income and a distribution of 60 cents per share from capital gains.

Total assets with investments at market quotations were $44,039,829 on Oct. 31, 1958, compared with $31,029,986 on Oct. 31, 1957.

Bullock Fund, Ltd. is the "growth" fund in the Calvin Bullock group with major emphasis placed on securities offering growth and appreciation possibilities with due regard for investment quality and income.

Axe-Templeton Growth Fund Rises Nearly 25%

Net asset value of the shares of Axe-Templeton Growth Fund of Canada rose more than 24%—from $21.27 to $26.49 in American dollars—during the first half of the 1958-59 fiscal year, according to the fund's semi-annual report. Stated in Canadian dollars the rise was from $20.62 to $25.66 a share.

An increase of 20% in the fund's total net assets is also reported for the fiscal half-year which ended on Oct. 31. This was from $2,928,841 to $3,517,871 in Canadian dollars (in which the fund's records are kept).

In their letter to shareholders, Emerson W. Axe, Chairman, and John M. Templeton, President, call attention to the continuing improvement of the Canadian economy. "All phases of the construction industry have shown substantial gains in the last six months," they report. "Department store sales in September were 7% higher than a year ago.

"The newsprint industry has been showing signs of strengthening in recent months. The rise in the prices of copper, lead and zinc have brightened the outlook for the Canadian mining industry."

They also report a continued increase in the number of states in which the fund's shares are qualified for sale.

Investment portfolio changes during the six months "include new commitments in Investors Syndicate of Canada, Ltd., North Star Oil, Ltd., Industrial Acceptance Corp., Ltd., and Canadian Tire Corp., Ltd."

Supreme Court's Gas Decision Spurs Record High Sales

On Monday, Dec. 8, Gas Industries Fund of Boston, a mutual fund with investments principally in natural gas and oil, scored the biggest sales day in its nine-year history when investors purchased over 100,000 shares of the Fund, for a gross volume of more than $1,700,000.

Gas Industries Fund officials attributed the record sales day to the fact that investment dealers across the country quickly recognized the substantial benefits accruing to the natural gas companies as a result of Monday's Supreme Court reversal of the lower court in the "Memphis Case."

The Supreme Court ruled that gas companies may put higher charges for gas into effect while the Federal Power Commission investigates the increase. The ultimate beneficiaries will be the consumers of gas since the industry is once again in a position to attract the vast sums of capital necessary to expand service to fill the presently unsatisfied consumer demand.

American Mutual's Assets Jump 48%

Total assets of American Mutual Fund increased over 48% during the fiscal year ended Oct. 31, 1958, rising from $63,768,099 at the beginning of the year to a record high of $94,920,871 at the close, it was stated by President Jonathan B. Lovelace in his annual report to the shareholders. Total net assets at the year-end were more than ten times the $9.1 million held by the Fund when it commenced operations in 1950.

During the year net assets per share rose from $7.15 for each of the 8,921,330 shares outstanding at the beginning of the period to $8.47 for each of the 11,211,136 shares outstanding at the end. After adjusting for the capital gains distribution of 42 cents paid during the year, this represented an increase of 24.4% in net asset value per share.

Net investment income, excluding realized gains on sales of securities, for the fiscal year just ended was $2,394,264, equivalent to approximately 24.2 cents per share on the 9,881,573 average number of shares outstanding during the period. This compares with net income of $2,044,948 or 25.6 cents per share on the 7,997,900 average number of shares outstanding in the fiscal year ending Oct. 31, 1957.

American Mutual Fund held 79.5% of its assets in common stocks on Oct. 31, 1958, as compared to 90.6% at the same date a year ago.

New commitments in the Fund's portfolio during the quarter included American and Foreign Power Company, Deere & Co., McLouth Steel, Norfolk & Western, Reliance Electric and Engineering, Schering, Standard Register, and Thatcher Glass.

Securities completely eliminated during the quarter included Addressograph-Multigraph, Carrier, Central & Southwest, Continental Insurance, Reynolds Metals, Seattle First National Bank, and United Fruit.

IDS November Sales Reach Record

In honor of Joseph M. Fitzsimmons, President of Investors Diversified Services, Inc., the company's nation-wide sales force topped all of their previous production records during their annual November sales campaign, called "President's Month." November sales of mutual fund shares and face-amount investment certificates issued by Investors Group companies sponsored and managed by Investors Diversified Services, Inc. rose to an all-time record of $104,970,779, Grady Clark, Vice-President-Sales, announced.

Gross dollar volume in cash sales of the five affiliated mutual funds for which IDS is national distributor and investment manager amounted to $41,634,145 for the month, an increase of $16,855,564 over the comparable figure last year, and a record high. These funds are: Investors Mutual, Inc., Investors Stock Fund, Inc., Investors Selective Fund, Inc., Investors Group Canadian Fund Ltd. and Investors Variable Payment Fund, Inc.

Total maturity value of face-amount installment certificates purchased by individual investors during November was $63,336,634. These certificates were issued by: Investors Syndicate of America, Inc. and Investors Syndicate Title & Guaranty Company, New York, both IDS subsidiaries.

Hall Joins Weeden Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Gerald E. Hall has rejoined Weeden & Co., 510 South Spring Street. Mr. Hall was recently in the municipal bond department of J. Barth & Co. Prior thereto he was in the municipal department of Weeden & Co.

Form First Securities

BOSTON, Mass.—First Securities Co. is being formed with offices at 1 State Street to engage in a securities business. Partners are Frank L. Wasserman and Albert Datz, both formerly with Keller Brothers Securities Co., Inc.

Milton Miller Opens

Milton Miller is engaging in a securities business from office at 305 Broadway, New York City.

Shearson, Hammill Office

PALM SPRINGS, Calif. — Shearson, Hammill & Co. has opened a branch office at 1103 North Palm Canyon Drive under the direction of H. Daniel Wells.

Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
● ITEMS REVISED

● Advanced Research Associates, Inc.
Dec. 1 filed 400,000 shares of common stock (par five cents). **Price**—$6 per share. **Proceeds**—For research and development program; and for equipment and working capital. **Office** — 4130 Howard Ave., Kensington, Md. **Underwriters** — Wesley Zaugg & Co., Kensington, Md., and Williams, Widmayer Inc., Washington, D. C. **Offering**—Expected in January.

★ Aerosol Corp. of the South
Dec. 3 (letter of notification) 1,500 shares of 6% cumulative convertible preferred stock. **Price**—At par ($100 per share). **Proceeds**—For working capital and inventories. **Office**—12121 Highway 70, Arlington, Tenn. **Underwriter**—None.

★ Al-Dun Amusement Co., West Point, Ga.
Dec. 8 (letter of notification) 250 shares of class A preferred stock. **Price**—At par ($100 per share). **Proceeds**—For working capital. **Underwriter**—None.

Allied Publishers, Inc., Portland, Ore.
Nov. 28 (letter of notification) 22,000 shares of common stock (par $1). **Price**—$8.50 per share. **Proceeds**—For general corporate purposes. **Office**—665 S. Ankeny St. Portland 14, Ore. **Underwriter**—First Pacific Investment Corp., Portland, Ore.

American Asiatic Oil Corp.
Nov. 24 filed 100,000,000 shares of capital stock. **Price**—Two cents per share. **Proceeds**—To selling stockholders. **Office**—Magsaysay Building, San Luis, Ermita, Manila, Republic of Philippines. **Underwriter** — Gaberman & Hagedorn, Inc., Manila, Republic of Philippines.

● American Bowling Equipment Corp. (12/22)
Nov. 10 (letter of notification) 50,000 shares of noncumulative convertible preferred stock (par $3) and 5,000 shares of common stock (par one cent) to be offered in units of 10 shares of preferred stock and one share of common stock. **Price**—$31 per unit. **Proceeds**—For purchase of bowling equipment and working capital. **Office**—135 Front St., New York, N. Y. **Underwriter** — York Securities, Inc., 80 Wall St., New York, N. Y.

American Buyers Credit Co.
Nov. 13 filed 5,000,000 shares of common stock, of which 4,545,455 shares of this stock are to be offered for public sale at $1.75 per share. [Shares have been issued or are issuable under agreements with various policy holders in American Buyers Life Insurance Co. and American Life Assurance Co. (both of Phoenix) permitting them to purchase stock at $1.25 per share. Sales personnel have been given the right to purchase stock at $1.25 per share up to the amount of commission they receive on stock sales made by them.] **Proceeds**—For the operation of other branch offices, both in Arizona and in other states. **Office**—2001 East Roosevelt, Phoenix, Ariz. **Underwriter**—None.

American-Caribbean Oil Co. (N. Y.)
Feb. 28 filed 500,000 shares of common stock (par 20¢). **Price**—To be supplied by amendment. **Proceeds** — To discharge current liabilities and to drill ten wells. **Underwriters**—To be named by amendment.

American Enterprise Fund, Inc., New York
Oct. 30 filed 487,897 shares of common stock. **Price**—At market. **Proceeds**—For investment. **Distributor**—Edward A. Viner & Co., Inc., New York.

American Growth Fund, Inc., Denver, Colo.
Nov. 17 filed 1,000,000 shares of capital stock (par one cent). **Price**—At market. **Proceeds**—For investment. **Office**—800 Security Building, Denver, Colo. **Underwriter**—American Growth Fund Sponsors, Inc., 800 Security Bldg., Denver 2, Colo.

★ American Investment Co. of Illinois
Dec. 10 filed 13,880 shares of common stock issuable under stock options exercisable commencing Jan. 2, 1959, and an additional 23,710 common shares issuable under stock options exercisable commencing Jan. 3, 1960. The 13,880 shares are issuable to key employees of subsidiaries of the company entitled to purchase shares pursuant to option warrants issued in 1956; and the 23,710 shares are issuable to key employees of subsidiaries entitled to purchase shares issuable pursuant to option warrants issued in 1957.

American Mutual Investment Co., Inc.
Dec. 17, 1957, filed 490,000 shares of capital stock. **Price**—$10.20 per share. **Proceeds** — For investment in first trust notes, second trust notes and construction loans. Company may develop shopping menters and build or purchase office buildings. **Office**—900 Woodward Bldg., Washington, D. C. **Underwriter**—None. Sheldon Magazine, 1201 Highland Drive, Silver Spring, Md., is President.

American Telemail Service, Inc.
Feb 17 filed 375,000 shares of common stock (par $1). **Price**—$4 per share. **Proceeds**—To purchase equipment and supplies and for working capital and other corporate purposes **Office**—Salt Lake City Utah **Underwriter** Amos Treat & Co., Inc., of New York. **Change in Name**—Formerly United States Telemail Service, Inc.

★ Architects Display Buildings, Inc.
Dec. 9 (letter of notification) $225,000 of 6% 10-year convertible subordinated debentures due Dec. 31, 1968. **Price**—At par until Dec. 31, 1958, and thereafter plus accrued interest (in denominations of $100, $500 and $1,000 each). **Proceeds**—To pay in full mortgage judgment and 25% settlement with the company's creditors; for working capital and other corporate purposes. **Office**—1130 U. S. Route 22, Mountainside, N. J. **Underwriter**—None.

Associated Bowling Centers, Inc.
Nov. 24 filed 300,000 shares of 20-cent cumulative convertible preferred stock (par one cent) and 50,000 outstanding shares of common stock (par one cent). The preferred shares are to be offered for public sale for the account of the company and the common shares will be offered for the account of a selling stockholder. **Price**—To be supplied by amendment. **Proceeds**—To acquire new bowling centers and increase working capital (part to be used in defraying cost of acquisition of stock of owner of a Brooklyn (N.Y.) bowling center. **Office**—135 Front St., N. Y. **Underwriter** — To be named by amendment.

● Autosurance Co. of America
Oct. 16 filed 250,000 shares of common stock (par $2.50). **Price**—$5 per share. **Proceeds**—To increase capital and surplus. **Office**—Atlanta, Ga. **Underwriter**—None. Statement effective Dec. 3.

Bankers Fidelity Life Insurance Co.
Feb. 28 filed 258,740 shares of common stock (par $1), of which 125,000 shares are to be offered publicly and 133,740 shares to employees pursuant to stock purchase options. **Price**—To public, $6 per share. **Proceeds**—For expansion and other corporate purposes. **Office** — Atlanta, Ga **Underwriter**—None.

Bankers Management Corp.
Feb. 10 filed 400,000 shares of common stock (par 25 cents.) **Price**—$1 per share. **Proceeds**—To reduce outstanding indebtedness and for working capital. **Office**—1404 Main St., Houston, Texas. **Underwriter**—McDonald, Kaiser & Co., Inc. (formerly McDonald, Holman & Co., Inc.), New York.

Bankers Southern, Inc.
April 14 filed 8,934 shares of common stock. **Price**—At par ($100 per share). **Proceeds**—For general corporate purposes. **Underwriter** — Bankers Bond Co., Louisville, Ky.

★ Bargain Centers, Inc.
Nov. 20 (letter of notification) $300,000 of 6% subordinated convertible debentures due Jan. 1, 1969 and 30,000 shares of common stock (par 10 cents) to be offered in units of $100 of debentures and 10 shares of stock. **Price**—$100 per unit. **Proceeds**—For equipping and decorating a new store and acquisition of real estate for a new warehouse and working capital. **Office**—c/o Edward H. Altschull, President, 1027 Jefferson Circle, Martinsville, W. Va. **Underwriter**—Securities Trading Corp., Jersey City, N. J.

Bellechasse Mining Corp. Ltd.
Oct. 29 filed 800,000 shares of common stock. **Price**—Related to the market price on the Canadian Stock Exchange, at the time the offering is made. **Proceeds**—To be applied over the balance of 1958 and the next three years as follows: for annual assessment work on the company's properties (other than mining claims in the Mt. Wright area in Quebec); for general prospecting costs; and for general administration expenses. **Office**—Montreal, Canada. **Underwriters**—Nicholas Modinos & Co. (Washington, D. C.) in the United States and by Forget & Forget in Canada.

Biddeford & Saco Water Co.
Nov. 10 (letter of notification) 1,000 shares of common stock being offered for subscription by stockholders of record Nov. 26 on the basis of one new share for each 10 shares held; rights to expire on Dec. 15. **Price**—At par ($100 per share). **Proceeds**—For improvements and

NEW ISSUE CALENDAR

December 12 (Friday)
American Bowling Equipment Corp.____Com. & Pfd.
(York Securities, Inc.) $155,000

December 18 (Thursday)
Norfolk & Western Ry.__________Equip. Trust Ctfs.
(Bids to be invited) $5,850,000

December 19 (Friday)
Colonial Aircraft Corp.________________Common
(Mallory Securities, Inc.) $259,869

Columbia Gas System, Inc.______________Common
(Carl M. Rhoades & Co. and Merrill Lynch, Pierce, Fenner & Smith) 800,000 shares

Realty & Theatre Ventures, Inc.__________Common
(Willis E. Burnside & Co., Inc.) $300,000

United States Freight Co._______________Common
(Offering to stockholders—to be underwritten by Merrill Lynch, Pierce, Fenner & Smith) 203,897 shares

December 22 (Monday)
Campbell Chibougamau Mines, Ltd.________Bonds
(Allen & Co. and W. C. Pitfield & Co., Ltd.) $5,000,000

Colonial Sand & Stone Co., Inc.___________Common
(Glore, Forgan & Co.) 63,467 shares

Filmways, Inc. _________________________Common
(S. D. Fuller & Co.) 154,000 shares

Sire Plan of Elmsford, Inc.________Debens. & Pfd.
(Sire Plan Portfolios, Inc.) $500,000

December 23 (Tuesday)
Burlington Industries, Inc.____________Debentures
(Kidder, Peabody & Co.) $7,051,675

December 31 (Wednesday)
Northern Insurance Co. of New York________Common
(Offering to stockholders—underwritten by The First Boston Corp. and Wood, Struthers & Co.) 145,200 shares

January 5 (Monday)
Carraco Oil Co._________________________Common
(Berry & Co.) $300,000

Pennsylvania Power & Light Co.__________Common
(Offering to stockholders—to be underwritten by The First Boston Corp. and Drexel & Co.) 295,841 shares

January 7 (Wednesday)
Natural Gas Service Co.______Debentures & Com.
(Kidder, Peabody & Co., Inc.) $200,000 of debentures and 40,000 common shares

Washington Water Power Co.________________Bonds
(Kidder, Peabody & Co.; Blyth & Co., Inc.; White, Weld & Co. and Laurence M. Marks & Co.) $15,000,000

January 8 (Thursday)
C. I. T. Financial Corp.________________Debentures
(Dillon, Read & Co., Inc.; Kuhn, Loeb & Co. and Lehman Brothers) $75,000,000

San Diego Gas & Electric Co.___________Debentures
(Bids 11:30 a.m. EST) $15,000,000

Woodward & Lothrop Inc.__________________Common
(Alex. Brown & Sons) 50,000 shares

January 9 (Friday)
Heliogen Products, Inc.___________________Common
(Albion Securities Co.) $144,000

January 12 (Monday)
Mechmetal-Tronics Inc. ___________________Common
(Charles Plohn & Co.) $247,500

January 13 (Tuesday)
Commonwealth Edison Co.________________Debentures
(Bids to be invited) $20,000,000

First National Bank & Trust Co., Tulsa, Okla. ____________________________Common
(Offering to stockholders—underwritten by Merrill Lynch, Pierce, Fenner & Smith) $2,700,000

Gulf States Utilities Co.________________Preferred
(Bids to be received) $10,000,000

Pacific National Bank of San Francisco___Common
(Offering to stockholders—underwritten by Blyth & Co., Inc. and Elworthy & Co.) 74,511 shares

January 15 (Thursday)
Surrey Oil & Gas Corp.___________________Common
(Peter Morgan & Co.) $900,000

January 19 (Monday)
Gulf States Utilities Co.___________________Bonds
(Bids to be invited) $10,000,000

January 20 (Tuesday)
Government Employees Variable Annuity Life Insurance Co.________________________Common
(Offering to stockholders—underwritten by Johnston, Lemon & Co.; Eastman Dillon, Union Securities & Co. and Abacus Fund) $7,500,000

Southern Natural Gas Co.___________________Bonds
(Bids to be invited) $35,000,000

January 22 (Thursday)
Mobile Gas Service Corp.__________________Common
(Offering to stockholders—underwriten by The First Boston Corp. and Robinson, Humphrey & Co.) 33,000 shares

February 4 (Wednesday)
Southern Co._____________________________Common
(Bids 11 a.m. EST) between $40,000,000 and $45,000,000

April 2 (Thursday)
Gulf Power Co.____________________________Bonds
(Bids to be invited) $7,000,000

April 30 (Thursday)
Alabama Power Co._________________________Bonds
(Bids to be invited) $20,000,000

May 28 (Thursday)
Southern Electric Generating Co.___________Bonds
(Bids to be invited) $25,000,000

June 25 (Thursday)
Mississippi Power Co.______________________Bonds
(Bids to be invited) $5,000,000

September 10 (Thursday)
Georgia Power Co.__________________________Bonds
(Bids to be invited) $18,000,000

Postponed Financing

Consumers Power Co.____________________Preferred
(Morgan Stanley & Co.) $15,000,000

Michigan Bell Telephone Co.__________Debentures
(Bids to be invited) $40,000,000

Montana Power Co.__________________________Bonds
(Bids to be invited) $20,000,000

Moore-McCormack Lines, Inc.________________Bonds
(Kuhn, Loeb & Co and Lehman Brothers) $24,000,000

Pennsylvania Power Co._____________________Bonds
(Bids to be invited) $8,000,000

Southwestern Bell Telephone Co.______Debentures
(Bids to be invited) $110,000,000

additions to property. **Office**—181 Elm Street, Biddeford, Me. **Underwriter**—None.

Big Bromley, Inc., Manchester, Vt.
Dec. 9 filed 6,000 shares of common stock, $300,000 of 5% debentures due April 1, 1979, and $100,000 of 6% notes due April 1, 1980, the common stock and debentures to be offered in units of $250 of debentures and five common shares. **Price**—Of units, $500 each, and of notes, at par. **Proceeds**—For general corporate purposes. **Business**—A ski lift and school. **Underwriter**—None.

★ Boston Garden-Arena Corp.
Nov. 24 (letter of notification) 2,150 shares of common stock (par $1). **Price**—At-the-market (estimated at $23 per share). **Proceeds** — To go to selling stockholders. **Office**—North Station, Boston 14, Mass. **Underwriter**—Weston W. Adams & Co., Boston, Mass.

Bridgehampton Road Races Corp.
Oct. 23 (letter of notification) 15,000 shares of common stock (par $1) to be offered for subscription by stockholders of record Nov. 1, 1958 on the basis of one new share for each four shares held; unsubscribed shares will be offered to current creditors in payment of all or part of claims, at the rate of one share for each $4 of claims discharged; rights to expire about two weeks after mailing of offer. **Price**—$4 per share. **Proceeds**—To pay current creditors. **Address** — P. O. Box-506, Bridgehampton, L. I., N. Y. **Underwriter**—None.

Brooks & Perkins, Inc., Detroit, Mich.
Nov. 26 filed 100,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To complete the company's commitment to purchase at par 5,000 shares of the $100 par common stock of Alabama Metallurgical Corp.; and the balance for general corporate purposes. **Business**—Rolling and fabrication of magnesium and magnesium alloys, etc. **Underwriter**—Watling, Lerchen & Co., Detroit, Mich. **Offering**—Expected this week.

Burlington Industries, Inc. (12/23)
Dec. 2 filed $7,051,675 of outstanding 5.4% subordinated debentures due 1974. **Price**—To be supplied by amendment. **Proceeds** — To selling debentureholders. **Underwriter**—Kidder, Peabody & Co., New York.

Campbell Chibougamau Mines, Ltd. (12/22-26)
Nov. 12 filed $5,000,000 of 6% first mortgage convertible sinking fund bonds due 1968. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans, and the remainder will be used for corporate purposes, including commencement of development of Henderson ore body. **Office**—55 Yonge St., Toronto, Ontario, Canada. **Underwriters**—Allen & Co., New York, and W. C. Pitfield & Co., Ltd., Montreal, Quebec, Canada.

★ Carraco Oil Co., Ada, Okla. (1/5)
Nov. 10 (letter of notification) 200,000 shares of common stock. **Price**—$1.50 per share. **Proceeds** — For general corporate purposes. **Underwriter** — Berry & Co., New York.

Cardinal Instrumentation Corp. (12/15)
Nov. 4 letter of notification) 240,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For payment of notes, capital additions and inventory. **Office**—4201 Redwood Ave., Los Angeles 66, Calif. **Underwriter**—Myron A. Lomasney & Co., New York.

Carolina Telephone & Telegraph Co.
Nov. 17 filed 58,773 shares of common capital stock (par $100) being offered for subscription to stockholders of record Dec. 4, 1958, in the ratio of one new share for each five shares then held; rights to expire on Dec. 29. **Price**—$125 per share. **Proceeds**—To reduce short-term bank loans. **Underwriter**—None.

Cemex of Arizona, Inc.
Nov. 17 (letter of notification) 300,000 shares of common stock (par 25 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Address**—P. O. Box 1849, 3720 E. 32nd Street, Yuma, Ariz. **Underwriter**—L. A. Huey Co., Denver, Colo.

Charles Town Racing Association, Inc.
Sept. 9 filed 4,000,000 shares of common stock (par 10 cents), represented by voting trust certificates, of which 3,530,000 shares are to be offered to the public and the remaining 470,000 shares have been issued to nine persons, who may sell such shares at the market. **Price**—60 cents per share. **Proceeds** — For construction of racing plant and acquisition of equipment. **Office**—Charlestown, W. Va. **Underwriter**—None. Statement effective Oct. 23.

Checker Motors Corp., Kalamazoo, Mich.
Nov. 7 filed 133,112 shares of common stock (par $1.25) being offered for subscription by holders of outstanding common stock of record Dec. 4, 1958 at the rate of one new share for each seven shares then held (with an oversubscription privilege); rights to expire on Dec. 23. **Price**—$10 per share. **Proceeds**—For exercise by company of its option to purchase 19 presses and accessories leased from Checker Taxi Co. Inc. and for working capital. **Business**—Manufactures and sells Checker taxicabs. **Underwriter**—None.

Chemical Fire & Casualty Insurance Co.
Nov. 24 filed 210,000 shares of class "A" voting common stock and 210,000 warrants to subscribe to a like number of shares of class "B" non-voting common stock. Purchasers of the class "A" shares will receive with each share purchased a warrant granting the right to purchase for $10 per share one shares of class "B" stock for a period of 18 months after the company receives permission to write insurance. **Price**—$10 per share. **Proceeds**—For working capital. **Office**—2807 Sterick Bldg., Memphis, Tenn. **Underwriter**—None.

★ C. I. T. Financial Corp. (1/8)
Dec. 16 filed $75,000,000 of debentures due Jan. 1, 1979. **Price**—To be supplied by amendment. **Proceeds**—To provide additional working funds for the corporation and its subsidiaries, to be used in the ordinary course of business to reduce short-term borrowings incurred for the purpose of purchasing receivable and for other corporate purposes. **Underwriter**—Dillon, Read & Co. Inc., Kuhn, Loeb & Co. and Lehman Brothers, all of New York.

Cinemark II Productions, Inc.
June 30 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office** — 937 Acequia Madre Rd., Santa Fe, N. M. **Underwriter**—Watson & Co., Santa Fe, N. M.

Clute Corp.
Aug. 21 (letter of notification) 300,000 shares of common stock (par one cent). **Price**—$1 per share. **Proceeds**—To pay additional costs of construction; and for retirement of obligations and working capital. **Office** — c/o John Harlan Lowell, 2200 Kenton, Aurora, Colo. **Underwriter**—Lowell, Murphy & Co., Inc., Denver, Colo.

● Colonial Aircraft Corp., Sanford, Me. (12/19)
Oct. 8 filed 346,492 shares of common stock (par 10 cents). **Price**—75 cents per share. **Proceeds**—To reduce loans, make certain capital improvements and for working capital. **Underwriter**—Mallory Securities, Inc., New York.

Colonial Sand & Stone Co., Inc. (12/22)
Nov. 26 filed 63,467 shares of common stock to be issued upon exercise of warrants at an adjusted price of $6.912 per share. **Price**—To public, to be supplied by amendment. **Proceeds**—From warrants, to be added to the general funds of the company. **Underwriter** — Glore, Forgan & Co., New York.

● Columbia Gas System, Inc. (12/19)
Nov. 21 filed 800,000 shares of common stock (par $10). **Price**—To be supplied by amendment. **Proceeds** — To selling stockholders. **Underwriters** — Carl M. Loeb, Rhoades & Co., Merrill Lynch, Pierce, Fenner & Smith and seven other firms, all of New York.

★ Comfort-Craft, Inc.
Dec. 17 (letter of notification) $44,700 of 8% debentures due Dec. 20, 1975, to be sold in units. **Price**—$100 per unit. **Proceeds**—To be used for new equipment and for working capital. **Office**—3801 N. W. 53rd St., Hialeah, Fla. **Underwriter**—None.

Commerce Oil Refining Corp.
Dec. 16, 1957 filed $25,000,000 of first mortgage bonds due **Sept. 1, 1968, $20,000,000 of subordinated debentures due Oct. 1, 1968 and 3,000,000 shares of common stock to be offered in units as follows: $1,000 of bonds and 48 shares of stock and $100 of debentures and nine shares of stock Price**—To be supplied by amendment. **Proceeds** — To construct refinery. **Underwriter**—Lehman Brothers, New York. **Offering**—Indefinite.

Commercial Investors Corp.
Nov. 28 (letter of notification) 900,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—For investment. **Office**—450 So. Main St., Salt Lake City, Utah. **Underwriter**—Earl J. Knudson & Co., Salt Lake City, Utah.

Consumers Cooperative Association, Kansas City, Mo.
Oct. 29 filed $6,000,000 of 5½% 25-year subordinated certificates of indebtedness, and 60,000 shares of 5½% preferred stock (cumulative to extent earned before patronage refunds). **Price**—For certificates at $100 per unit; and the preferred stock at $25 per share. **Proceeds**—For retirement of maturing certificates of indebtedness, redemptions on request of certificates of indebtedness prior to maturity and of 5½% preferred stock; the possible improvement and expansion of present facilities; and the acquisition of manufacturing plants and crude oil properties if favorable opportunities therefore arise. **Underwriter**—None.

Consumers Power Co.
Aug. 29 filed 150,000 shares of preferred stock (no par). **Price**—To be supplied by amendment. **Proceeds**—To repay short-term bank loans and for expansion and improvement of service facilities. **Underwriter** — Morgan Stanley & Co., New York. **Offering**—Postponed indefinitely.

Counselors Research Fund, Inc., St. Louis, Mo.
Feb. 5 filed 100,000 shares of capital stock, (par one cent). **Price**—At market. **Proceeds**—For investment. **Underwriter** — Counselors Research Sales Corp., St Louis. Robert H. Green is President.

★ Crown Central Petroleum Corp.
Nov. 26 (letter of notification) an undetermined number of shares of common stock (par $5) to be offered to employees under Employees Savings Plan, through payroll deductions. **Price** — At the market. **Proceeds** — To purchase stock for employees. **Office** — American Building, Baltimore, Md. **Underwriter**—None.

Cryogenic Engineering Co.
Sept. 22 (letter of notification) 150,000 shares of class A common stock (par 10 cents). **Price**—$2 per share. **Proceeds** — For repayment of loan; purchase of plant and office equipment; raw materials and supplies; and for working capital, etc. **Office**—U. W. National Bank Bldg., 1740 Broadway, Denver, Colo. **Underwriter**—L. A. Huey, Denver, Colo.

Derson Mines Ltd.
June 5 filed 350,000 shares of common stock. **Price—$1** per share. **Proceeds**—For new equipment, repayment of loan, acquisition of properties under option, and other corporate purposes. **Office**—Toronto, Canada, and Emporium, Pa. **Underwriter**—None.

Edgcomb Steel of New England, Inc.
Dec. 5 (letter of notification) 30,000 shares of class A common stock (par $5). **Price**—$10 per share. **Proceeds**—To pay off current notes payable to bank and to increase working capital. **Office** — 950 Bridgeport Ave., Milford, Conn. **Underwriter**—None.

★ Eldon Miller, Inc., Iowa City, Iowa
Dec. 8 (letter of notification) 30,000 shares of common stock (par $1). **Price** — $6 per share. **Proceeds** — For working capital and operating equipment. **Underwriter**—None.

Epsco, Inc.
Nov. 5 (letter of notification) 7,500 shares of common stock (no par). **Price**—$24 per share. **Proceeds**—To selling stockholders. **Office**—588 Commonwealth Ave., Boston, Mass. **Underwriter**—W. C. Langley & Co., Boston, Mass. No public offer planned.

Epsco, Inc.
Nov. 5 (letter of notification) 2,200 shares of common stock (no par). **Price**—At the market. **Proceeds**—To a selling stockholder. **Office** — 588 Commonwealth Ave., Boston, Mass. **Underwriter**—Hayden, Stone & Co., Boston, Mass. No public offer planned.

Ethodont Laboratories, Berkeley, Calif.
Feb. 20 filed 300,000 shares of common stock. **Price—At par ($5 per share). Proceeds**—To cover operating expense during the development period of the corporation. **Underwriter**—None.

Federated Finance Co.
Nov. 17 (letter of notification) $300,000 of 10-year 6% senior subordinated debentures. **Price**—At par (in denominations of $1,000 each). **Proceeds** — For working capital, to make loans, etc. **Office**—2104 "O" St., Lincoln, Neb. **Underwriters** — J. Cliff Rahel & Co. and Eugene C. Dinsmore, Omaha, Neb.

Filmways, Inc. (12/22-26)
Nov. 28 filed 154,000 shares of common stock (par 25 cents), of which 14,000 shares will be sold for the account of a selling stockholder. **Price**—To be supplied by amendment. **Proceeds**—For expansion program. **Office**—18 East 50th Street, New York, N. Y. **Underwriter**—S. D. Fuller & Co., New York.

● First Lumber Corp.
Dec. 3 (letter of notification) 50,000 shares of class A common stock (par $2). **Price**—$6 per share. **Proceeds**—To capitalize several wholly-owned subsidiaries and for general working capital. **Office**—1510 Jericho Turnpike, New Hyde Park, N. Y. **Underwriter**—Singer, Bean & Mackie, Inc., New York, N. Y. **Offering** — Not expected until after the first of January.

Florida Builders, Inc.
Dec. 1 filed $4,000,000 of 6% 15-year sinking fund subordinated debentures and 40,000 shares of common stock, to be offered in units of $100 principal amount of debentures and one share of common stock. **Price** — $110 per unit. **Proceeds**—For purchase and development of subdivision land, including shopping site; for new equipment and project site facilities; for financing expansion program; and for liquidation of bank loans and other corporate purposes. **Office**—700 43rd St., South, St. Petersburg, Fla. **Underwriter**—None.

Fluorspar Corp. of America
Oct. 14 (letter of notification) 133,333 shares of common stock (par 25 cents). **Price**—$2.25 per share. **Proceeds**—For mining expenses. **Office**—4334 S. E. 74th Ave., Portland 6, Ore. **Underwriter** — Ross Securities Inc., New York, N. Y.

Fort Pierce Port & Terminal Co.
Nov. 25 filed 2,138,500 shares of common stock (par $1). **Price**—$1.25 per share. **Proceeds**—To pay short-term loans and for completing company's Port Development Plan and rest added to general funds. **Office** — Fort Pierce, Fla. **Underwriter**—Frank B. Bateman, Ltd., Palm Beach, Fla.

● General Aero & Electronics Corp.
Sept. 29 filed 500,000 shares of common stock (par 10 cents), of which 100,000 shares are to be sold for the account of selling stockholders. **Price**—$2.25 per share. **Proceeds**—For acquisition of stock of National Missile & Electronics Corp., additional working capital and other corporate purposes. **Underwriter**—Willis E. Burnside & Co. ,Inc., New York. Statement withdrawn a week ago.

General Alloys Co.
Nov. 17 (letter of notification) 45,250 shares of common stock (par $1) of which 16,900 shares are to be offered to employees and the remainder to the public. **Price**—To employees, $1.1805 per share. **Proceeds**—To purchase and install machinery and equipment. **Office**—367-405 West First St., Boston, Mass. **Underwriter**—William S. Prescott & Co., Boston, Mass.

General Aniline & Film Corp., New York
Jan. 14, 1957 filed 426,988 shares of common A stock (no par) and 1,537,500 shares of common B stock (par $1). Proceeds—To the Attorney General of the United States. **Underwriter**—To be determined by competitive bidding. **Probable bidders: Blyth & Co., Inc., and The First Boston Corp. (jointly); Kuhn, Loeb & Co.; Lehman Brothers, and Glore, Forgan & Co. (jointly). Bids—Had been scheduled to be received up to 3:45 p.m. (EDT) on May 13 at Room 654, 101 Indiana Ave., N. W., Washington 25, D. C., but bidding has been postponed.**

★ General Telephone Co. of California
Dec. 16 filed 500,000 shares of 5% cumulative preferred stock (par $20). **Price**—To be supplied by amendment. **Proceeds**—To be used for property additions and improvements and to discharge in part short-term bank loans. **Underwriters**—Paine, Webber, Jackson & Curtis, of New York and Boston, Mass., and Mitchum, Jones & Templeton, Los Angeles, Calif. (not under a firm commitment basis).

Continued on page 114

Continued from page 113

Government Employees Variable Annuity Life Insurance Co. (1/20)
Nov. 13 filed 2,500,000 shares of common stock (par $1) to be offered by company on or about Jan. 20, 1959 viz: (1) to holders of common stock (par $4) of Government Employees Insurance Co., on the basis of one warrant per share of stock held on Jan. 6, 1959 (1,334,570 shares are now outstanding); (2) to holders of common stock (par $1.50) of Government Employees Life Insurance Co., on the basis of 1½ warrants per share of stock held on Jan. 6, 1959 (216,429 shares are now outstanding); and (3) to holders of common stock (par $5) of Government Employees Corp., on the basis of ½ warrant per share of stock held on Jan. 6, 1959 (as of Sept. 30, 1958 there were 143,127 shares of stock outstanding and $614,360 of 5% convertible capital debentures due 1967, convertible into shares of common at $28.0374 per share. If all these debentures were converted into common stock prior to the record date, a total of 164,724 common shares would be outstanding. Warrants will expire on Feb. 10, 1959. **Price**—$3 per share. **Proceeds**—For capital and surplus. **Office** — Government Employees Insurance Building, Washington, D. C. **Underwriters** — Johnston, Lemon & Co., Washington, D. C.; Eastman Dillon, Union Securities & Co., New York; and Abacus Fund, Boston, Mass.

Grain Elevator Warehouse Co.
Nov. 3 filed 100,000 outstanding shares of common stock (par 10 cents). National Alfalfa Dehydrating & Milling Co., holder of the 100,000 common shares, proposes to offer to its stockholders preferential warrants to subscribe to 98,750 shares of Grain Elevator stock on the basis of one warrant to purchase one-eighth share of Grain Elevator stock for each share of National Alfalfa common held on Nov. 17, 1958; rights to expire Dec. 31. **Price**—$2 per share. **Proceeds**—To selling stockholder. **Office** — 927 Market Street, Wilmington, Del. **Underwriter**—None.

● **Grand Union Co.**
Oct. 29 filed 187,534 shares of common stock (par $5) being offered in exchange for outstanding common stock of Sunrise Supermarkets Corp. at the rate of one share of Grand Union stock for each 2.409 shares of Sunrise stock. The offer is subject to acceptance by at least 80% of the outstanding Sunrise shares by Dec. 31. Statement became effective Dec. 10.

Gray Manufacturing Co., Hartford, Conn.
Oct. 28 filed 90,218 shares of capital stock (par $5) being offered for subscription by common stockholders of record Nov. 25, 1958 at the rate of one new share for each four shares held (rights to expire on Dec. 22). **Price**—$8 per share. **Proceeds**—For general corporate purposes. **Underwriter**—None.

★ **Group Securities, Inc., Jersey City, N. J.**
Dec. 10 filed (by amendment) an additional 5,000,000 shares of capital stock (par one cent). **Price**—At market. **Proceeds**—For investment.

Guaranty Life Insurance Co. of America
Nov. 14 filed 88,740 shares of class A common capital stock (par $1.80). **Price**—$5.35 per share. **Proceeds**—To increase capital and surplus. **Office**—815 15th Street, N. W., Washington, D. C. **Underwriter**—None.

★ **Gulf States Utilities Co. (1/19)**
Dec. 11 filed $10,000,000 of first mortgage bonds due 1989. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Smith and White Weld & Co. (jointly); Stone & Webster Securities Corp.; and Salomon Bros. & Hutzler and Eastman Dillon, Union Securities & Co. (jointly). **Bids**—Expected to be received on Jan. 19.

★ **Gulf States Utilities Co. (1/13)**
Dec. 11 filed 100,000 shares of cumulative preferred stock (par $100). **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Lee Higginson Corp; Stone & Webster Securities Corp.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers and Equitable Securities Corp. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly). **Bids**—Expected to be received on Jan. 13.

Hamilton Oil & Gas Corp.
Oct. 22 filed 1,000,000 shares of common stock (par 25 cents). **Price**—$2 per share. **Proceeds**—To acquire funds to test drill, explore, and develop oil and gas properties. **Underwriter**—None. [The registration includes an additional 588,000 common shares issuable upon exercise of 1,176,000 options rights previously offered (Oct. 19, 1957), which rights entitle the original purchaser thereof to purchase one-half share of stock at 50 cents per share at the expiration of 13 months after commencement of such offering.]

Haverhill Gas Co., Haverhill, Mass.
Nov. 12 (letter of notification) 12,285 shares of capital stock (par $10) being offered for subscription by stockholders of record on Dec. 3, 1958 on the basis of one new share for each 10 shares held (with an oversubscription privilege); rights to expire on Dec. 22. **Price**—$20 per share. **Proceeds**—To repay bank loans. **Underwriter**—None.

Heartland Development Corp.
Oct. 23 (letter of notification) 22,820 shares of non-voting convertible preference stock (par $12) to be offered for subscription by stockholders on the basis of one share of convertible preference stock for each 10 shares of common stock held on or about Nov. 1, 1958. Stockholders will have 45 days in which to exercise the rights. **Price** — At par. **Proceeds** — To repay debts, acquisition of investments, and for general purposes. **Address**—P. O. Box-348, Albany, N. Y. **Underwriter**—None.

Heliogen Products, Inc. (1/9)
Oct. 22 (letter of notification) 28,800 shares of common stock (par $1). **Price**—$5 per share. **Proceeds**—For payment of past due accounts and loans and general working capital. **Office** — 35-10 Astoria Blvd., L. I. C. 3, N. Y. **Underwriter**—Albion Securities Co., Suite 1512, 11 Broadway, New York 4, N. Y.

Highway Trailer Industries, Inc.
Nov. 24 filed 473,000 outstanding shares of common stock (par 25 cents). **Price**—At prices generally prevailing on the American Stock Exchange. **Proceeds** — To selling stockholders. **Office**—250 Park Avenue, N. Y. **Underwriter**—None.

Hoagland & Dodge Drilling Co., Inc.
June 12 filed 27,000 shares of capital stock. **Price**—$10 per share. **Proceeds**—To be used in part for the exploration of mines and development and operation of mines and in payment of indebtedness. **Office**—Tucson, Ariz. **Underwriter**—None.

Home-Stake Production Co., Tulsa, Okla.
Nov. 5 filed 116,667 shares of common stock (par $5). **Price**—$6 per share. **Proceeds**—For working capital and general corporate purposes. **Office** — 2202 Philtower Bldg., Tulsa, Okla. **Underwriter**—None.

Honeggers' & Co., Inc., Fairbury, Ill.
Nov. 7 filed 19,000 shares of common stock (no par), of which 18,000 shares will be sold for company and 1,000 shares for a selling stockholder. **Price**—$30.50 per share. **Business**—Manufactures and sells formula feeds for livestock, animal and poultry, farm animal shelters and related equipment and supplies. **Proceeds** — For working capital and general corporate purposes, including the financing of increased inventory and receivables. **Underwriters**—Tabor & Co., Decatur, Ill.; Fusz-Schmelzle & Co., Inc., St. Louis, Mo., and Ellis, Holyoke & Co., Lincoln, Neb.

Indiana & Michigan Electric Co.
Sept. 26 filed $20,000,000 of first mortgage bonds due Nov. 1, 1988. **Proceeds**—To retire bank loans used for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman Dillon, Union Securities & Co.; The First Boston Corp.; Harriman Ripley & Co. Inc. **Offering**—Date indefinite.

Industrial Minerals Corp., Washington, D. C.
July 24 filed 600,000 shares of common stock (par one cent). **Price**—$1 per share. **Proceeds**—To develop and operate graphite and mica properties in Alabama. **Underwriters**—Dearborn & Co. and Carr-Rigdom & Co., both of Washington, D. C., on a best efforts basis. Statement effective Nov. 18.

Industro Transistor Corp. (N. Y.)
Feb. 28 filed 150,000 shares of common stock (par 10 cents). **Price**—To be related to the market price. **Proceeds**—For working capital and to enlarge research and development department. **Underwriter** — S. D. Fuller & Co., New York. **Offering**—Being held in abeyance.

● **Insurance City Life Co., Hartford, Conn.**
Nov. 26 (letter of notification) 15,750 shares of capital stock (par $10) being offered for subscription by stockholders of record Nov. 28, 1958, on a one-for-two basis; rights to expire on Dec. 26. **Price**—$17.50 per share. **Proceeds** — To increase capital and surplus. **Underwriters**—Putnam & Co. and E. T. Andrews & Co., both of Hartford, Conn.

Investment Corp. of Florida
Oct. 9 (letter of notification) 55,555 shares of common stock (par two cents). **Price**—$4.50 per share. **Proceeds**—For capital account and paid-in surplus. **Office**—Atlantic Federal Building, 1750 E. Sunrise Boulevard, Ft. Lauderdale, Fla. **Underwriter**—None.

Israel Investors Corp.
Dec. 1 filed 46,260 shares of common stock. **Price**—$100 per share. **Proceeds**—For investment. **Office**—19 Rector Street, New York, N. Y. **Underwriter**—None.

Itemco Inc.
Nov. 28 (letter of notification) 200,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—To acquire machinery and equipment and additional space for test laboratories; and for working capital. **Office**—4 Manhasset Ave., Port Washington, L. I., N. Y. **Underwriter** — B. Fennekohl & Co., 205 East 85th St., New York, N. Y.

★ **Jewel Tea Company**
Dec. 10 (letter of notification) 3,333 shares of common stock (par $1) to be sold to employees of the company and its subsidiaries under the terms of a stock purchase plan. **Price**—At an estimated price of $88 per share on the basis of price on New York Stock Exchange on Nov. 28, 1958. **Proceeds** — To be added to working capital. **Underwriter**—None.

★ **Jet-Aer Corp.**
Dec. 5 (letter of notification) 10,000 shares of class A common stock (par $1.50). **Price**—$10 per share. **Proceeds**—For purchase of modern automatic filling equipment, and for working capital in order to pay accounts payable. **Office** — 85 Eighteenth Ave., Paterson, N. J. **Underwriter**—None.

Kennesaw Life & Accident Insurance Co.
Nov. 26 (letter of notification) 59,393 shares of common stock (par $1) to be offered to stockholders of record Nov. 17, 1958, on a one-for-four basis. **Price** — $2.25 per share. **Proceeds**—To increase capital and surplus. **Office**—317 Atlanta St., Marietta, Ga. **Underwriter**—Robinson-Humphrey Co., Atlanta, Ga.

Laughlin Alloy Steel Co., Inc.
Aug. 28 filed $500,000 of 6% subordinated callable debentures due June 30, 1968, and 150,000 shares of common stock (par 10 cents) to be offered in units of $100 of debentures and 30 common shares. **Price**—$100 per unit. **Proceeds**—Together with a $175,000 mortgage loan from the American Brake Shoe Co., will be used to meet expenditures in acquiring latter company's South San Francisco foundry and for working capital. **Offices**—Las Vegas, Nev., and South San Francisco, Calif. **Underwriter**—Sam Watson Co., Inc., Little Rock, Ark., on a best efforts basis.

Life Insurance Securities Corp.
March 28 filed 1,000,000 shares of capital stock (par $1). **Price**—$5 per share. **Proceeds**—To acquire stock control of "young, aggressive and expanding life and other insurance companies and related companies and then to operate such companies as subsidiaries." **Underwriter**—First Maine Corp., Portland, Me.

● **Ling Electronics, Inc.**
Oct. 28 filed $922,500 of 5¾% subordinated convertible debentures due Dec. 1, 1970, to be offered in exchange on the basis of equal principal amounts for the outstanding 3% convertible subordinated income notes due 1967 of the Calidyne Co., Inc., a subsidiary. The company will offer to purchase at face value Calidyne notes from those stockholders who desire to sell their notes for cash, at a price equal to 100% of their principal amount. Statement effective Dec. 5.

Los Angeles Drug Co.
Oct. 3 filed 50,000 shares of capital stock, to be offered for subscription by holders of outstanding stock, on a pro rata basis. Any shares not so sold will be offered on an exchange basis to holders of outstanding 5% sinking fund debentures. **Price**—$10.50 per share to stockholders; $11.50 to public. **Proceeds**—$328,300 to redeem outstanding 5% sinking fund debentures and $189,200 to reduce short term bank loans. **Office**—Los Angeles, Calif. **Underwriter**—Quincy Cass Associates, Los Angeles, Calif.

Lowenstein (M.) & Sons, Inc.
Nov. 7 (letter of notification) 3,225 shares of common stock (par $1) being offered on a basis of 1¼ shares in exchange for one share of capital stock of Wamsutta Mills. The offer expires on Dec. 19. **Office**—1430 Broadway, New York, N. Y. **Underwriter**—None.

LuHoc Mining Corp.
Sept. 29 filed 350,000 shares of common stock. **Price**—$1 per share. **Proceeds** — For the acquisition of properties under option and for various geological expenses, test drilling, purchase of equipment, and other similar purposes. **Offices**—Wilmington, Del., and Emporium, Pa. **Underwriter**—None.

M. C. A. Credit Co., Inc., Miami, Fla.
Oct. 6 filed 100,000 shares of common stock. **Price**—$5 per share. **Proceeds**—To reduce current indebtedness to Walter E. Heller & Co. **Underwriter**—Plymouth Bond & Share Corp., Miami, Fla.

★ **Mammoth Mountain Inn Corp.**
Dec. 10 (letter of notification) 70,000 shares of common stock (par $5). **Price**—$5.50 per share. **Proceeds**—To be used to build and operate and all-year resort hotel. **Office**—Suite 204, 8907 Wilshire Blvd., Beverly Hills, Calif. **Underwriter**—None.

Mankato Citizens Telephone Co.
Nov. 19 (letter of notification) 5,454 shares of common stock (no par) to be offered for subscription by stockholders on the basis of one new share for each seven shares held; unsubscribed shares to employees. **Price**—$55 per share. **Proceeds**—To complete dial conversion program. **Office**—315 South Second St., Mankato, Minn. **Underwriter**—None.

Marine Corp., Milwaukee, Wis.
Nov. 10 filed 501,500 shares of common stock (par $10) to be offered in exchange for all the issued and outstanding shares of capital stock of the following banks at the indicated ratios of exchange: (1) two shares for each of the 220,000 outstanding shares of Marine National Exchange Bank of Milwaukee, $20 par; (2) 22 shares for each of the 1,000 outstanding shares of Cudahy State Bank, Cudahy, Wis., $100 par; (3) three shares for each of the 7,500 outstanding shares of Holton State Bank, Milwaukee, $20 par; and (4) 17 shares for each of the 1,000 outstanding shares of South Milwaukee Bank, South Milwaukee, $100 par. Each of the exchange proposals is conditioned (among other things) upon exchanges being made with the holders of not less than 80% of the stock of the bank with respect to which the proposal is made. The offer will terminate on Dec. 31, 1958. Statement effective Dec. 8.

★ **Maryland Life Insurance Co. of Baltimore**
Nov. 26 (letter of notification) 6,954 shares of capital stock (par $2) to be offered for subscribers by stockholders of record on Dec. 8, 1958 in the ratio of one share for each 10 shares held. Rights expire on Dec. 29, 1958. Unsubscribed shares to the public. **Price**—$40 per share. **Proceeds** — For capital and surplus of the company. **Office**—10 South Street, Baltimore, Md. **Underwriter**—None.

Mechmetal-Tronics Inc. (1/12)
Nov. 24 (letter of notification) 90,000 shares of common stock (par 20 cents). **Price**—$2.75 per share. **Proceeds**—For payment on contract to purchase invention; research and development expenses; and working capital. **Office**—c/o Virgil F. Every, 20 Lexington Avenue, Rochelle Park, N. J. **Underwriter** — Charles Plohn & Co., New York, N. Y.

★ **Mercantile Acceptance Corp. of California**
Dec. 11 (letter of notification) 965 shares of 5% first preferred stock. **Price**—At par $20 (per share). **Proceeds**—For working capital. **Office**—333 Montgomery St., San Francisco, Calif. **Underwriter** — Guardian Securities Corp., San Francisco, Calif.

Merchants Petroleum Co.
Oct. 8 (letter of notification) 159,395 shares of common stock (par 25 cents) being offered for subscription by

stockholders of record Nov. 24, 1958 on the basis of one new share for each five shares held; rights to expire Jan. 15, 1959 (with an oversubscription privilege). **Price**—$1.40 per share. **Proceeds** — To reduce bank loan; to increase working capital and for general corporate purposes. **Office**—617 W. 7th Street, Los Angeles, Calif. **Underwriter**—None.

Mid-Atlantic Marina, Inc., Baltimore, Md.
Oct. 28 (letter of notification) 60,000 shares of 7% preferred stock (par $3.50). **Price**—$5 per share. **Proceeds**—For construction of a marina. **Office** — Room 104, Old Town Bank Bldg., Baltimore 2, Md. **Underwriter**—Maryland Securities Co., Baltimore, Md.

Miles Laboratories, Inc.
Nov. 14 filed $6,035,400 of convertible subordinated debentures due 1978, being offered for subscription by common stockholders of record Dec. 4, 1958 in the ratio of $100 of debentures for each 20 common shares held; rights will expire on Dec. 19, 1958. **Price**—100% of principal amount. **Proceeds**—For expansion program and general corporate purposes. **Underwriter** — The First Boston Corp., New York.

★ **Military Publishing Institute, Inc.**
Dec. 9 (letter of notification) 125,000 shares of common stock (par 5 cents). **Price**—$2 per share. **Proceeds**—For general corporate purposes and working capital. **Office**—55 West 42nd Street, New York 36, N. Y. **Underwriter**—C. H. Abraham & Co., Inc., 565 Fifth Ave., New York 17, N. Y.

Montana Power Co.
July 1 filed $20,000,000 of first mortgage bonds due 1988. **Proceeds** — Together with other funds, to be used to repay $15,500,000 in bank loans and to carry on the company's construction program through 1959. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Bros.; Merrill Lynch, Pierce, Fenner & Smith, and Stone & Webster Securities Corp. (jointly); White, Weld & Co.; Eastman Dillon, Union Securities & Co.; Kidder Peabody & Co., Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Bids**—Had been expected to be received up to noon (EDT) on Aug. 26 at Room 2033, Two Rector St., New York, N. Y., but company on Aug. 22 again decided to defer sale pending improvement in market conditions.

Montana Power Co.
July 1 filed 100,000 shares of common stock (no par). The stock will be offered only to bona fide residents of Montana. **Price**—To be related to the current market price on the New York Stock Exchange. **Proceeds**—Together with other funds, to carry on the company's construction program through 1959. **Manager-Dealers** — Smith, Barney & Co., Kidder, Peabody & Co. and Blyth & Co., Inc.

Natural Gas Service Co. (1/7)
Dec. 4 filed $200,000 of 6% subordinated income debentures due Jan. 15, 1984, and 40,000 shares of common stock to be offered in units of $20 of debentures and four shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—For capital expenditures. **Office**—403 William St., Fredericksburg, Va. **Underwriter**—Kidder, Peabody & Co., Inc., New York.

Naylor Engineering & Research Corp.
Sept. 29 (letter of notification) 300,000 shares of cumulative voting and non-assessable common stock. **Price**—At par ($1 per share). **Proceeds**—For organizational expenses and first three months' operational expenses. **Office**—1250 Wilshire Blvd., Los Angeles 17, Calif. **Underwriter**—Waldron & Co., San Francisco 4, Calif.

Nedow Oil Tool Co.
May 5 (letter of notification) 150,000 shares of common stock (par one cent). **Price**—$2 per share. **Proceeds**—To pay loan; to acquire fishing tools for leasing; and for working capital. **Office**—931 San Jacinto Bldg., Houston, Tex. **Underwriter**—T. J. Campbell Investment Co., Inc. Houston, Tex.

★ **Networks Electronic Corp.**
Dec. 8 (letter of notification) 150,000 shares of common stock (par 50 cents). **Price**—$2 per share. **Proceeds**—To be used for development of new engineering projects; purchase of 10 acres of land, and the balance will be used for working capital. **Office**—14806 Oxnard St., Van Nuys, Calif. **Underwriters**—Holton, Hull & Co., Los Angeles, Calif. and Pacific Coast Securities Co., San Francisco, Calif.

New Jersey Investing Fund, Inc., New York
Dec. 9 filed 200,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment. **Investment Adviser and Distributor**—Spear, Leeds & Kellogg, New York.

Northern Insurance Co. of New York (12/31)
Dec. 5 filed 145,200 additional shares of capital stock (par $12.50) to be offered for subscription by stockholders of record Dec. 23, 1958, at the rate of one new share for each two shares then held (exclusive of any shares issuable to stockholders as a result of a distribution of one new share for each old share held of record Dec. 23, 1958 which will be made concurrently with the issuance of the warrants); rights to expire on Jan. 19. **Price**—To be supplied by amendment. **Proceeds**—To increase capital and surplus. **Underwriters**—The First Boston Corp. and Wood, Struthers & Co., both of New York.

Northwest Airlines, Inc.
Nov. 13 filed 457,873 shares of cumulative preferred stock, convertible series (par $25) being offered for subscription by common stockholders on the basis of one preferred share for each three common shares held on Dec. 8; rights to expire on Dec. 22. **Price**—At par. **Proceeds**—Together with other funds, to liquidate the borrowing under the present credit agreement with banks now amounting to $34,000,000, and the balance, together with cash generated from depreciation and retained earnings will be applied toward the acquisition of the new turboprop and turbojet aircraft and related spare parts, equipment and ground facilities, and for other corporate purposes. **Underwriter** — The First Boston Corp., New York.

● **Northwest Gas & Oil Exploration Co.**
Aug. 22 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For acquisition of additional gas and oil interests and corporate administrative expenses. **Office**—150 Broadway, New York 38, N. Y. **Underwriter** — Greenfield & Co., Inc., New York 5, N. Y. Statement effective Dec. 15.

Nylonet Corp.
Nov. 24 (letter of notification) 600,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Proceeds**—For working capital. **Office**—20th Ave., N. W. 75th St., Miami, Fla. **Underwriter**—Cosby & Co., Clearwater, Fla.

Oak Ridge, Inc.
Sept. 4 (letter of notification) 100,000 shares of common stock (par $1). **Price** — $3 per share. **Proceeds** — For working capital. **Office**—11 Flamingo Plaza, Hialeah, Fla. **Underwriter** — Henry & Associates, Inc., 11 Flamingo Plaza, Hialeah, Fla.

Odlin Industries, Inc.
Nov. 12 filed $250,000 of 5½% convertible debentures and 250,000 shares of common stock (par 10 cents). **Price**—Debentures at 100% and stock at $3 per share. **Proceeds**—To purchase a textile mill, machinery, equipment and raw materials, and to provide working capital. **Office**—375 Park Ave., New York, N. Y. **Underwriter**—Harris Securities Corp., New York, N. Y., on a best efforts basis.

Oil, Gas & Minerals, Inc.
Nov. 16 (letter of notification) 116,000 shares of common stock (par 35 cents). **Price**—$1 per share. **Proceeds**—For development of oil and gas properties. **Office**—513 International Trade Mart, New Orleans 12, La. **Underwriter**—Assets Investment Co., Inc., New Orleans, La.

Oppenheimer Fund, Inc.
Dec. 5 filed 100,000 shares of capital stock. **Price**—At market (about $10 per share). **Proceeds**—For investment. **Office**—25 Broad St., New York. **Underwriter**—Oppenheimer & Co., New York. **Offering** — Expected sometime in February.

Pacific Telephone & Telegraph Co.
Oct. 24 filed 1,594,604 shares of common stock being offered for subscription by holders of outstanding common and preferred stock of record Nov. 26, 1958 on the basis of one new share for each eight common or preferred shares held; rights will expire on Dec. 30, 1958. **Price**—At par ($100 per share). **Proceeds**—To repay advances from American Telephone & Telegraph Co. **Underwriter** — None. **Control** — Of the 832,000 shares of 6% preferred stock (par $100) and 11,936,835 shares of common stock (par $100) outstanding as of Oct. 24, 1958, there were owned by the American Telephone & Telegraph Co. 640,957 preferred shares and 10,790,943 common shares.

Peckman Plan Fund, Inc., Pasadena, Calif.
May 19 filed 20,000 shares of common stock (par $1). **Price**—At market. **Proceeds**—For investment. **Underwriter**—Investors Investments Corp., Pasadena, Calif.

★ **Penn-Daw Limited Partnership**
Dec. 11 filed along with Penn-Daw Real Estate Investment Trust $300,050 of Limited Partnership Interests in 42½% of the partnership (to be offered for public sale at $3,530 per ½% interest); and $337,025 of Beneficial Trust Certificates in the Investment Trust (85 certificates to be offered at $3,965 per certificate). **Proceeds**—For acquisition of property and for working capital. **Office**—Seven Corners Shopping Center, Fairfax County, Va. **Underwriter**—None.

Pennsylvania Power Co.
Aug. 1 filed $8,000,000 of first mortgage bonds due 1988. **Proceeds**—To redeem a like amount of 5% first mortgage bonds due 1987. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; White Weld & Co.; Equitable Securities Corp., and Shields & Co. (jointly); Lehman Brothers, Eastman Dillon, Union Securities & Co., Salomon Bros. & Hutzler and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Smith and Dean Witter & Co. (jointly). **Bids** — Tentatively had been expected to be received up to 11 a.m. (EDT) on Aug. 27 but company on Aug. 22 decided to defer sale pending improvement in market conditions.

★ **Pennsylvania Power & Light Co. (1/6)**
Dec. 17 filed 295,851 shares of common stock (no par) to be offered by the company for subscription by its common stockholders of record Jan. 6, 1959, at the rate of one new share for each 20 shares then held. Employees will be given a contingent subscription privilege. **Price**—To be supplied by amendment. **Proceeds**—To be added to the general funds of the company and used for general corporate purposes. **Underwriters**—The First Boston Corp., New York, and Drexel & Co., Philadelphia, Pa.

● **Performer Boat Corp.**
Nov. 26 (letter of notification) 300,000 shares of common stock (par 25 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office** — 14720 Lakewood Blvd., Paramount, Calif. **Underwriter**—R. A. Holman & Co., New York, N. Y. Statement is understood to be effective.

★ **Petroleum Chemicals, Inc.**
Dec. 5 (letter of notification) not to exceed $300,000 of a thrift plan to be offered to eligible employees of the company and participating affiliated corporations. **Price**—At market on the New York Stock Exchange (the average cost of all shares during each accounting period under the plan.) **Proceeds**—The plan provides that funds in the accounts of participants may be invested in U. S. Government bonds or notes, in shares of Cities Service Co. common stock and in shares of Continental Oil Co. common stock. **Office**—821 Gravier St., New Orleans 12, La. **Underwriter**—None.

★ **Pinebrook Showtent, Inc.**
Dec. 9 (letter of notification) 150 shares of class A common stock (no par) and $120,000 5% promissory notes. **Price**—$1,000 per unit (including one share of class A stock and promissory note for $800). **Proceeds**—To establish a musical tent theatre and for working capital. **Office**—c/o Squadron ALTER, 32 E. 57th St., New York, N. Y. **Underwriter**—None.

Pioneer Trading Corp., Bayonne, N. J.
Nov. 10 filed 10,000 shares of $8 cumulative preferred stock, series A (par $100) and $1,000,000 of 8% subordinated debentures, series A, due Dec. 1, 1968 to be offered in units of a $500 debenture and five shares of preferred stock. **Price**—$1,000 per unit. **Proceeds** — For general corporate purposes. **Underwriter**—None.

Ponce de Leon Trotting Association, Inc.
Aug. 7 filed 400,000 shares of common stock (par one cent). **Price**—$1.50 per share. **Proceeds**—To pay current liabilities, for new construction and working capital. **Office**—Bayard, Fla. **Underwriter**—Robert L. Ferman Co., Inc., Miami, Fla.

Prairie Fibreboard Ltd.
Aug. 18 filed 209,993 shares of common stock (par $1.50) to be offered for sale to residents of Canada in the Provinces of Manitoba, Saskatchewan and Alberta and to residents of the United States "only in the State of North Dakota." **Price** — $3 per share. **Proceeds** — For construction purpose. **Office** — Saskatoon, Saskatchewan, Canada. **Underwriter**—Allied Securities Ltd., and United Securities, Ltd., both of Saskatoon, Canada.

★ **Preston Moss Fund, Inc.**
Dec. 12 filed 20,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment. **Office**—24 Federal Street, Boston, Mass.

Rassco Financial Corp.
June 26 filed $1,000,000 of 15-year 6% series A sinking fund debentures due 1973, to be offered in denominations of $500 and $1,000. **Price**—At par. **Proceeds**—For working capital and general corporate purposes. **Underwriter**—Rassco Israel Corp., New York, on a "best efforts" basis.

● **Realty & Theatre Ventures, Inc. (12/19)**
Nov. 18 (letter of notification) 200,000 shares of class A stock (par one cent). **Price**—$1.50 per share. **Proceeds**—For general working capital. **Office**—50 Broad St., New York, N. Y. **Underwriter**—Willis E. Burnside & Co., Inc., New York.

Remo Corp., Orlando, Fla.
Sept. 22 filed 100,000 shares of class A common stock. **Price**—To be supplied by amendment. **Proceeds**—For working capital. **Underwriter** — Citrus Securities Co., Orlando, Fla.

Richwell Petroleum Ltd., Alberta, Canada
June 26 filed 1,998,716 shares of common stock (par $1). Of this stock, 1,174,716 shares are to be sold on behalf of the company and 824,000 shares for the account of certain selling stockholders. The company proposes to offer the 1,174,716 shares for subscription by its shareholders at the rate of one new share for each three shares held (with an oversubscription privilege). The subscription period will be for 30 days following issuance of subscription rights. **Price**—To be supplied by amendment. **Proceeds**—To pay off demand note, to pay other indebtedness, and the balance if any will be added to working capital. **Underwriter** — Pacific Securities Ltd., Vancouver, Canada.

Rochester Razor, Inc.
Dec. 3 (letter of notification) 400 shares of capital stock (no par). **Price**—$125 per share. **Proceeds**—For general corporate purpose. **Office**—21 Rutter St., Rochester, N. Y. **Underwriter** — Frederick A. Merlau, Rochester, N. Y., associated with Grimm & Co., as agent for the corporation.

Routh Robbins Investment Corp.
Sept. 22 filed $1,000,000 of 10-year 6% cumulative convertible debentures and 99,998 shares of common stock. **Price**—Of debentures, at par (in units of $100 each); and of stock, $1 per share. **Proceeds** — For investments and working capital. **Office**—Alexandria, Va. **Underwriter**—None.

★ **St. Regis Paper Co.**
Dec. 11 filed 288,450 shares of common stock, to be offered in exchange for outstanding shares of capital stock of F. J. Kress Box Co. on the basis of 2¼ shares of St. Regis common for each share of capital stock of Kress. St. Regis will declare the exchange offer effective if 95% of the outstanding shares of Kress stock are deposited in exchange and may elect to do so if a lesser per cent, but not less than 80%, of Kress shares, are so deposited.

San Diego Gas & Electric Co. (1/8)
Dec. 8 filed $15,000,000 of sinking fund debentures due Jan. 15, 1984. **Proceeds**—Toward the cost of additions to utility property. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Shields & Co. (jointly); Salomon Bros. & Hutzler, Kuhn, Loeb & Co. and American Securities Corp. (jointly); Eastman Dillon, Union Securities & Co. and Merrill Lynch, Pierce, Fenner & Smith (jointly); Lehman Brothers; Blyth & Co., Inc.; The First Boston Corp. **Bids**—To be received up to 11:30 a.m. (EST) on Jan. 8.

San Diego Imperial Corp., San Diego, Calif.
Dec. 9 filed 845,000 shares of common stock, to be offered in exchange for all of the 45,000 outstanding shares

Continued on page 116

Continued from page 115

of capital stock of Silver State Savings & Loan Association and 3,000 shares of capital stock of Silver State Insurance Agency, Inc., both of Denver, Colo.

★ Security Title & Guaranty Co.
Dec. 5 (letter of notification) 45,407½ shares of common stock (par $1). **Price**—$1.25 per share. **Proceeds**—For general corporate purposes. **Office**—342 Madison Ave., New York, N. Y. **Underwriter**—None.

Service Life Insurance Co.
Sept. 26 (letter of notification) 3,567 shares of common stock (par $1). **Price**—$18.75 per share. **Proceeds**—To go to a selling stockholder. **Office**—400 W. Vickery Blvd., Fort Worth, Tex. **Underwriter**—Kay & Co., Inc., Houston, Tex.

★ Shares in America, Inc., Washington, D. C.
Dec. 12 filed 50,000 shares of common stock. **Price**—At market. **Proceeds**—For investment. **Investment Advisor**—Investment Fund Management Corp.

Sheraton Corp. of America
Oct. 24 filed $26,500,000 of 7½% capital income sinking fund debentures. The company proposes to offer $8,000,000 of the debentures in exchange for outstanding common shares and an additional $4,000,000 in exchange for outstanding 4¾% convertible debentures due March 1, 1967, and 5% debentures due March 1, 1967 (the terms of the exchange offers are to be supplied by amendment). An additional $1,000,000 of the new debentures are to be offered to company employees at an offering price equal to 95% of principal amount. The remaining $13,500,000 of debentures, plus any part of the $12,000,000 not taken pursuant to the exchange offers will be offered for public sale at 100% of principal amount. **Proceeds** — For general corporate purposes, including the financing of the cost of any acquisitions and new construction. **Underwriter**—Sheraton Securities Corp., Boston, Mass, on a best efforts basis.

Sheridan-Belmont Hotel Co.
Aug. 19 (letter of notification) $250,000 of 6% convertible debentures due Sept. 15, 1963 to be offered for subscription by common stockholders on a pro rata basis. **Price**—At par. **Proceeds**—For working capital. **Office** — 3172 North Sheridan Rd., Chicago 14, Ill. **Underwriter**—None

Silicon Transistor Corp.
Dec. 4 filed 200,000 shares of common stock (par 20 cents). **Price**—$3 per share. **Proceeds**—To purchase equipment, increase present inventories, and for working capital. **Office**—150 Glen Cove Road Carle Place, N. Y. **Underwriter**—None. Arnold Malkan, President, located at 565 Fifth Avenue, New York 17, N. Y., will subscribe for 100,000 shares if other 100,000 shares are sold publicly.

Sire Plan of Elmsford, Inc., New York (12/22)
Nov. 10 filed $250,000 of 6% 10-year debentures and 5,000 shares of 6% participating preferred stock (par $50) to be offered in units of a $50 debenture and one share of preferred stock. **Price**—$100 per unit. **Proceeds**—For acquisition of motels. **Underwriter**—Sire Plan Portfolios, Inc., New York.

● Slick Oil Corp., Houston, Texas
Dec. 8 filed $1,500,000 of participating interests in the corporation's joint venture program, to be offered in minimum amounts of $15,000, payable 20% down and the balance upon demand during 1959. **Proceeds**—To assemble and acquire interests in Canada and Continental United States. **Underwriters**—Rowles, Winston & Co., Houston, Tex., and Dewar, Robertson & Pancoast, San Antonio, Tex. **Offering** — Expected early in January.

★ Soroban Engineering, Inc.
Dec. 8 (letter of notification) 25,000 shares of class A common stock (par $1.25). **Price**—$12 per share. **Proceeds**—For purchase of new tools and working capital. **Office**—7725 New Haven Avenue, Melbourne, Fla. **Underwriters**—R. S. Dickson & Co., Charlotte, N. C.; Atwill & Co., Inc., Miami Beach, Fla.; Johnson, Lane, Space Corp., Savannah, Ga.; and Security Associates, Inc., Winter Park, Fla.

Southern Fire & Casualty Co.
Nov. 26 filed 12,000 shares of $1.50 convertible preferred stock. **Price** — At par ($25 per share). **Proceeds** — For general corporate purposes. **Office**—Knoxville, Tenn. **Underwriters**—Stein Bros. & Boyce and John C. Legg & Co., both of Baltimore, Md. **Offering** — Expected this year.

★ Southwestern Investment Co.
Nov. 28 (letter of notification) an estimated 10,000 shares of common stock (par $2.50) to be offered to employees of company and its subsidiaries through Employees Stock Purchase Plan. **Price**—95% of market or of book value, whichever is higher at date of sale. **Proceeds**—For working capital. **Office**—205 E. 10th Street, Amarillo, Texas. **Underwriter**—None.

Sports Arenas (Delaware) Inc.
Nov. 13 filed $2,000,000 of 6% 10-year convertible debentures (subordinated), due Jan. 1, 1969. **Price**—To be supplied by amendment. **Proceeds**—$750,000 to pay AMF Pinspotters, Inc. for bowling alley beds; $350,000 to pay for other installations, fixtures and equipment; $85,000 to expand two present establishments by increasing the number of alley beds by eight at Yorktown Heights and by six at Wilton Manor Lanes, Fort Lauderdale; $300,000 for deposits on leaseholds, telephones and utilities; and $395,000 for working capital. **Underwriter**—None.

Sports Arenas (Delaware) Inc.
Nov. 13 filed 461,950 shares of common stock (par one cent). **Price**—At the market (but in no event less than $6 per share). **Proceeds**—To selling stockholders. **Office**—33 Great Neck Rd., Great Neck, N. Y. **Underwriter**—None.

State Life, Health & Accident Insurance Co.
July 9 (letter of notification) 50,000 shares of common stock (par $1). **Price**—$5 per share. **Proceeds**—To be invested in stocks and bonds and to acquire other life insurance companies. **Address**—P. O. Box 678, Gulfport, Miss. **Underwriter**—Gates, Carter & Co., Gulfport, Miss

Strategic Minerals Corp. of America, Dallas, Tex
March 31 filed $2,000,000 of first lien mortgage 6% bonds and 975,000 shares of common stock (par 10 cents). **Price**—For bonds, 95% of principal amount; and for stock $1 per share. **Proceeds**—To erect and operate one or more chemical processing plants using the Bruce - Williams Process to beneficiate manganese ores. **Underwriter**—Southwest Shares, Inc., Austin, Texas.

Structural Fibers, Inc.
Nov. 4 (letter of notification) 15,700 shares of common stock being offered for subscription by stockholders of record Nov. 17, at the rate of one share for each two shares held (with an oversubscription privilege); rights to expire on Dec. 15. **Price** — At par ($10 per share). **Proceeds**—To retire outstanding debts and for working capital. **Office**—Fifth Ave., Chardon, Ohio. **Underwriter**—None.

★ Sun Valley Life Insurance Co.
Dec. 5 (letter of notification) $299,916.25 principal amount of units of trust fund certificates. **Price**—$2 per unit. **Proceeds**—For working capital. **Office**—2019 E. Broadway, Phoenix, Ariz. **Underwriter**—None. To be sold by the trustees.

Surrey Oil & Gas Corp., Dallas, Tex. (1/15)
Nov. 12 filed 300,000 shares of common stock (par $1). **Price**—$3 per share. **Proceeds**—To retire current liabilities and for drilling and exploration costs and working capital. **Underwriter**—Peter Morgan & Co., New York.

Timeplan Finance Corp.
March 25 (letter of notification) 27,272 shares of 70-cent cumulative preferred stock (par $5) and 27,272 shares of common stock (par 10 cents) to be offered in units of one share to each class of stock. **Price**—$11 per unit. **Proceeds** — For working capital. **Office** — 111 E. Main St., Morristown, Tenn. **Underwriter**—Valley Securities Corp., Morristown, Tenn.

Tower Merchandise Mart, Inc., Boulder, Colo.
Nov. 10 filed 500,000 shares of common stock (par $5). **Price**—$10 per share. **Proceeds**—For working capital and construction program. **Underwriter**—Allen Investment Co., Boulder, Colo.

Trout Mining Co.
Dec. 2 filed 281,596 shares of common stock, of which 278,376 shares are to be offered for subscription by holders of company's common stock of record Dec. 31, 1958, on the basis of three new shares for each share to be held following a distribution to stockholders of record Dec. 5, 1958 of American Machine & Metals, Inc. There will be an oversubscription privilege. The remaining 3,220 shares are to be offered to certain employees. **Price** — $1 per share. **Proceeds** — For working capital. **Underwriter**—None

United Employees Insurance Co.
April 16 filed 2,000,000 shares of common stock (par $5). **Price** — $10 per share. **Proceeds** — For acquisition of operating properties, real and/or personal, including office furniture, fixtures, equipment and office space, by lease or purchase. **Office** — Wilmington, Del. **Underwriter**—None. Myrl L. McKee of Portland, Ore., is President.

United Security Life & Accident Insurance Co.
Aug. 22 filed 120,000 shares of class A common stock **Price**—$3 per share. **Proceeds**—To provide the reserves required to be held in life and accident insurance policies, and to pay the necessary expenses in producing insurance. **Office**—Louisville, Ky. **Underwriter**—None Edmond M. Smith, is President.

● United States Freight Co. (12/19)
Nov. 13 filed 203,897 shares of capital stock (no par) to be offered for subscription by stockholders of record Dec. 18, 1958, at the rate of one new share for each four shares held, rights to expire on Jan. 6. **Price**—To be supplied by amendment. **Proceeds** — Some $750,000 will be used to prepay conditional sales contracts for trailers, tractors and miscellaneous equipment previously acquired by the company for use in "piggyback" operations, and approximately $1,750,000 will be applied to additional "piggyback" equipment, the balance will be used for general corporate purposes, primarily as additional working capital to finance expanded "piggyback" operations. **Underwriter**—Merrill Lynch, Pierce, Fenner & Smith, New York.

United States Glass & Chemical Corp.
Nov. 26 filed 708,750 outstanding shares of common stock. **Price**—At market. **Proceeds** — To selling stockholders. **Office**—Tiffin, Ohio. **Underwriter**—None.

★ U. S. Stock Transfer Corp.
Dec. 8 (letter of notification) 50,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—To be used for acquisition of one or more agencies and for record conversion, and for working capital. **Office**—814 Boston Bldg., Denver, Colo. **Underwriter**—None.

Uranium Corp. of America, Portland, Ore.
April 30, 1957 filed 1,250,000 shares of common stock (par 16 cents). **Price**—To be supplied by amendment (expected to be $1 per share). **Proceeds**—For exploration purposes. **Underwriter**—To be named by amendment. Graham Albert Griswold of Portland, Ore., is President

Utah Minerals Co.
April 11 (letter of notification) 900,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—For mining expenses. **Office**—305 Main St., Park City Utah. **Underwriter**—Walter Sondrup & Co., Salt Lake City, Utah.

Utah Oil Co. of New York, Inc.
May 6 (letter of notification) 300,000 shares of capital stock. **Price** — At par ($1 per share). **Proceeds** — For development of oil and gas lands. **Office**—574 Jefferson Ave., Rochester 11, N. Y. **Underwriter**—Frank P. Hunt & Co., Inc., Rochester, N. Y.

● Utah Power & Light Co.
June 26 filed $20,000,000 of first mortgage bonds due 1988. **Proceeds**—To redeem $15,000,000 of first mortgage bonds, 5¼% series due 1987, to repay $4,000,000 of bank borrowings, and the balance together with further borrowings under a bank agreement and cash generated in the business will be used to carry forward the construction program of the company and its subsidiaries amounting to approximately $43,000,000 for the period 1958-1960. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Blyth & Co. Inc. (jointly); White, Weld & Co. and Stone & Webster Securities Corp. (jointly); Salomon Brothers & Hutzler; Kidder, Peabody & Co.; Eastman Dillon, Union Securities & Co., and Smith, Barney & Co. (jointly). **Bids**—Were to have been received in Room 2033, 2 Rector Street, New York, N. Y., up to noon (EDT) on Sept. 9, but were postponed on Sept. 3. Statement has been withdrawn.

Vernon Co., Newton, Iowa
Nov. 25 filed 50,000 shares of common stock. **Price**—$9.25 per share. **Proceeds**—For working capital. **Underwriters**—T. C. Henderson & Co., Inc., Des Moines, Iowa, and Quail & Co., Inc., Davenport, Iowa.

Vocaline Co. of America, Inc.
Nov. 10 (letter of notification) 21,500 shares of common stock (par $1.50). **Price**—To be supplied by amendment (approximately $2.25 per share). **Proceeds** — To repay short term bank loan; reduce accounts payable; acquire inventory and the balance for working capital. **Underwriter**—Paine, Webber, Jackson & Curtis, New York, N. Y.

★ Wall Street Planning Corp., Boston, Mass.
Dec. 10 filed (by amendment) an additional $6,000,000 of Systematic Investment Programs and Systematic Investor Programs with Group Creditor Life Insurance Protection and $1,000,000 of Single Payment Investment Programs. **Proceeds**—For investment.

Washington Water Power Co. (1/7)
Dec. 9 filed $15,000,000 of first mortgage bonds due 1989. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—Kidder, Peabody & Co., Blyth & Co., Inc., White, Weld & Co. and Laurence M. Marks & Co., all of New York.

West Ohio Gas Co.
Nov. 17 filed 37,615 shares of common stock (par $5) to be offered for subscription by common stockholders of record Dec. 6, 1958, at the rate of one new share for each 10 shares then held; rights to expire on Jan. 9. **Price**—$15 per share. **Proceeds** — For construction program. **Office**—319 West Market St., Lima, O. **Underwriter**—None.

★ Western International Life Co.
Nov. 28 (letter of notification) 300,000 shares of common stock (35 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office**—314 First National Bank Building, Colorado Springs, Colo. **Underwriter**—None.

Willer Color Television System, Inc.
April 2 (letter of notification) 72,035 shares of common stock (par $1) of which 10,000 are being offered to stockholders at $2 per share (rights to expire on Jan. 17), and the remaining 62,035 shares are being publicly offered at $3 each. **Proceeds**—For general corporate purposes. **Office**—151 Adell Avenue, Yonkers, N. Y. **Underwriter**—Edwin Jefferson, 39 Broadway, New York 6, N. Y. Statement effective Nov. 18.

Wilmington Country Club, Wilmington, Del.
Oct. 27 filed $500,000 of debentures due 1991 (non interest bearing) and 800 shares of common stock (par $25) to be offered to members of this club and of Concord Ltd. **Price**—$375 per common share and $1,000 per debenture. **Proceeds** — To develop property and build certain facilities. **Underwriter**—None.

● Woodward & Lothrop Inc. (1/8)
Dec. 9 filed 50,000 shares of common stock (par $10). **Price**—To be supplied by amendment. **Proceeds**—for merchandise inventories, accounts receivable, and other corporate purposes. **Underwriter**—Alex Brown & Sons, Baltimore, Md.

Wyoming Corp.
Nov. 17 filed 1,449,307 shares of common stock. Of these shares 1,199,307 are subject to partially completed subscriptions at $2, $3.33 and $4 per share; and the additional 250,000 shares are to be offered initially to shareholders of record Nov. 1, 1958, in the ratio of one new share for each 2.33 shares held on that date. **Price**—$4 per share. **Proceeds**—$300,000 will be used for payments on contract to purchase shares of International Fidelity Insurance Co.; $325,000 for capitalization of a fire insurance company; $500,000 for capitalization of a title insurance company; $500,000 for additional capital contribution to Great Plains Development Co.; and $300,000 as an additional capital contribution to Great Plains Mortgage Co. **Office**—319 E. "A" St., Casper, Wyo. **Underwriter**—None.

Prospective Offerings

Acme Steel Co.
March 21 it was announced that the company plans additional financing this year, in the form of common stock, preferred stock, or a combination of the two, including bank loans. **Proceeds**—For expansion program, working capital and inventories. **Underwriters**—Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith.

★ Alabama Power Co. (4/30)
Dec. 10 it was announced that the company plans the issue and sale of $20,000,000 of 30-year first mortgage bonds. **Proceeds** — For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Eastman Dillon, Union Securities & Co.; Equitable Securities Corp. and Drexel & Co. (jointly); Harriman Ripley & Co., Inc. and Goldman, Sachs & Co. (jointly); Morgan Stanley & Co.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Registration**—Planned for April 3. **Bids**—Expected to be received on April 30.

★ Columbia Gas System, Inc.
Dec. 1 it was reported that the company may issue and sell additional common stock in the first half of 1959. **Proceeds**—To repay outstanding bank loans. **Underwriter**—To be determined by competitive bidding. Probable bidders: Lehman Brothers and Eastman Dillon, Union Securities & Co. (jointly); Merrill Lynch, Pierce, Fenner & Smith, White, Weld & Co., Shields & Co. and R. W. Pressprich & Co. (jointly); Morgan Stanley & Co.

★ Commonwealth Edison Co. (1/13)
Dec. 12 it was announced that company will issue and sell $20,000,000 of 50-year sinking fund debentures due 2009. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; The First Boston Corp. **Bids**—Expected to be received on Jan. 13. **Registration**—Planned for today (Dec. 18).

Consolidated Edison Co. of New York, Inc.
Nov. 25 it was announced that the company plans to offer to its common stockholders $59,778,600 of convertible debentures in the latter part of January on the basis of $100 of debentures for each 25 shares owned. **Price**—To be determined just prior to the offering date. **Underwriters**—May be Morgan Stanley & Co. and The First Boston Corp., both of New York. **Registration** — Expected on Dec. 23.

Denmark (Kingdom of)
Sept. 2 it was reported that an issue of between $20,000,000 to $30,000,000 may possibly be placed on the American market this year. **Underwriter**—Kuhn, Loeb & Co., New York.

Equitable Gas Co.
July 18 it was announced that the company expects later in the year to issue and sell additional securities, probably preferred stock, to secure approximately $5,000,000 of additional funds. **Proceeds**—Together with $7,000,000 from private sale of 4½% bonds, to repay short-term bank loans and for construction program. **Underwriters**—May be The First Boston Corp.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Smith; and White Weld & Co., all of New York.

First City National Bank
Sept. 19 it was announced Bank plans to offer to its stockholders of record Oct. 2, 1958 the right to subscribe for 125,000 additional shares of capital stock (par $20) on the basis of one new share for each 10 shares held; rights to expire on Jan. 10, 1959. **Price**—$40 per share. **Proceeds**—To increase capital and surplus. **Office**—931 Main Street, Houston 1, Texas.

First National Bank in Dallas, Texas
Dec. 3 bank offered 290,000 shares of additional common stock (par $10) to stockholders of record Dec. 2, 1958 on a one-for-eight basis; rights to expire on Dec. 18. **Price**—$27 per share. **Proceeds**—To increase capital and surplus. **Underwriters** — Merrill Lynch, Pierce, Fenner & Smith, Fort Worth, Texas and, Equitable Securities Corp., Dallas, Texas.

First National Bank & Trust Co., Tulsa, Okla. (1/13)
Nov. 25 it was reported that the stockholders of the Bank will vote on Jan. 13 to approve a plan to offer 100,000 shares of additional capital stock (par $10) on about a one-for-six basis to stockholders of record Jan. 13, 1959. **Price**—$27 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—Merrill Lynch, Pierce, Fenner & Smith, Oklahoma City, Okla.

★ Georgia Power Co. (9/10)
Dec. 10 it was announced that the company plans to issue and sell $18,000,000 of 30-year first mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., Kidder, Peabody & Co. and Shields & Co. (jointly); Lehman Brothers; The First Boston Corp.; Morgan Stanley & Co.; Equitable Securities Corp. and Eastman Dillon, Union Securities & Co. (jointly); Harriman Ripley & Co. Inc. **Registration**—Planned for Aug. 14. **Bids**—Expected to be received on Sept. 10.

Giant Food Stores, Inc.
Nov. 8 it was reported that the company plans an offering of common stock to holders of Giant Food Properties, Inc. **Underwriters**—May be Kidder, Peabody & Co., New York, and Auchincloss, Parker & Redpath, Washington, D. C.

Great Atlantic & Pacific Tea Co., Inc.
Feb. 19 it was reported a secondary offering of common voting stock is expected this year. **Underwriters** — May include: Blyth & Co., Inc.; Lehman Brothers and Smith, Barney & Co.

★ Gulf Power Co. (4/2)
Dec. 10 it was announced that the company plans to issue and sell $7,000,000 of 30-year first mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Smith, Salomon Bros. & Hutzler and Drexel & Co. (jointly); Eastman Dillon, Union Securities & Co.; Equitable Securities Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Blyth & Co., Inc. **Registration**—Planned for March 6. **Bids**—Expected to be received on April 2.

Heublein, Inc.
Aug. 25 it was reported that the company plans early registration of 400,000 shares of common stock, of which 100,000 shares are to be sold for the account of selling stockholders. **Proceeds**—For expansion. **Underwriter**—Glore, Forgan & Co., New York. **Offering**—Not expected this year.

● Interstate Motor Freight System, Inc. (Mich.)
Dec. 1 it was reported that the company plans to issue and sell 125,000 shares of common stock. **Underwriters**—A. C. Allyn & Co., Inc. and Walston & Co., Inc. **Offering**—Expected any day.

Japan (Empire of)
Aug. 20 it was stated that an issue of between $25,000,000 and $30,000,000 of bonds may soon be publicly offered on the American market. **Proceeds**—For public works projects, etc. **Financial Adviser**—The First Boston Corp., New York.

Kansas Gas & Electric Co.
March 31, G. W. Evans, Chairman, announced that company plans to sell some bonds originally scheduled for mid-year. The proposed sale was subsequently deferred until late 1958 or early 1959. **Proceeds**—About $8,000,000 for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Smith (jointly); Lehman Brothers; Eastman Dillon, Union Securities & Co. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co., and Goldman Sachs & Co. (jointly).

Kansas Power & Light Co.
Feb. 14 it was announced company plans to issue and sell $10,000,000 of first mortgage bonds due 1988. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Harriman Ripley & Co. Inc.; White, Weld & Co.; Blyth & Co., Inc.; Equitable Securities Corp

Laboratory for Electronics, Inc.
July 3, Henry W. Harding, President, announced that the directors are currently considering refinancing $790,000 of outstanding notes ($658,750 held by a principal stockholder and $131,250 by a bank) on a more permanent basis. This may be done through equity or convertible debenture financing. **Office**—75 Pitts St., Boston, Mass.

Manufacturers & Traders Trust Co.
Dec. 3 bank offered to its stockholders of record Dec. 2 rights to subscribe on or before Dec. 17 for 322,388 shares of capital stock (par $5) at rate of one new share for each six shares held. **Price**—$24 per share. **Proceeds**—To increase capital and surplus. **Underwriter** — The First Boston Corp., New York

Master Fund, Inc., Fairfield, Calif.
Jan. 27 it was announced this newly organized investment company plans to offer to bona fide residents of California 10,000 shares of capital stock (par $1). **Price**—$10 per share, less an underwriting discount of 8½% **Proceeds**—For investment.

Michigan Bell Telephone Co.
Aug. 12 directors approved plans to sell $40,000,000 of 34-year debentures. **Proceeds**—To redeem a like amount of 4¾% debentures due November, 1992. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Bids**—Had been tentatively scheduled to be received on Sept. 16, but on Aug. 26 it was voted to postpone this refunding program because of present market conditions.

Midland Enterprises, Inc.
March 28, company announced it plans to issue on or before Dec. 31, 1958 $3,200,000 of first preferred mortgage bonds. May be placed privately. **Proceeds** — To repay bank loans and for working capital.

Midwestern Gas Transmission Co.
March 24 it was announced that this subsidiary of Tennessee Gas Transmission Co. has applied to the Federal Power Commission for permission to issue first mortgage bonds, unsecured notes and common stock. **Proceeds**—To build pipe line system to cost about $111,000,000. **Underwriters** — Stone & Webster Securities Corp. and White Weld & Co., both of New York.

★ Mississippi Power Co. (6/25)
Dec. 10 it was announced that this company plans to issue and sell $5,000,000 of 30-year first mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman Dillon, Union Securities & Co. and Equitable Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Smith; Kidder, Peabody & Co. and White, Weld & Co. (jointly). **Registration**—Planned for May 29. **Bids**—Expected to be received on June 25.

★ Mobile Gas Service Corp. (1/22)
Dec. 12 it was announced that the company plans to offer to its stockholders 33,000 additional shares of common stock (par $5) on the basis of one new share for each 10 shares held on or about Jan. 22. **Underwriters**—The First Boston Corp., New York; and Robinson-Humphrey & Co., Atlanta, Ga. **Registration**—Expected about Dec. 30.

Moore-McCormack Lines, Inc.
March 24 it was announced company plans to issue and sell $24,000,000 of government insured bonds secured by a first preferred ship mortgage on the liners S. S. Brasil and S. S. Argentina. **Underwriters**—Kuhn, Loeb & Co. and Lehman Brothers, both of New York. **Offering** — Postponed because of uncertain market conditions.

New York State Electric and Gas Co.
March 7 it was announced that approximately $7,500,000 from additional financing will be required for construction expenditures for the balance of this year. The management intends to negotiate a new line of credit with a group of banks and expects to sell equity securities later this year or in early 1959, depending upon prevailing market conditions. **Underwriter**—For any common stock: The First Boston Corp., New York.

Norfolk & Western Ry. (12/18)
Bids are expected to be received by the company on Dec. 18 for the purchase from it of $5,850,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

North American Equitable Life Assurance Co.
Dec. 1 it was announced that the company plans an offering of 950,000 shares of capital stock. **Price** — $10 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—John M. Tait & Associates, Cincinnati, Ohio.

North American Van Lines, Inc.
Nov. 20, James D. Edgett, President, announced company plans early in 1959 to make a public offering of its stock, and has applied to the Interstate Commerce Commission for authority to do so.

Northern Illinois Gas Co.
June 10 it was announced company will sell late this year $10,000,000 mortgage bonds but on Sept. 12 it was stated that immediate financing will not be necessary. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Glore, Forgan & Co.; Blyth & Co., Inc.

Northern States Power Co. (Minn.)
Dec. 3, Allen S. King, President, announced that the company plans about the middle of 1959 to put out a common stock issue and possibly a $15,000,000 preferred stock issue if there is a satisfactory market. **Proceeds**—To repay bank loans and for construction program. **Underwriter** — To be determined by competitive bidding. Probable bidders (1) For preferred stock: Blyth & Co., Inc. and The First Boston Corp. (jointly); Lehman Brothers and Riter & Co. (jointly); Merrill Lynch, Pierce, Fenner & Smith; Harriman Ripley & Co., Inc. and Eastman Dillon, Union Securities & Co. (jointly); Kuhn, Loeb & Co. (2) For common stock: Lehman Brothers and Riter & Co. (jointly); The First Boston Corp., Blyth & Co., Inc. and Kuhn, Loeb & Co. (jointly); White, Weld & Co. and Glore, Forgan & Co. (jointly); Merrill Lynch, Pierce, Fenner & Smith.

★ Pacific National Bank of San Francisco (1/13)
Dec. 12 directors approved proposed offering of 74,511 additional shares of new capital stock to stockholders at the rate of one new share for each three shares held. Stockholders will vote on financing on Jan. 13. **Underwriters**—Blyth & Co., Inc. and Elworthy & Co., both of San Francisco, Calif.

South Coast Corp.
Oct. 27 it was reported that the company is planning some long-term financing. **Proceeds** — To replace an interim loan obtained in connection with the purchase of properties from Gulf States Land & Industries, and 4¼% bonds due 1960. **Underwriter** — May be Hornblower & Weeks, New York.

Southeastern Fidelity Fire Insurance Co.
Aug. 26 it was announced that the company in all probability will offer additional common stock to its shareholders in the near future. **Proceeds**—To expand operations. **Office** — 197 Auburn Ave., N. E., Atlanta, Ga. **Underwriter**—None.

● Southern Co. (2/4)
Dec. 10 it was announced that the company plans to raise early in 1959 between $40,000,000 and $45,000,000 through the public sale of common stock. **Proceeds** — For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Smith (jointly); Eastman Dillon, Union Securities & Co. and Equitable Securities Corp. (jointly); Lehman Brothers. **Bids**—Expected up to 11 a.m. (EST) on Feb. 4 at 250 Park Ave., New York, N. Y. **Registration**—Planned for Jan. 9.

★ Southern Electric Generating Co. (5/28)
Dec. 10 it was announced that the company plans to issue and sell $25,000,000 of 30-year first mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman Dillon, Union Securities & Co. and Equitable Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Smith; Kidder, Peabody & Co. and White, Weld & Co. (jointly). **Registration**—Planned for May 1. **Bids**—Expected to be received on May 28.

Southern Natural Gas Co. (1/20)
Nov. 24 it was reported that this company plans sale of about $35,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); The First Boston Corp. **Bids**—Expected to be received on or about Jan. 20, 1959.

Southwestern Bell Telephone Co.
July 10 it was announced Missouri Public Service Commission authorized the company to issue $110,000,000 of 35-year debentures. **Proceeds** — To refund outstanding $100,000,000 4¾% debentures. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Offering**—Has been postponed. Bids had been expected about Sept. 30, 1958.

Continued on page 118

Continued from page 117

Thomas & Betts Co.
Nov. 24 it was reported that the company plans early registration of about 250,000 to 300,000 shares of common stock. **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Underwriter**—Smith, Barney & Co., New York. **Offering**—Planned for some time in January.

Transcontinental Gas Pipe Line Corp.
Dec. 8 it was reported that the company is planning the sale early in January of $30,000,000 to $35,000,000 of first mortgage pipeline bonds. Additional financing expected later in 1959. **Proceeds**—For construction program. **Underwriter**—White, Weld & Co. and Stone & Webster Securities Corp., both of New York.

Union Electric Co., St. Louis, Mo.
March 28 it was announced company plans to market about $30,000,000 of common stock in the latter part of this year or in the first quarter of 1959, but this financing may be put off until June, 1959. **Proceeds**—For construction program. **Underwriter**—May be determined by competitive bidding. Probable bidders: White, Weld & Co. and Shields & Co. (jointly); Lehman Bros.; Merrill Lynch, Pierce, Fenner & Smith.

Universal Oil Products Co.
Aug. 13 it was reported that an issue of common stock will soon be offered to the public, the proceeds of which may run between $50,000,000 and $60,000,000. Approval of the transaction rests with the New York State Supreme Court (expected within two months). **Proceeds**—To the Petroleum Research Fund of the American Chemical Society. **Underwriters**—Expected to be Lehman Brothers, Smith, Barney & Co. and Merrill Lynch, Pierce, Fenner & Smith, all of New York. **Offering**—Expected in November.

Venezuela (Government of)
July 1 the Government announced that Kuhn, Loeb & Co. and Kidder, Peabody & Co., both of New York, have been selected as financial advisors to develop a financial program for the country. As a first step in the program a short-term credit is being negotiated between the government in cooperation with the two investment banking firms and a syndicate of commercial banks in the United States, Canada and the United Kingdom. The three institutions which are to head this syndicate are The Chase Manhattan Bank, The First National City Bank of New York, and Bank of America National Trust & Savings Association. The Chase Manhattan Bank will be the fiscal agent for the credit. The amount of the new financing involved is in the neighborhood of $250,000,000. The purpose is to restore government balances which have been reduced by the repayment of excessive short term obligations previously incurred.

Virginian Ry.
Aug. 26 the directors approved a proposal to exchange 2,795,500 shares of 6% cumulative preferred stock (par $10) for $32,148,250 new 6% subordinated income sinking fund debentures to mature Aug. 1, 2008 on the basis of $11.50 principal amount of debentures for each preferred share. Offer began on Nov. 17 and will expire on Jan. 16. **Dealer-Manager**—Harriman Ripley & Co. Inc., New York.

Vita Food Products, Inc.
Dec. 3 it was reported that the company plans to issue approximately 15,000 shares of common stock. **Proceeds**—To acquire Mother's Food Products, Inc. **Underwriter**—Granbery, Marache & Co., New York. **Registration**—Expected in near future.

Wisconsin Power & Light Co.
March 17 it was announced that company plans to issue and sell $10,000,000 of first mortgage bonds. **Proceeds**—To retire bank loans and for construction program. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Smith, Barney & Co. and Robert W. Baird & Co., Inc. (jointly); Equitable Securities Corp. and Eastman Dillon, Union Securities & Co. (jointly); White, Weld & Co., Kidder, Peabody & Co. and Salomon Bros. & Hutzler (jointly); The First Boston Corp. **Offering**—Not expected until late in 1958 or early in 1959.

Worcester Gas Light Co.
Aug. 18 it was reported that the company plans the sale of $5,000,000 first mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Estabrook & Co. and Coffin & Burr, Inc. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly).

Our Reporter's Report

The corporate new issue market is coming down to the close of another year with its house in pretty good order, judging by comment of those in a position to see the picture pretty clearly.

The only element really lacking is a bit more stability on the part of the Treasury market where a certain amount of nervousness persists. Presumably dealers are satisfied to stand by for a spell and seek what the Government agency may have on tap for January.

At this time, the Treasury is expected to be in the market for some more new money and there is a growing disposition in the market place to anticipate something in the way of attempt at a long-term offering.

Meantime, the primary market for corporate offerings has been doing quite well for itself and recent new issues have been getting a somewhat improved reception. In fact the last week or 10 days has witnessed a broad clearing away of portions of recent issues which had remained unsold.

Philadelphia Electric Co.'s recent offering, evidently set up to suit the taste of institutional buyers, gave the market a much-needed fillip. Carrying a 4⅜% coupon rate and priced at 100, it attracted brisk demand.

More than that the response accorded this issue served to stir up latent interest in several others, well-rated and offering approximately similar yields with the result that by the turn of the week little or nothing in the way of remants remained over from these undertakings.

Out-The-Window

Testifying further to the improved temper of the new issue market was the speed with which the Texas Power & Light Co.'s offering moved out to investors. The successful group took the bonds down on a bid of 100.32 for a 4½% interest rate.

Reoffering was set at a price of 101 for an indicated yield of 4.44% to the buyer. Preliminary inquiry indicated that the bonds would be taken up quickly and the books closed.

Runner up bid 100.089 for the same coupon rate provided a differential of only about $2.30 per $1,000 bond. Four other bids were received all for 4⅝% bonds.

Out of Business

A glance at the prospective calendar makes it plain that the underwriting fraternity could take the balance of the year off so far as potential new business is concerned. Next week is liberally a "washout" on that score.

There is only one debt issue of any consequence on tap, that being Burlington Industries Inc.'s $7,051,625 of new debentures which are slated for public offering on Tuesday.

The only other real prospect takes the shape of 145,200 shares of capital stock of the Northern Insurance Co. of New York, which is on the calendar for public offering on Wednesday.

Into Hibernation

Several firms have disclosed their intentions of seeking additional capital through the medium of marketing of new securities. Among the largest of recent filings with the Securities and Exchange Commission is C.I.T. Financial Corp.'s $75 million of 20-year debentures.

Proceeds will make available additional working capital for the company and its subsidiaries and will be used to cut short-term borrowings.

Public Service Co. of Indiana Inc., has set in motion plans to raise $25 million of capital through sale of mortgage bonds at competitive bidding. This was disclosed in a petition filed with the state agency. Proceeds will repay bank loans and finance construction.

American Natural Gas Co. has disclosed it will offer 486,325 shares of common on "rights" early next year to finance expansion of subsidiaries, and will seek standby underwriting by competitive bidding.

With R. B. Sideckas

(Special to The Financial Chronicle)

SHREWSBURY, Mass.—Hormidas A. Bousquet has become associated with R. B. Sideckas & Co., 47 North Quinsigamond Avenue. He was formerly with Federated Investors, Inc.

Prescott Adds to Staff

(Special to The Financial Chronicle)

CLEVELAND, Ohio — James G. Parker has been added to the staff of Prescott & Co., National City Bank Building, members of the New York and Midwest Stock Exchanges.

Joins W. E. Hutton

COLUMBUS, Ohio — Keith F. Knight has joined the staff of W. E. Hutton & Co., 50 East Broad Street.

Continued from page 2

The Security I Like Best

longer period of years than a car, and accordingly, is available to the mass market at a monthly cost of under $50. As a result, in the past five years the number of residential swimming pool installations in our country has jumped from 15,000 to over 120,000. The aggregate installed value of motel, hotel, country club, beach club, municipal and other larger pools has climbed to an even greater rate.

Ten years ago, the second car was the "status symbol" evidencing one's affluence to one's neighbors. Today, with most families owning a second car, the swimming pool has become a new hallmark of personal success. In addition, the residential pool has become the center for the new mode of indoor-outdoor living. It is used for swimming; it even more frequently serves as a photogenic backdrop for family entertainment, for cook-outs and cocktail parties, as well as for quiet family group relaxation.

Compelling basic economic factors underlie the growth of this industry,—factors which should in coming years exert an ever more powerful, stimulating effect. Leisure time is steadily increasing, with the average work week dropping steadily even below 40 hours. As total personal income has climbed to record levels of over $300 billion this year, the American public finds an ever greater expendible balance after mandatory payments for food, shelter and clothing. This has meant that savings have climbed to record levels. At the same time, "luxury" purchases, spending for travel, yachts, outboard engines, cameras, hi-fi and sports equipment—all these expenses have climbed to record levels, and now exceed in the aggregate our national spending for defense! These strong trends augur well for the swimming pool industry. People comprising its markets are learning to enjoy a modern new way of life and are steadily becoming more able to afford that life!

Turning now to National Pool, this company is in many ways unique. In an industry comprising a great many small, strictly regional, privately held companies, National is the largest company. It advertises and markets its commercial and residential swimming pools over a large portion of the country. It is in a most advantageous position to capitalize on the increase in swimming pool popularity. Its officers are widely experienced in every phase of the pool business, the President, Ezra L. Culver, having been engaged in this field for over 30 years. Some 50% of the outstanding shares are owned by the management, which accordingly has a major stake in and incentive for the company's success. National Pool is the only widely publicly held company in its industry, and offers in my opinion an attractive speculative investment opportunity to participate in this exciting growth industry.

National Pool's shares were first offered in 1956 at $3. The management's total absorption with operating responsibilities resulted in its then budgeting neither time, attention nor money to broadening its corporate image in the financial community, with the result that the stock until recently was most inactive and sold for a time somewhat below its offering price. Now, however, management is actively and constructively engaged in broadening the distribution of the company's shares and reasonably enhancing the company's sponsorship throughout the financial community. The shares are being more actively traded, and at a closer spread, are being quoted in additional newspapers, and will soon, I believe, more fully reflect the strong growth factors underlying the business.

Looking ahead, National Pool can materially expand its sales with no further increase in its production facilities. Sales expansion should stem directly from its ambitious and aggressive 1959 marketing plans. National Pool's current backlog is reported to be over $500,000 as against under $100,000 a year ago. The business is definitely seasonal, with the first half recording the bulk of sales and earnings. The company now has more business under negotiation than at any time before in its history, and believes this augurs well for sharp further sales growth in 1959.

I like National Pool for its potential future growth. I expect its rate of growth will preclude any measurable payment of cash dividends for some years; management has expressed approval of stock dividends. In fact, I believe the company should for some years apply a major fraction of its pre-tax earnings back into the more aggressive, expeditious development of the business, making this for me a most attractive long-term "special situation."

Robert L. Smith Opens

ST. PAUL, Minn. — Robert L. Smith is engaging in a securities business from offices in the Pioneer Building under the firm name of Robert L. Smith & Co. Mr. Smith has been a partner in Smith, La Hue & Co.

New Fairman Branch

BURBANK, Calif.—Fairman & Co. has opened a branch office at 126 East Olive Avenue under the direction of Lewis Akmakjian.

Rudolph Arkin Opens

WASHINGTON, D. C.—Rudolph Arkin is conducting a securities business from offices at 777 Fourteenth Street, N. W.

With Geo. V. Yates

(Special to The Financial Chronicle)

CARMEL, Calif. — Allman J. Cook has joined the staff of George V. Yates & Co., Jorgenson Building.

Sam Garfinkel Opens

KEW GARDENS, N. Y. — Sam Garfinkel is engaging in a securities business from offices at 110-45 Queens Blvd.

Opens New York Office

Prime Investors Programs, Inc. has opened an office at 505 Fifth Avenue, New York City.

Now Swan-Rowley Investing Corporation

JAMESTOWN, N. Y. — Swan-Rowley Investing Corporation has been formed with offices in the Bank of Jamestown Building to continue the investment business of Swan-Rowley Co., Inc.

With Lawson, Levy

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Charles O. Doud is now connected with Lawson, Levy, Williams & Stern, 1 Montgomery Street, members of the New York and Pacific Coast Stock Exchanges.

RESULTS OF GOLF TOURNAMENTS AT THE IBA CONVENTION

1958 Convention — Bal Harbour, Florida — November 30-Dec. 5

Alden H. Little Trophy—Men:
1st—Russell M. Ergood, Jr., Stroud & Co., Inc., Philadelphia
2nd—Edmund C. Byrne, Phelps, Fenn & Co., New York

I. B. A. of Canada Trophy—Men:
1st—James E. Osborn, II, Dominick & Dominick, New York
2nd—Thomas J. Pendergrast, Courts & Co., Atlanta

Senior Golf Trophy—Men:
1st—Walter A. Schmidt, Schmidt, Roberts & Parke, Philadelphia.
2nd—Elvin K. Popper, I. M. Simon & Co., St. Louis

Robert E. Christie, Jr. Memorial Trophy—Men:
1st—Ernest O. Dorbrits, Moore, Leonard & Lynch, Pittsburgh
2nd—Robert G. Rowe, Stroud & Co., Philadelphia

18 Hole Handicap—First Day—Men:
1st—Elvin K. Popper, I. M. Simon & Co., St. Louis
2nd—Wildes W. Veazie, Mabon & Co., New York

18 Hole Handicap—Second Day—Men:
1st—Thomas Lynch, III, Moore, Leonard & Lynch, Pittsburgh
2nd—Henry Stravitz, Swiss American Corp., New York

Kickers—18 Hole—Men:
No one entered the tournament

Four Ball Foursome—Men:
1st—Walter B. Levering, Carlisle & Jacquelin, New York
Albert R. Hughes, Lord, Abbett & Co., New York
T. C. Henderson, T. C. Henderson & Co., Des Moines
Mason B. Starring, Jr., A. C. Allyn & Co., New York
2nd—Only the above four played in this tournament

Mixed Foursomes—18 Holes—Low Gross:
1st—Mr. & Mrs. James F. Keresey, Baker, Weeks & Co., N. Y.
2nd—Mr. & Mrs. William G. Harding, Coffin & Burr Inc., Boston

Mixed Foursomes—18 Holes—Low Net:
1st—Mrs. Henry Cate—Renouf Russell
(Mrs. Cate, The Keystone Company, Boston)
(Mr. Russell, F. S. Moseley & Co., Boston)
2nd—Mr. & Mrs. George S. Kemp, Jr., Abbott, Proctor & Paine, Richmond

Kickers—18 Hole—Women:
Winner—Mrs. Stewart A. Dunn, C. J. Devine & Co., N. Y.

18 Hole Tournament—First Day—Women:
No one entered the tournament

18 Hole Tournament—Second Day—Women:
1st—Low Gross:
Mrs. Sewell S. Watts, Jr., Baker, Watts & Co., Baltimore
Mrs. Edwin H. Herzog, Lazard Freres & Co., New York
2nd—Low Gross:
1st—Low Net:
Mrs. Charles A. Parcells, Jr., Charles A. Parcells & Co., Detroit
2nd—Low Net:
Mrs. W. Linton Nelson, Delaware Distributors, Inc., Philadelphia

TENNIS MATCHES

Malon C. Courts Memorial—Men's Doubles:
1st—F. Barton Harvey, Jr., Alex. Brown & Sons, Baltimore
Joseph P. Short, Arthurs, Lestrange & Co., Pittsburgh
2nd—Wallace C. Latour, Merrill Lynch, Pierce, Fenner & Smith, New York
Henry L. Valentine, Davenport & Co., Richmond

Mixed Doubles:
1st—Mr. & Mrs. F. Barton Harvey, Jr., Alex. Brown & Sons, Baltimore
2nd—Mrs. Joseph R. Neuhaus—Henry L. Valentine
(Mrs. Neuhaus—Underwood, Neuhaus & Co., Houston)
(Mrs. Valentine—Davenport & Co., Richmond)

Narda Ultrasonics Common Stock Offered

Milton D. Blauner & Co. Inc., and Michael G. Kletz & Co., Inc., as joint managers of an underwriting group yesterday (Dec. 17) offered 60,000 shares of The Narda Ultrasonics Corp., common stock at a price of $6.50 per share.

The company will receive no part of the proceeds from the sale of the stock. However, The Narda Microwave Corp., the selling stockholder, will apply $145,202 of the net proceeds of the offering to satisfy a note held by the company.

The Narda Ultrasonics Corp., is engaged in the mass production of low cost ultrasonic cleaners. At present the company manufactures a line of generators and complementing transducerized tanks, under the trade name "Sonblaster". The Narda "Sonblaster" is an ultrasonic system designed expressly for high speed, quality cleaning, using emulsions, solvents, water or aqueous solutions of detergents, alkalines or acids.

With Lamson Bros.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Leonard V. Lockhart has become connected with Lamson Bros. & Co., 141 West Jackson Boulevard, members of the New York and Midwest Stock Exchanges. He was formerly with the Illinois Company.

Joins Blyth Staff

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Patrick Corrigan is now affiliated with Blyth & Co., Inc., Northwestern Bank Building.

With Commonwealth Secs.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio—Richard E. Chalmers is now affiliated with Commonwealth Securities Corporation, 30 East Town Street.

Financial Heads Lauded By National Conference

John M. Budinger, Vice-President, Bankers Trust Co.; James Coggeshell, Jr., President, First Boston Corp.; and Jacob C. Stone, Senior Partner, Asiel & Co., were cited by the National Conference of Christians and Jews for "distinguished service in the field of human relations" at a dinner in their honor sponsored by the organization last Monday, Dec. 15, at the Waldorf-Astoria in New York City.

Eugene S. Hooper, President, Manufacturers Trust Co., served as Chairman of the event. Arthur H. Dean, Senior Partner, Sullivan & Cromwell, was the toastmaster. Dr. Lewis Webster Jones, President of the National Conference, was the guest speaker.

Attended by 800, the event was one of the feature celebrations marking the 30th Anniversary of the Conference which was organized in 1928 to promote good will and understanding among Protestants, Catholics and Jews. Dinner proceeds obtained from the sale of tickets among members of the financial community will aid the organization in expanding its program.

Presentation of the awards were made by Maurice Newton, Hallgarten & Co.; Mr. Dean; and James P. Baxter 3rd, President of Williams College.

Form Variable Planning

MINEOLA, N. Y. — Variable Planning Corporation is engaging in a securities business from offices at 180 Second Street.

Opens Office in New York

Ruth Klein is conducting a securities business from offices at 64 East 86th Street, New York City.

Two With Frank Knowlton

(Special to THE FINANCIAL CHRONICLE)

OAKLAND Calif. — Donald E. Hoppe and Joseph F. McCullough are now with Frank Knowlton & Co., Bank of America Building. Both were formerly with National Investment Corp.

Joins Oscar G. Werner

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—Russell G. O'Connor has joined the staff of Oscar G. Werner & Co., 3870 East Colorado Street. Mr. O'Connor was formerly with Shearson, Hammill & Co.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, Ohio — Robert D. Johnson is now with Merrill Lynch, Pierce, Fenner & Smith, 616 Madison Avenue. He was formerly with Goldman, Sachs & Co., and Hayden, Miller & Co., of Cleveland.

Cruttenden, Podesta Sells Filtrol Stock

A secondary distribution of 30,100 shares of Filtrol Corp. common stock (par $1) was made recently through Cruttenden, Podesta & Co., Chicago, Ill. This offering was completed, all of said shares having been sold at $43.12½ per share, it was announced on Dec. 16.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Nearly everything on the economic horizon points to a decided upturn in business in 1959. Sure there are some negative signs, such as a potential steel strike and other labor disturbances next summer, but the overall picture is much brighter than 1958.

A business conference outlook, conducted by the United States Chamber of Commerce for the press, brought out some meaty facts for the nation's businessmen, and the public generally. A number of economists and experts in their respective fields participated in the conference.

If the experts are reasonably correct in their forecasts, and there is no reason to challenge them, there is a new era of growth ahead. It is underway right now, because "Queen Customer" is going to make Christmas this year the biggest on record for the nation's department and specialty stores with Yuletide sales at least 3% ahead of last year.

What is responsible for the increased sales? J. Gordon Dakins, Executive Vice-President of the National Retail Merchants Association, said there are a series of reasons: Personal income is at a peak; personal savings higher than a year ago; stores are advertising heavily and offering excellent values; a favorable calendar break gives the current holiday season 23 selling days between Thanksgiving and Christmas as compared with 22 in 1957.

In the grocery stores across the land there is good news. The outlook is for a stable food price. There will be larger meat supplies and, unless there is recurring freezes in the Far South, there will be more fruits and vegetables. There might be a slight increase in some items due to higher distribution costs and packaging. However, the price of the raw products will remain pretty much the same as 1958, in the opinion of Wallace N. Flint, Vice-President of the National Association of Food Chains.

There has been a longtime rise in total retail food store sales with sales currently running 6% over the same period a year ago. Another increase appears ahead for 1959. Meantime, the paramount problem facing the food chains is the need for "increase in productivity" because about half of the cost of a food chain organization to do business is payroll.

Increase in Credit Demand

E. Sherman Adams, Deputy Manager of the American Bankers Association, said that with production and employment expected to be appreciably higher in 1959 than in 1958, greater credit demands appear ahead. The recovery from the 1958 recession, although over the hill, is likely to be a bit irregular. Nevertheless, increased demands for credit from all types of borrowers are ahead.

As bond houses and bankers already know, the states and municipalities, counties and districts, have been issuing a record volume of bonds the past year. These public bodies appear likely to borrow even more heavily next year. The United States Treasury will be going to the money market quite often throughout 1959.

Furthermore, as Mr. Adams pointed out to the business conference, Treasury expenditures will exceed revenues even during the first half of the calendar year. This will be the first time this has taken place since World War II. The Treasury has some mighty big problems on its hands. Chances are the banking system will be called upon to finance part of the Treasury deficit next year, which means that bank holdings of Government securities would increase.

Prospects for Heavy Industry

What is the outlook for steel? The Institute of Scrap Iron & Steel is convinced the economy of 1959 will show improvement over 1958, but it does not expect 1959 to be spectacular. The Steelmakers, said William S. Story of the Institute of Scrap Iron and Steel, is expecting the automobile industry to produce its forecast of 5.5 million passenger cars in 1959, but is hoping for an even better year.

The appliance industry, which felt the recession at the outset, is improving rapidly. Sales of refrigerators, freezers, ranges, and laundry equipment, as examples, have been improving since July. The makers of laundry equipment expect a 6% increase in 1959 over 1958. A factor in these expectations is the increase in housing starts forecast during the next year. The steel industry is looking particularly for substantial growth in highway construction with many big orders for wire mesh, reinforcing rods, culverts and structural steel. Railroad car orders are also expected to jump from the low level orders of 1958.

There is a capacity now to produce about 141,000,000 tons annually. This is 45,000,000 tons more than existed at the end of World War II. Another 5,000,000 tons capacity has been added the past year, but the new figures will not be announced until January.

Possible Steel Strike

Perhaps the biggest threat hanging over the industry is the possibility of a steel strike at mid-year. Commenting on this, Mr. Story made this observation: "Chances are good that this (potential strike) will start playing a role in steel buying quite early in the year, but its major impact will probably not be seen until the second quarter. In the face of current posturing by the United Steel Workers, the expected heavy demands from them in June, and the determination of management to hold the line, it seems reasonable to expect that there will be fireworks in June."

Continuing, he said: "But ignoring the effect of a steel strike and summing up the outlook for steel in terms of tonnage produced next year . . . even the pessimists put it at 105,000,000 tons minimum, while the extreme optimists see it going as high as 120,000,000 tons, highest in history. It is hard to see production falling below 100,000,000 tons as it did this year; it is relatively easy to see it rising to 115,000,000 tons and perhaps somewhat more."

Good Auto Outlook

If the present forecasts are approximately accurate, 1959 would not be the best, or even the fifth best sales year for new automobiles. However, it will be a healthy year with both manufacturers and dealers operating profitably. It would compare with such years as 1951, 1954 and 1956. The industry's four biggest years were: 1955 with 7,920,186 cars and 1,249,090 trucks and buses; 1950, with 6,665,863 cars and 1,337,193 trucks and buses; 1953, with 6,116,948 cars and 1,206,266 trucks and buses, and 1957, with 6,113,344 cars and 1,107,176 trucks and buses.

The history of the automotive industry has been one of growth, and the industry is looking forward to rich potential markets in the future, providing the cost of operating an automobile does not continue going up and up. With three-year union contracts negotiated, relative labor peace and stability apparently lies ahead.

Bright Construction Forecast

The Associated General Contractors of America, through Manager William G. Dooly, after a survey of contractors in every section of every state, says indications are there will be a 6% increase in construction activity in 1959, the biggest jump in four years. Furthermore, if past patterns and long-range forecasts by economists hold true, the year should signalize the start of a new era of construction growth.

It is predicted that the 1959 dollar volume of construction will amount to about $52 billion. However, much of the new construction will hinge on credit. This is particularly true relative to residential and industrial construction. Private construction in 1959 is expected to increase by 3% to 4%, for a total just under $35 billion, with moderate rises in residential and religious building. The major part of next year's increase will be in public construction, jumping some 16% to $17.4 billion, paced by a significant advance in the expanded highway program.

There was an expected decline in business construction in 1958, but the drop has been considerably greater than was forecast. An additional 10% drop is expected next year to about $2.2 billion, reflecting the decline in new projects getting under way in 1958.

A 15% increase in highway construction will pace state and local public works projects. There will also be moderate increases in schools and sewer and water facilities. The stepped up highway construction may reach $6.2 billion next year, the greatest in history, and increase thereafter for three or four years.

The missile base program may increase military construction by more than 20% to $1.5 billion. Expenditures by the Department of Defense will be the largest in peacetime history, as it has been stated here before.

Overall, the year ahead should be a favorable one for growth. The economists express confidence that the Gross National Product, now running at the rate of about $450 billion, should swell to $470 billion to $480 billion. If GNP reaches $475 billion a year from now, it means that total goods and services by 1960 probably will be heading close to the $500 billion mark, assuming of course there are no major wars nor catastrophies.

[This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.]

Business Man's Bookshelf

Apartments and Dormitories—by the Editors of "Architectural Record"—F. W. Dodge Corporation, 119 West 40th Street, New York 18, N. Y., $8.95.

Automation and Employment Opportunities for Officeworkers—Bureau of Labor Statistics, U. S. Department of Labor, 341 Ninth Avenue, New York 1, N. Y.—25c.

British Government Publications—British Information Services, 45 Rockefeller Plaza, New York 20, N. Y. (annual subscription), 45 cents.

Business Forecasting—Elmer C. Bratt—McGraw-Hill Book Company, Inc., 330 West 42nd Street, New York 36, N. Y. (cloth), $7.50.

Characteristics of Urban Children Remembering Outdoor Posters—Report conducted by Daniel Starch & Staff — Outdoor Advertising Incorporated, 60 East 42nd Street, New York 17, N. Y. (paper).

Check Lists of Sales Essentials—Printers' Ink Books, 210 Garfield Avenue, New London, Conn., $4.95.

Contemporary Curtain Wall: Its Design, Fabrication and Erection—William Dudley Hunt, Jr.—F. W. Dodge Corporation, 119 West 40th Street, New York 18, N. Y., $12.75.

Current Economic Comment, November 1958 with articles on "Some Reflections on a Trip to the Soviet Union," "The Cyclical Nature of Investment in Retail Inventories," "Outlook for the Automobile Industry," "Some Facts About the Canadian Exchange Rate," "Pricing Behavior: Economic Theory and Business Practice," etc.—College of Commerce and Business Administration, University of Illinois, Box 658, Station A, Champaign, Ill.—paper.

Czechoslovak Economic News Service—in English—$3 per year—Economic News Service, Ul. 28 rijna No. 13, Prague 1, Czechoslovakia.

Do's and Don'ts for Bank Bookkeepers and Proof Clerks—American Bankers Association, 12 East 36th Street, New York 16, N. Y. (paper), $1.

Effect of Tax Policy on Executive and Worker Compensation—Tax Institute, 457 Nassau Street, Princeton, N. J.—paper—$4.

Facts and Figures on Government Finance, tenth edition — Tax Foundation, Incorporated, 30 Rockefeller Plaza, New York 20, N. Y. (paper), $3.50.

Foreign Bondholders' Protective Council, Inc. — Report, 1955 through 1957 — Foreign Bondholders' Protective Council, Inc., 90 Broad Street, New York 4, N. Y. (paper).

Freeman, December 1958, containing articles on Turning Back the Clock; Liberal or Conservative; The Prophet, de Tocqueville; Educational Trends; The Rebel Farmer; etc. — Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y.—50c.

Guide to State Employment and Earnings Statistics—Report listing data available for a five-state area including New York, New Jersey, Pennsylvania, Delaware, Maryland and the District of Columbia — U. S. Department of Labor, 341 Ninth Avenue, New York 1, N. Y. (on request).

How to Communicate Policy and Procedure—Joseph D. Cooper—Bureau of Business Practice, 210 Garfield Avenue, New London, Conn., $12.50.

Inflation Spells Ruination—A series of articles reprinted from the "Regina Leader-Post" and the "Saskatoon Star Phoenix"—The Leader-Post Limited, 1853 Hamilton Street, Regina, Sask., Canada—paper—on request.