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Editorial AS WE SEE IT

The persistent suburbanization of the population of this country has long been a topic of discussion among economists and sociologists. The 1960 census figures have not been published in full, but there is convincing evidence that the process is still proceeding with little if any abatement up to the present day. Many if not most of our largest cities show little or no population gain during the past decade, and without doubt if and when figures are finally available, it will be found that such growth as has occurred in the "central cities," as they have been termed, has taken place largely in the outer fringes rather than in the older and more congested areas. All this contrasts with what some of us have been calling a population "explosion" taking place in the country as a whole. Such exceptions as are to be found to this sort of trend appear to be occurring in certain areas favored by retired men and women, such as Florida, the southwest and the southern part of the Far West.

Another Side

Were it not for the so-called redevelopment projects publicly or semi-publicly undertaken in the name of "slum" clearance, the relative decline in the cores of the older and larger cities might well be even greater. Most of these population shifts are commonly cited as great improvements. Much has been said about the social benefits to be had from the increased degree of home ownership. Of course, any such migration of peoples could not fail to have far reaching economic consequences. A substantial part of the better markets in recent years for various building materials and labor and for automobiles has often been attributed to it. Other consequences of somewhat less spectacular sort naturally have also resulted.

There is, however, another side to this picture which should not be overlooked while the self-gratulation is taking place. The gain has not been without its cost, and the cost in many instances continues and presents problems which are not easy of solution. One aspect of the less pleasing side of all this is al- *(Continued on page 12)*

Investment Bankers Association Holds 49th Annual Convention

George A. Newton, a 49-year old St. Louis banker, is elected President of the Association. Presented to the trade group are numerous significant Committee and technical studies many of which offer policy recommendations. Guest speakers appearing before the organization were Henry C. Alexander; Gen. Elwood R. Quesada; Charles H. Percy and H. Bruce Palmer. Announcement is made by retiring President James J. Lee that the Wharton School of Finance, University of Pennsylvania is to make a comprehensive study of the investment banking industry. Texts of Committee Reports, speeches and other developments are to be found in this issue of the "Chronicle."

A record high attendance marked the six-day 49th Annual Convention of the Investment Bankers Association of America which elected George A. Newton, a Partner of G. H. Walker & Co., St. Louis, as its President for the coming year. He succeeds James J. Lee, Partner of W. E. Hutton & Co., New York City. The meeting was held on Nov. 27-Dec. 2 in the Hollywood Beach Hotel and The Diplomat at Hollywood, Florida.

George A. Newton

The New Five Vice-Presidents

The Association also elected five Vice-Presidents. They are: Curtis H. Bingham, Bingham, Walter & Hurry, Inc., Los Angeles; David J. Harris, Bache & Co., Chicago; Thomas M. Johnson, The Johnson, Lane, Space Corporation, Savannah; Robert O. Shepard, elected for second consecutive term, Prescott, Shepard & Co., Inc., Cleveland; and Walter H. Steel, Drexel & Co., New York.

The New President

After receiving his A.B. degree and a Phi Beta Kappa Key from the University of Colorado in 1933, Mr. Newton attended Harvard Law School where he was graduated with an LL.B. degree in 1936. He practiced law in Chicago with MacLeish, Spray, Price & Underwood, 1936-1942, then served with the U. S. Army Air Force until 1946 when he joined G. H. Walker & Co. in St. Louis. He became a Partner in the firm the following year.

During the past 10 years Mr. Newton has been active in the affairs of the IBA. He was elected a Vice-President and a member of the Executive Committee in 1959. Previously he had served on the following national committees: Federal Taxation, 1951-58; Group Chairmen's, 1955-56; Chairman, 1959-60; State Legislation, 1951-53; 1956-58; Chairman, 1958-59.

Mr. Newton was Governor of the National Association of Securities Dealers, 1954-55, and Vice-Chairman, 1956. He is a Director of the Sales Executives Association in St. Louis. In addition to his admission to the Illinois Bar (1937), he is also a member of the Missouri Bar (1946), and is a member of the Chicago Bar Association and the Bar Association of St. Louis.

He is an active and honored alumnus of the University of Colorado; served as Director of the U. of C. Alumni Association, 1951-1953, and as Director of the University's Development Fund from 1954-1959 (Chairman, 1955). He was the recipient of the "C" Fob Award in 1955 and the Alumni Recognition Award three years later. Mr. Newton was named to Sports Illustrated 1957 Silver Anniversary All-American Football Team.

Mr. Newton is Treasurer for the Episcopal Diocese of Missouri and Trustee of its Investment Trust; he also serves his church as Director and Chairman of the Finance Committee, Episcopal Home for Children. This year he received the "Bishop's Award," Episcopal Diocese of Missouri.

Club, Fraternity and professional association memberships include: Racquet Club, Noonday Club and Bellerive Country Club, all of St. Louis; Denver Country Club; Bould- *(Continued on page 106)*

IBA OF AMERICA CONVENTION ISSUE

Plus 32-Page Pictorial Coverage in Section Two

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.

This Week's Forum Participants and Their Selections

Harris - Intertype — William Dewart, of John Muir & Co., New York City. (Page 2)

Gillette Company — Elliot Schneider, Director, Research Department, D. H. Blair & Company, New York City. (Page 2)

WILLIAM DEWART
John Muir & Co., New York City
Members: New York Stock Exchange, Associate Members American Stock Exchange

Harris-Intertype

This well known specialty company was created in mid 1957 through the merger of Harris-Seybold and Intertype Corp. Today it is one of the largest companies in graphic arts equipment industry and a leading manufacturer of offset printing presses, multi-color magazine presses, paper cutting machines and lithographic chemicals and supplies and type setting machines, matrices and parts.


William L. Dewart

Recent acquisitions of Gates Radio Co. and Brooklyn Polytechnic Research and Development have given the company strong representation in the radio broadcasting equipment and electronics fields (Microwave test equipment), respectively.

Sales offices are in some 14 principal cities in the United States and in Montreal and Toronto, Canada.

Distribution of Intertype products is effected throughout the free world through subsidiaries and representatives.

The company and subsidiaries operate plants in Cleveland (3), and Dayton, Ohio; Brooklyn, Poughkeepsie, Los Angeles, Westerly, R. I.; Quincy, Ill., and Slough, Eng., and West Berlin, Germany.

Cash is in excess of $13 million; assets, $56,860,000, to $16,070,000 liabilities, or 3½ to 1.

Long-term debt is only $3,600,000 and there are only 1,853,610 shares common stock ($1 par) outstanding.

Cash dividends have been paid since 1941. The policy has been conservative and frequently the cash payment has been augmented by stock dividends.

Fiscal 1961 should earn better than the $3.08 per share of 1959-60.

Recent developments are a $1.2 million order for Multi-color from Western Printing & Lithographing Co. Color printing is a rapidly growing "must" with advertisers everywhere.

Also just received was a $6.5 million order for high speed presses of advanced design from *Life* for the company's Cottrell division.

This well known specialty company, now well diversified truly represents an excellent growth equity. The stock is listed on the New York Stock Exchange and is currently quoted at 47.

ELLIOT SCHNEIDER
Director, Research Department, D. H. Blair & Company, New York City
Members New York Stock Exchange

Gillette Company

Gillette is in the midst of a new upsurge of earning power; after three years of relatively stable income at close to the highest previous level in its history, we expect the company to increase net to around $3.85 a share in 1960 versus $3.34 in 1959. For the first 9 months of 1960, sales increased 9% to $171 million and earnings jumped to $2.85 a share, 18% above the $2.42 reported for the similar period of 1959. An extra dividend at year-end of 50¢ a share brought total 1960 payment to $3 vs. $2.50 last year. Next year earnings may climb toward the $5 mark.


Elliot Schneider

The main stimulant is the "Super Blue Blade," which provides a remarkably smooth shave. Though this new blade is priced 40% higher than the company's well-known "Blue Blade," initial public acceptance has been excellent. Introduced in January, it had over 10% of the domestic blade market by June and by Fall had 20%. Costs are not materially higher so that profit margins may widen dramatically if a wholesale switch-over of Gillette's customers takes place. Blades are estimated to have provided about $100 million of Gillette's revenues last year. (This was about half of total volume. Razors and shaving creams amounted to 15%, Toni hair preparations about 26% and Paper-mate Pens about 6%.)

Once introductory expenses for the new blade are out of the way, one can estimate that only a modest increase in operating costs will be incurred. If the company can convert 50% of its customers to the "Super Blue Blade" over the next several years, it will mean $20 million of additional revenue and probably not more than $2 or $3 million of added costs. This would add $1 a share to earnings after taxes.

Moreover, it is quite probable that the new blade will expand Gillette's share of the total razor market. Presently, the company has about 65% of the U. S. wet shave market (one third of shavers use electric razors) and a larger but undefined portion of that of the rest of the world. One can expect Gillette's success in switching its own customers to find reflection in its ability to attract new business. Earnings would be enhanced by about 50 cents a share if it acquires an additional 10% of the wet shave market. A similar increment would be obtained from cutting into the ranks of electric shaver users to the same extent.

The estimates above are based on the assumption that each blade produces the same number of shaves. It may well be, however, that the smoother edge on the new blade does not hold up so well as formerly, though it is too early to say. This could mean fewer shaves per blade and is a factor that has to be taken into account when reckoning the company's ability to switch people into the higher priced blade. To the extent they shift, a lesser number of shaves would have a very significant effect on volume. If, for example, one goes from five shaves per blade to four, the increase in blade requirements is 25%. Go from four shaves to three and you increase volume by a third. It is still far too early to measure this possibility with an exactness (most blades are bought by people who get between 3 and 5 shaves per blade) but the potential increase in volume on this account is probably as large as the other factors put together.

The favorable reaction to the new blade is also likely to exert a sympathetic pull on sales of "Foamy," Gillette's shaving lather. Presently, the company has only about 15% of this market.

Sales have grown nicely since Foamy was introduced a few years ago but it is still true that the great majority of men who use Gillette blades do not use its lather. The marketing people feel optimistic about the spillover of good will created by the new blade to the lather.

One can, therefore, see the possibility of a near doubling of the earning power of the company as the full effects of the new blade work themselves out over the next few years.

The dramatic improvement in earnings from shaving products is not the only attractive feature of the Gillette picture. At the end of 1959, the company had over $30 million of cash available for expansion or acquisitions. Management's area of interest seems indicated by the attention devoted to Gillette Laboratories and the significant expansion of research and development expenditures in recent years. This subsidiary markets Thorexin cough syrup and cold capsules and is being used as the vehicle for gathering experience and know-how in the proprietary drug business. Gillette's total penetration of the drug outlets of the United States will provide a ready marketing network when the company acquires additional products.

One such was introduced at World Series time. "Right Guard," a spray deodorant. It has already found shelf space at more than 70% of U. S. drug stores, but it is, of course, too early to estimate its effect on earnings.

Above and beyond these factors which can produce sharp changes in the level of earning power, Gillette can claim honors as one of the great growth enterprises of our economy. Per share profits in the blade business have shown average annual growth of 6%-7% for more than a generation. Since 1917, when the stock was first offered to the public, average annual growth of net income has been at a rate of 5.7%. The accompanying table shows the income record since 1939.

This record derives from Gillette's continuous prominence in the shaving field and the inherent strength of the growth aspects of its business. Every adult male is a potential customer. With better grooming an almost absolute corollary of rising living standards and industrialization, Gillette has a market that is expanding mightily. Since 1920, unit blade sales have grown at an average annual rate of 8.2% per annum. About half the shavers in the United States use its products. The pro-

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(This is under no circumstances to be construed as an offer to sell, or as a solicitation of an offer to buy, any security referred to herein.)

General Business Outlook

By Emerson P. Schmidt*, *Director, Economic Research Department, Chamber of Commerce of the United States*

The peak season for economic forecasting has arrived. The public, like wild game in the open season, should be on guard. This year economists are nearly as unanimous as last year—but with a difference. Now their near-unanimity points downward for the period ahead—not deeply nor for long—but still down. This consensus could be wrong—soothsayers are known to take in one another's washing. The error of direction could take one of three forms: (1) We might be close to the turning point of the readjustment; (2) We might go deeper and for longer; (3) We might rock along at recent levels with no clear trend either up or down.

Dr. E. P. Schmidt

Why Forecasting?

If economic forecasting is so feeble, hesitant and tentative, why listen to or read what economists have to say? But even in the absence of economists, the businessman, government and innumerable other individuals in responsible positions could not avoid forecasting; every major policy decision is and must be based on an evaluation of business prospects in general (as shown in an analysis of the forecasting art in the National Chamber's *Business and Economic Forecasting*). Even when uncertain and in doubt, the careful economic weighing of the expansionist and contractive forces (both always being present) may, nevertheless, be of help to the policy maker.

Even though 1960 has been something of a disappointment, actually year-ago appraisals of the outlook were not far off. This will be our best year in terms of total output, employment and income, even though the gains were far from universal. There have been, are, and will be soft spots, particularly employment and profits.

The typical forecast was on the high side by only about 2 to 3%. In spite of further adjustments to come, 1961 as a whole, should exceed 1960. There is at present no ground for sustained pessimism.

Whether we are now in a pause, recession, rolling adjustment or high level plateau is not easily determined; and this is not merely a matter of semantics. In 25 business cycles in the last 106 years, the expansive phase averaged 2½ years; October 1960 marked 2½ years since the most recent recovery began. Many indicators are down. But in 1960 we'll have the highest GNP in history and even the 4th quarter will be some $10 billion above the same period of 1959, in constant prices—hardly what we generally think of as recession. Personal income reached an all-time high in October (annual rate) of $409.6 billion—a rise of $25 billion over October, 1959.

If the present consensus on the outlook turns out to be correct, we will be able to say that in GNP and other major measures, 1959 was better than 1958; 1960 was better than 1959 and 1961 will be better than this year—year-by-year improvement since 1958—a rather good over-all performance. Yet a number of structural shifts within the economy are highly relevant. Let's look at steel, for example.

The Steel Strike

The recovery which started in April, 1958, was marred in early 1959 with a huge expansion and inventory build-up in anticipation of the steel strike; then, beginning in July, the 116-day steel strike caused a mild recession, a downturn in GNP and in other indicators. The end of the steel strike, in November, 1959, stimulated an inventory boom, leading to over 90% of steel capacity operation in early 1960; to some extent the current decline is a reaction to that boom.

In the first quarter of this year total inventories increased at an annual rate of $11.4 billion (about the same amount as in the pre-steel strike quarter of 1959) followed by another rise of $5.3 billion (annual rate) in the second quarter. This added mightily to GNP, employment and incomes. But in the third quarter of this year total inventories did not change and will probably decline in the next six months; this means a slackening of GNP, employment and incomes. Now year-to-year statistical comparisons, for the foregoing reasons, are largely meaningless, making the outlook appraisal relying on recent shifts and trends, so much more onerous and hazardous, for both the economists as well as the businessman.

While most observers would not attribute our present slackness entirely to the steel strike, it has been a major factor in the readjustment through which we are now passing. For a large and key industry to shift within six months from over 90% of capacity to under 50% takes its toll.

Other Pro-Contraction Factors

There are several other factors which help to account for the current pause. Among them are three: the massive shift from deficit to surplus in the U. S. Treasury, the failure of the money supply to expand and our international balance of payment bind.

In calendar year 1958 we had a U. S. Treasury cash deficit of $7.3 billion, followed by an $8 billion deficit in 1959. In fiscal 1959 the deficit was $13.1 billion. This helped to shorten the 1957-58 recession. But in the first half of calendar 1960 the **surplus** was $8.2 billion. This movement from a $13 billion deficit to an $8 billion surplus represents a shift of $21 billion. Even in a multi-billion

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CANDID PICTURES taken during the course of the Convention appear in today's 32-page Pictorial Section.

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OBSERVATIONS...

BY A. WILFRED MAY

WISHFUL TAX THINKING

As we pointed out in reviewing that best-selling opus, *"How I Made $2,000,000 in the Stock Market,"* by Nicolas Darvas, the accompanying tax obligation was completely ignored. (cf. "'How I Can Make a Million and a Half'—By the Collector of Internal Revenue," in *Observations*, Aug. 25, 1960.)

Now, with the acrobatic dancer-author's and his publisher's hauling into the courts by the State Attorney General, for alleged fictionalizing of the profit millions, we realize the author's necessity for omitting all account of tax payment thereon. (Disclosure of the amount of Federal income tax he actually paid would have directly contradicted the actuality of the "two million dollar profit" on which it was supposedly leviable."

Irrespective of the special circumstances of the Darvas case, his omission of reference to the tax bill, that nasty but inescapable inroad on gross market profit, is quite characteristic of the current spate of "how-to-make-a-fast-buck" literature. (As this column has pointed out in the case of the books we reviewed the past two weeks.)

That Tax-"Free" Exchange

Loose allegations ascribing "freedom" from tax constitute another prevalent foible. This is strikingly manifested now in the launching of a new type of mutual fund, with portfolios composed of the securities turned in for exchange by the subscribing investors.

The process offers substantial and sound advantages, particularly to the large holder who may be undiversifiedly "frozen." But the recurrent reference to this routine as a "tax-free" exchange, is misleading; or as a medium for "avoiding" the accrued capital gains tax, completely out of order. (One prominent writer has even been misled into reporting that holding the newly-acquired fund shares for six months and one day will wipe out the entire capital gains tax obligation which may have accrued on the issue which has been turned in.)

Postponement, Not Avoidance

Such misconceived tax interpretations stem from a key *opinion* secured from the Treasury Department by the promoters, although it, of course, prescribes the original price paid for the security turned in, as the holder's *continuing* cost basis. Thus, this is one of many instances where the tax is merely *postponed*, and not as widely conceived, *escaped*.

It is learned that even this restrictive *opinion*, postponing the tax from the time of the exchange, may well be limited by the Treasury Department to the three funds to whom it has already been granted; and, pending discussion between the Revenue Department officials and eminent New York legal counsel, may even be retroactively rescinded from the three funds. The Government's change of mind has not been prompted by doubts about the equity of its previous permission, but by the excessive exploitation and misconceptions disseminated by some of the funds' early sellers.

Constant Mis-Emphasis

We would add the definitive point that only in the event of Treasury rulings that are incorrect — a highly improbable occurrence—can the transaction imbody over-all tax avoidance.

The investing public seemingly engages constantly in either under- or over-emphasizing the impact of Uncle Sam.

In the forefront of the under-emphasis category, is procedure stemming from the slogan "You never get poor taking profits." Actually, this pleasant, but unrealistic thought leaves out of account the impact of the capital gains tax, on its corroding effect on principal in the event of successively profitable transactions.

Dollar-and-cents realism demands that every decision whether to cash-in a paper profit should be tied to the calculation whether the stock is over-valued relative to the medium to which the proceeds are to be transferred, by at least the amount of the tax bill. In other words, the quoted gross sales price should be first *netted* down (by up to 25% of the accrued profit) to the after-tax proceeds. Only if this net after-tax figure still constitutes a lesser value than the cash or other security into which the proceeds are to be transferred, is a sale justified.

Dividends' Illusory Tax-Freedom

Applied to dividends also, is tax *postponement* mistaken for *avoidance*. Current dividend payments by companies which have an accumulated deficit or a loss in the current year, are not taxable as *income*. But if and when the security is sold, the proceeds are applied to the stockholder's cost basis, and taxed at the capital gains rate. Thus, while the stock dividend benefits from the capital gain preferential rate with its complete extinction at death, the loosely applied "tax-free" term is incorrect.

The same misuse of the "tax-free" concept is applied to stock dividends. Since the stock dividend is recognized (correctly) by the tax statute as a mere rearrangement of capital, and not current income, it is treated as a return of capital. It is therefore applied to the holder's cost basis, again *postponing* but not eliminating (during his lifetime) the tax liability.

The Switch Racket

The most glaring tax over-emphasis manifested now again in the "year-end tax period" occurs in the agitation to cash paper losses *cum* switching to "similar" issues. Pushed ever more widely and vigorously by brokerage firms from October on, such transactions now constitute an important influence on both the investor's portfolio and the market's course.

The tax-switching "literature," inundating you by mail and other advertising media, is highly questionable on both investment and realistic tax-saving grounds. Surely the usual companion lists of "tax switch suggestions," one for loss-registration and the other for simultaneous purchase, violate the use of sound investment criteria.

The selling - suggestion list states, or implies, that its selections are keyed to issues which have suffered maximum shrinkage from their former highs. But investment-wise, such lowered prices may very well have *increased* their investment value, both absolutely and relatively to other issues. In fact, some investment advisers astutely comb for *buying* opportunities the list of those very issues which the tax-motivated investors are excessively selling.

Even transfer to another issue in the same industry does not preserve investment principles, either theoretically or, as is constantly demonstrated, by divergent market performance.*

Revealing a state of investment absurdity in switch recommendation, is the occasional use of inter-column horizontal arrows that point both ways; that is, implying that there is no value choice whatever between the two issues suggested for interchangeability.

A Most Material Omission

Wholly lost sight of in switching policy is the offset to the immediate tax advantage embodied in the investor's simultaneous acquisition of an expensive *lowered cost basis* in the newly acquired issue. On the indispensable premise that the switched-into issue will, marketwise, do at least as well as the liquidated issue, you are acquiring a new capital gains tax bill, from whose later payment only your death will be able to save you. (At least confine your switching-into issues which you expect to hold over the long-term!)

Another "minus" offset which, although immediately measurable, is usually wished away, is the *expense* that is inescapably tied to the switch transactions. Included therein are the brokerage commissions, state taxes, and "leakage" through the market's spread between the effective buy and sell prices. In any event, *Mr. Tax-Saver*, be certain that your registerable capital loss is sufficient to yield a gross tax deduction which exceeds the expenses incurred by the switch transactions.

Calendar Illusions

Also to be realized, but widely misunderstood, is the fiction of calendar urgency; that is, to get the loss registered within the year.

A long-term loss is in almost all cases equally valuable to you tax-wise, whenever you use it. Even if you should have no profitable transaction to offset the loss registered in the postponed year, you will still be able to use the loss against your fully-taxed ordinary income, up to $1,000 annually in each of the succeeding five years. Practically the only case where acceleration of a losing transaction is beneficial tax-wise, is where a high-bracket taxpayer has a short-term gain (taxable fully as ordinary income) still to be wiped out.

Don't let your investment judgment be sabotaged by supposed tax advantage from the speeding-up of loss-registering transactions!

*For specific examples of divergent intra-industry performance, cf. "Outlook for the Stock Market—And Issues Currently Attractive," by Kenneth Ward, the *Chronicle*, Dec. 8, 1960.

F. I. C. B. Offers Debens. Today

The Federal Intermediate Credit Banks are offering today, Thursday, a new issue of approximately $177,000,000 3% nine-month debentures dated Jan. 3, 1961 and maturing Oct. 2, 1961. The debentures are priced at par.

Proceeds from the financing will be used to refund $197,000,000 4.40% debentures maturing Jan. 3, 1961. The new issue is being offered through John T. Knox, Fiscal Agent and a nationwide selling group of recognized dealers in securities.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

LA JOLLA, Calif. — William N. McGuire has been added to the staff of Merrill Lynch, Pierce, Fenner & Smith, Incorporated, 7918 Ivanhoe Ave.

Halbert Hargrove Adds

(Special to THE FINANCIAL CHRONICLE)

LONG BEACH, Calif. — J. Ralph McFarland has been added to the staff of Halbert, Hargrove & Co., 115 Pine Ave.

Brewing Earning Power

By Dr. Ira U. Cobleigh, *Enterprise Economist*

Bringing to light some facts on tap suggesting a more dynamic advance in the brewing industry in the Surging (or perhaps the Sudsy) Sixties.

While this is the season of the year for the traditional Wassail Bowl, in point (or better, in pint) of total volume it is not rum or whisky, but beer that will prove the most popular holiday (as well as year 'round) animating beverage. As an adult American your annual consumption of beer, based on the average, was 25.6 gallons in 1959. It should run a little higher this year. The year 1959 hit an all-time high in malt beverages (beers and ales) with a total of 87,623,000 barrels in tax paid withdrawals from breweries. In case you were wondering, a barrel, in this industry, contains 31 gallons. Even this huge volume, however, represents a growth in consumption of only about 6.6% for the 1950 decade.

This meager growth rate, stems from the fact that the lion's share of our beer drinking is done by a rather restricted segment of the population. About 60% of all beer consumption is accounted for by the 21-40 year old age group. This group, due to a lower birth rate in the 1930s, was a relatively static section of our population in the 1950s. With the exceptionally high birth rates prevailing in the late 1940s, however, this 21-40 age bracket will zoom in the next decade. We should be guzzling 100 million beer barrels a year in 1970 as a result.

Adding to this predicted heady gain in casual malten quaffing is the now complete social equality and acceptability of beer. Whereas "rushing the growler" (toting a small bucket of beer) used to be regarded as a potable (and portable) pastime of the plebians, beer is now high fashion, sought and served in the plushiest homes and most elite clubs. Moreover, women now drink 23% of the beer imbibed each year.

Certain other facts about the industry may be of interest. Foreign competition is relatively unimportant due to high shipping costs. Moreover, there is constant improvement taking place in the operating efficiency of domestic breweries. Bottling, packaging, handling, and loading for delivery are highly automated in most of the big breweries and, ahead, lies continuous (assembly line) brewing instead of the present batch process. Continuous brewing would achieve maximum efficiency by virtually automatic supply, flow and processing of the basic raw materials going into the brew at various stages.

Trend Toward Fewer and Larger Breweries

Not only has plant operation been upgraded but there has been a major trend toward larger and more modern breweries. The small local brewery has proved in many instances, too inefficient to survive, and it has usually lacked advertising budget money to spend in competition with the big regionally or nationally advertised brands. So many smaller companies have either fallen by the wayside or been merged into bigger organization. Illustrative of this trend is the fact that there were 461 breweries in the United States in 1945 and only 244 at the end of 1959.

Trend Away From Draft Beer

Another factor making for more profitable operation of breweries is the increase in packaged deliveries. Years ago draft beer represented the biggest volume. Kegs were delivered in the gaslight era on big wagons drawn by sturdy Clydesdale horses; and, in later decades, by trucks. Draft business required that the kegs arrive promptly lest the beer go stale; and empty kegs had to be returned to the brewery with attendant costs of handling, transport and cleaning. With more beer consumed at home, on picnics and boatrides, and at amusement parks, packaged beer grew in popularity, first in bottles with a return deposit, and more recently in cans and throw-away stub bottles. Thus packaged beer today accounts for over 80% of total production against 50% in 1939. Prices of packaged beers have remained relatively stable and not subjected to price wars which crop out occasionally in the hard liquor business. Further, a number of breweries do a fine job in the merchandising of premium beers, wherein quality and a bit of snob appeal are helpful in maintaining the higher price level.

From the foregoing you can perceive that there are a number of factors — rising demand, increased plant efficiency, higher-profit packaging, not to mention persuasive and sophisticated advertising—all at work to make the brewing business and brewery stocks more attractive investment media. In the light of these constructive developments brewery shares are gaining popularity in the market and are getting a more eager sponsorship than at any time since the mid-1930s. Most of the major breweries are in a strong financial position, without burdensome debt. Most, too, have been able to finance their improvements and modernizations, mainly out of depreciation charges and retained earnings. And, of special interest to investors, good brewery shares can now be obtained at prices representing from 11 to 14 times indicated 1960 per share earnings; and some provide quite generous current yields.

Anheuser-Busch

Probably the best known and, in any event, the largest American brewing company is Anheuser-Busch, Inc. This company reported total sales of $382,700,000 in 1959 ($296 million after state and Federal taxes were deducted), and converted that business into net earnings equal to $2.69 on the 4,853,300 shares of common outstanding (traded O-T-C). The present dividend is $1.40 which might be increased on the basis of expected 1960 earnings of about $3.10 per share.

Anheuser-Busch, Inc. has two nationally known brand name premium products — Budweiser, packaged and in draft, and Michelob, sold only in draft. The huge St. Louis brewery has an annual capacity of 6 million barrels. Other breweries in Newark, Los Angeles, Tampa and Miami bring total capacity to about 10 million barrels. A post-war expansion program involving a total outlay of over $150 million has been paying off at the cash register. Net income has increased in each of the past four years, and 1960 will be the best in company history. The stock at 37½ is the quality equity in the business, combining a considerable amount of growth and grandeur.

Canadian Breweries, Ltd.

Less well known to Americans but actually the largest brewing company in the world is Canadian Breweries, Ltd., with annual capacity after completion of new construction in 1961, of 13,100,000 barrels. It is fourth largest supplier of beer to the American market and, of course, the leading supplier in Canada. Earnings should show a good increase over the $2.95 per share reported last year. We would expect around $3.25 for 1960 on the basis of which the $1.60 dividend rate might well be advanced another 20 cents a share.

Canadian Breweries, Ltd. is famous for its Carling's Black Label lager beer and its premium Carling's Red Cap ale. Its common stock is also well regarded as a mature dividend-paying equity selling at an uninflated price of 42 on the Toronto Exchange.

Falstaff Brewing Corp.

Falstaff Brewing is renowned for its Shakespearean name, its nationally known popularly priced Falstaff beer, and its policy of building up national distribution by acquiring local or regional breweries and expanding sales volume in their marketing areas. Falstaff is further distinguished in the fact that it has operated its plants at over 80% of capacity for the past decade, and has delivered net earnings which averaged 18% on stockholder's equity for the past five years. The stock now selling at 37 and paying $1.20 is listed on the NYSE.

Another much smaller company, but one with a very lively look about it, is Drewrys. Essentially a middle-Western company it serves a broad area in Illinois, Indiana, Iowa, Michigan, Ohio, and Wisconsin with six well advertised brands of beers and ales. New management entered the company this year. This new group is eager and aggressive. It has diversified operations through purchase of a Pepsi-Cola bottling company serving a franchised area in Arkansas, Kansas and Missouri; and there is some thought that the company may shortly expand into the New England market. Drewrys is an expanding company with excellent earning power, operated with vision and intelligence. At 30, paying $1.60, the stock appears attractive for its 5.33% yield and its potential for growth.

Brewing shares may not prove to be the dazzling performers of the 1960s but they now have a stronger tone to them, than they have displayed for many years. The dividend payers we have outlined here may assist your selection of issues that should not "go flat" on the market.

Joins Mori Staff

(Special to THE FINANCIAL CHRONICLE)

GARDENA, Calif.—Keikoh Kitahara has joined the staff of Mori Securities Co., 1102 West Fifteenth Street.

Now With Staats Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert P. Konter has become connected with William R. Staats & Co., 640 South Spring Street, members of the New York and Pacific Coast Stock Exchanges.

Annual Portfolio Contest Winners

The winners of the Association of Customers' Brokers annual portfolio contest were announced at the organization's Christmas dinner, held Dec. 14.

The contest, open to all members, consisted theoretically of investing $25,000 with no single position exceeding $5,000 on or before Feb. 10, 1960. The largest capital gains achieved by Nov. 25, 1960, the target date, determined the winner.

Hanns E. Kuehner, Laird, Bissell & Meeds, Contest Chairman, presented first prize to Miss Lois Gilbert, Smith, Barney & Co., whose portfolio which included Revlon, Anken Chemical and Crowell-Collier Publishing Co., showed an appreciation of 45%. **Second prize** went to Robert H. Mitchell, Jr., Abbott, Proctor & Paine, with a 42% capital gain. His choices listed Bristol Myers, Universal Match and Martin Co. **Third prize** was won by David Shorr, Harris, Upham & Co., with a 33% gain. Mesabi Iron and Anderson-Pritchard Oil Corp. were his features. Between Feb. 10 and Nov. 25, the contest period, the Dow-Jones Industrial Stock Index declined by 2.71%.

TAX-EXEMPT BOND MARKET

BY DONALD D. MACKEY

The state and municipal bond market has been firm during the past week and the bidding for the new issues up for sale has in most instances been strong. Although there have been relatively few new issues in the market, this is a seasonal rather than a coincidental factor. This tax exempt bond market improvement was to a large extent influenced by improvement in the Treasury bond market as well as with sharp improvement in the corporate bond market; both these categories had been sluggish for weeks.

However, investors seem suddenly to realize that yields are handsome enough, particularly in the corporate bond category, to warrant current purchase. This quite abrupt realization has in part been sparked by the light new issue calendars, both for tax exempt and corporate securities. Moreover, the market for Treasury securities seems generally uncluttered until the February financing. The only Treasury financing scheduled before the February refunding is the $1.5 billion rollover of bills maturing Jan. 15.

Another factor which may have helped generate this sudden bond market improvement is the affirmation of general business inactivity. Scant hope of an early business up-turn was expressed recently by several economists called to advise the Joint Economic Committee of Congress. They more or less concluded that business activity has turned soft and that there are but few current indications of imminent recovery. This situation has been partly evidenced by an unusually large supply of bank reserves during recent weeks. Free reserves actually averaged close to a billion dollars a week ago and over half a billion for the previous week.

This ease of Federal funds has finally developed more interest in the Treasury bill market and, less directly, investor interest in the bond market. This confidence in the bond market which has been slower in coming than expected by many experts, may likely extend into the New Year.

Another of the motivations behind the improved bond market derives from a seeming improvement in the foreign balance of payments situation. Although our officials were rebuffed by West Germany, temporarily at least, London has seen fit to reduce the bank rate from 6% to 5½% to 5%. This has led to a situation between British Treasury bills and U. S. Treasury bills less favorable to the shifting of short-term funds to London.

However, the pressure on the dollar and consequent strain in the bond market are not factors to be easily or permanently dealt with. Subsequent to the current expression of optimism emphasized by these bond markets, there seems little to be bullish about over an extended period. A six-month projection might favor higher rather than lower interest rates, yet for the next several weeks municipal yields may tend lower.

Yield Index Slightly Lower

The *Commercial and Financial Chronicle's* state and municipal bond Index reflects a slightly lower yield average at this writing. A week ago, the average yield was 3.25%; currently the yield index stands at 3.234%. This represents an average market gain of about ⅜ths of a point.

The Turnpike bond Index as averaged weekly by *Smith, Barney & Company* stood at a 3.87% yield average on Dec. 7, the most recent reporting date. This average has been almost constant for several weeks. Since Dec. 7, and particularly on Monday of this week, sizable gains were made by many of the revenue bond issues. Quotations were generally up from ½ to 2 points. Illinois Toll Highway 3¾s were conspicuous in this respect. Gains were also recorded for Indiana Toll Road 3½s; Kentucky Turnpike 3.40s; Main Turnpike 4s and Pennsylvania Turnpike 3.10s.

Recent Financing

On Monday, Dec. 12, $2,150,000 Boise, Idaho, Independent School District (1962-1980) bonds were awarded to the group managed by Harris Trust and Savings Bank and including White, Weld & Co., Hayden, Stone & Co., Boettcher & Co., First Security of Utah, N. A. and others. The bonds were reoffered at prices to yield from 1.90% to 3.25%. This highly rated issue has met with investor interest; a balance of $860,000 remains in account.

On Tuesday, $3,500,000 Durham County, North Carolina (1962-1984) bonds were awarded to the group headed by The Northern Trust Co. and including Harris Trust and Savings Bank, Drexel & Co., The Continental Illinois National Bank and Trust Co., First National Bank of Oregon, and others. It is reported that this issue has done well. A balance of $1,295,000 remains. Durham, the county seat, is a tobacco and textile manufacturing center. Durham County is one of the State's wealthiest. It leads in manufacturing tobacco products of all kinds.

Also on Tuesday, Pinellas County (St. Petersburg), Fla. awarded $6,000,000 (1962 - 1980) building tax anticipation certificates (payable solely from a building tax levied on all taxable property) to a group managed by B. J. Van Ingen & Co. and including Merrill Lynch, Pierce, Fenner & Smith, Shields & Co., A. C. Allyn & Co., R. S. Dickson & Co., and others. The bonds were priced to yield from 2.4% to 4.00%. The balance at this writing is $3,450,000.

Another issue which came to market on Tuesday, involved $3,658,000 Wappinger, Poughkeepsie, etc., New York Central School District No. 1 (1961-1989) bonds. Halsey, Stuart & Co., Inc. was the manager of this account and members included Salomon Bros. & Hutzler, George B. Gibbons & Co., B. J. Van Ingen & Co., First of Michigan Corp., F. I. Dupont & Co., W. H. Morton & Co., Adams, McEntee & Co. The bonds were reoffered at prices to yield from 1.70% to 3.65%. At this writing the balance is $2,550,000.

Tuesday's other large new issue consisted of $7,000,000 Los Angeles County, Calif. general obligation (1962-1980) bonds. This issue was priced to yield from 1.80% to 3.55% by the group headed by Bankers Trust Co., The Chase Manhattan Bank, Morgan Guaranty Trust Co., Harriman Ripley & Co., Smith, Barney & Co. and others. This issue was better than 60% sold on reoffering.

Week's Big Ones

Two important new offerings came to market as we went to press. The Public Housing Administration awarded $76,405,000 of a total of $97,165,000 various New Housing Authority bonds to the combined Dealer-Bank group headed by Lehman Brothers & Co. for the dealers and the Chase Manhattan Bank for the banks. The balance of $20,760,000 of issues were awarded to various smaller groups, with the $13,710,000 San Francisco bonds going to a Bank of America syndicate. This composite offering comprises 25 agencies in 16 states and Puerto Rico and constitutes the 30th sale of Housing bonds to date and brings the total of these bonds outstanding to over $3.1 billion.

The bonds just sold were scaled to yield from 1.50% in 1961 and ran out to 3.55% in 2001 for the highest rated names and to 3.65% for the lesser known issues. It is expected that these issues will be a sellout.

The second important issue on Wednesday consisted of $25,000,000 State of Michigan, Detroit Expressway (1963-1984) revenue bonds. This issue was awarded after very close bidding at a 3.69% interest cost to the Smith, Barney & Co. group. Included as majors in this syndicate are Lehman Brothers & Co., Harriman Ripley & Co., and C. J. Devine & Co. The bonds were scaled to yield from 2.20% to 3.85% and initial investor interest is reported to be fair. The balance at this writing is $17,500,000.

Light Volume in Immediate Future

The new issue calendar now represents relatively little activity for the next several weeks. This situation, of course, may suddenly change and likely will. At the moment the schedule indicates less than $225,000,000 in advertised new issues. Of this moderate total one issue, $95,000,000 State of California bonds, is dominant. There are several large negotiated type issues in the making mentioned at one time or another in these columns. There are none close enough to market to be currently newsworthy.

The street float, as indicated by the *Blue List* total of state and municipal offerings, is little changed from a week ago. Then, it was $383,869,200; presently it is $365,175,000. In view of the current scarcity of new issues, this reduction in float is noteworthy.

MARKET ON REPRESENTATIVE SERIAL ISSUES

	Rate	Maturity	Bid	Asked
California (State)	3½%	1978-1980	3.65%	3.50%
Connecticut (State)	3¾%	1980-1982	3.25%	3.10%
New Jersey Highway Auth., Gtd.	3%	1978-1980	3.25%	3.10%
New York (State)	3%	1978-1979	3.15%	3.00%
Pennsylvania (State)	3⅜%	1974-1975	3.00%	2.90%
Vermont (State)	3⅛%	1978-1979	3.15%	3.00%
New Housing Auth. (N. Y., N. Y.)	3½%	1977-1980	3.30%	3.15%
Los Angeles, Calif.	3¾%	1978-1980	3.70%	3.55%
Baltimore, Md.	3¼%	1980	3.35%	3.20%
Cincinnati, Ohio	3½%	1980	3.20%	3.05%
New Orleans, La.	3¼%	1979	3.65%	3.50%
Chicago, Ill.	3¼%	1977	3.65%	3.50%
New York City, N. Y.	3%	1980	3.60%	3.50%

December 14, 1960 Index=3.234%

Larger Issues Scheduled For Sale

In the following tabulations we list the bond issues of $1,000,000 or more for which specific sale dates have been set.

Information, where available, includes name of borrower, amount of issue, maturity scale, and hour at which bids will be opened.

Dec. 15 (Thursday)			
Cumberland, Rhode Island	2,250,000	1962-1981	11:00 a.m.
Elgin Local School District, Ohio	1,248,000	1962-1981	Noon
Huntington & Oyster Bay Central School District No. 2, New York	3,047,000	1961-1990	2:00 p.m.
Dec. 17 (Saturday)			
University of Nevada, Nev.	2,012,000	1962-1999	11:00 a.m.
Dec. 19 (Monday)			
Grand Forks, North Dakota	2,815,000	1963-1982	7:30 p.m.
Madison Township School District, New Jersey	2,173,000	1961-1982	8:00 p.m.
Piqua, Ohio	1,000,000	1962-1981	7:00 p.m.
Dec. 20 (Tuesday)			
Brookhaven Central School District No. 12, New York	5,103,000	1961-1990	1:00 p.m.
Cedar Rapids, Iowa	1,700,000	-------	10:00 a.m.
Dover City School District, Ohio	1,876,000	1962-1983	Noon
Kent County, Michigan	3,975,000	1961-1975	11:00 a.m.
Ponca City, Oklahoma	1,310,000	-------	-------
Dec. 21 (Wednesday)			
Bath Local School District, Ohio	1,750,000	1962-1981	8:00p.m.
Jefferson County, Kentucky	1,850,000	1961-1980	1:30 p.m.
Richmond, Virginia	7,580,000	1962-1981	Noon
State Colleges of California	14,173,000	1962-1998	10:00 a.m.
Teays Valley Local Sch. Dist., Ohio	1,760,000	-------	-------
Dec. 22 (Thursday)			
University of Indiana	1,715,000	1962-1999	10:00 a.m.
Dec. 28 (Wednesday)			
Hartford Co. Metro. Dist., Conn.	4,000,000	-------	-------
New Mexico	8,000,000	1962-1971	2:00 p.m.
Dec. 29 (Thursday)			
Wayne County, Michigan	1,100,000	1963-1985	11:00 a.m.
Jan. 3 (Tuesday)			
Cerritos Junior College District, Calif.	2,300,000	1962-1981	9:00 a.m.
Jan. 10 (Tuesday)			
Los Angeles Sch. Dist., Calif.	30,000,000	-------	-------
Mobile Board of Water & Sewer Commission, Alabama	3,000,000	-------	-------
Morgan City, Louisiana	2,100,000	-------	-------
Jan. 11 (Wednesday)			
California	95,000,000	-------	-------
Jan. 12 (Thursday)			
Jackson County, Mich.	1,750,000	-------	10:00 a.m.
Livonia School District, Mich.	4,440,000	1962-1990	8:00 p.m.
La Crosse, Wisconsin	1,150,000	1962-1971	2:00 p.m.
Jan. 16 (Monday)			
Seattle, Washington	7,500,000	1963-1981	-------
Jan. 18 (Wednesday)			
Lincoln Parish School Districts., Louisiana	1,840,000	1963-1981	11:00 a.m.
Pennsylvania State Public School Building Authority, Penn.	23,000,000	-------	-------
Jan. 19 (Thursday)			
Vista Irrigation District, Calif.	1,200,000	1964-1981	11:00 a.m.
Jan. 24 (Tuesday)			
Alamance County, North Carolina	1,700,000	1962-1978	-------
March 8 (Wednesday)			
Los Angeles Dept. of Water and Power, Calif.	12,000,000	-------	-------
April 3 (Monday)			
Jacksonville Expressway Authority, Fla.	40,000,000	2000	-------
April 4 (Tuesday)			
Los Angeles Flood Control Dist., Calif.	15,000.000	-------	-------
May 2 (Tuesday)			
Los Angeles Sch. Dist., Calif.	30,000,000	-------	-------

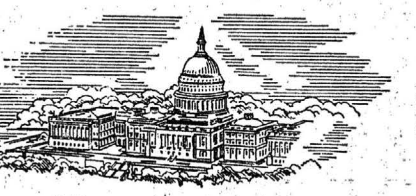
New Issues *December 15, 1960.*

$76,855,000

New Housing Authority Bonds

The Bonds of each issue will be secured by a first pledge of annual contributions unconditionally payable pursuant to an Annual Contributions Contract between the Public Housing Administration and the Local Public Agency issuing said Bonds in the opinions of bond counsel. Said annual contributions will be payable directly to the fiscal agent of said Local Public Agency in an amount which, together with other funds of the Local Public Agency which are actually available for such purpose, will be sufficient to pay the principal of and interest on the Bonds when due.

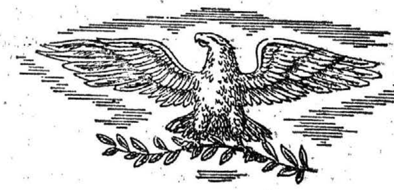
The United States Housing Act of 1937, as amended, solemnly pledges the faith of the United States to the payment of the annual contributions by the Public Housing Administration pursuant to the aforesaid Annual Contributions Contracts.



Quotation from an opinion, dated May 15, 1953, of the Attorney General of the United States, to The President of the United States:

"IN SUMMARY, I AM OF THE VIEW THAT: * * * A CONTRACT TO PAY ANNUAL CONTRIBUTIONS ENTERED INTO BY THE PHA[1] IN CONFORMANCE WITH THE PROVISIONS OF THE ACT[2] IS VALID AND BINDING UPON THE UNITED STATES, AND THAT THE FAITH OF THE UNITED STATES HAS BEEN SOLEMNLY PLEDGED TO THE PAYMENT OF SUCH CONTRIBUTIONS IN THE SAME TERMS ITS FAITH HAS BEEN PLEDGED TO THE PAYMENT OF ITS INTEREST-BEARING OBLIGATIONS".

1 Public Housing Administration 2 United States Housing Act of 1937, as amended.



Interest Exempt, in the opinion of counsel to the Underwriters, from Federal Income Taxes by the provisions of the United States Housing Act of 1937, as amended.

Legal Investments, in the opinion of counsel to the Underwriters, for Savings Banks and Trust Funds in New York and certain other States, except that the Bonds of the Puerto Rico Agency are not legal investments for trust funds in the State of New York.

Bonds Issued by Local Public Agencies which are located in:

Scale A

$ 5,420,000	Harrisburg, Pa.	3½% due 1961-1999
4,825,000	McKeesport, Pa.	3½% due 1962-2001

Scale B

$11,500,000	Kansas City, Mo.	3½% due 1961-2000
1,980,000	Watervliet, N. Y.	3½% due 1961-1999
4,595,000	Cincinnati, Ohio	3½% due 1962-2001
1,810,000	Milwaukee, Wisc.	3½% due 1961-2000

Scale C

$ 5,530,000	Miami, Fla.	3⅝% due 1962-1999
9,250,000	Chicago, Ill.	3⅝% due 1962-2001
2,625,000	Danville, Va.	3⅝% due 1961-1999

Scale D

$ 1,795,000	Milledgeville, Ga.	3⅝% due 1961-2000
1,325,000	Joliet, Ill.	3⅝% due 1962-2000
1,410,000	Glasgow, Ky.	3⅝% due 1961-2000

Scale D (*continued*)

$ 1,670,000	Sikeston, Mo.	3⅝% due 1961-2000
3,405,000	Hoboken, N. J.	3⅝% due 1961-2000
10,600,000	Puerto Rico	3⅝% due 1962-2000
1,590,000	Union, S. C.	3⅝% due 1961-2000
2,625,000	Lebanon, Tenn.	3½% due 1962-1993
1,900,000	Murfreesboro, Tenn.	3⅝% due 1962-2001
1,725,000	Brownsville, Texas	3⅝% due 1961-2000
1,275,000	Harrisonburg, Va.	3⅝% due 1961-2000

Maturities, Yields and Prices

Year Due	Scales A	B	C	D
1961	1.50%	1.50%	1.50%	1.50%
1962	1.70	1.70	1.70	1.70
1963	1.90	1.90	1.90	1.90
1964	2.05	2.05	2.05	2.05
1965	2.15	2.15	2.15	2.15
1966	2.25	2.25	2.25	2.25
1967	2.35	2.35	2.35	2.35
1968	2.45	2.45	2.45	2.45
1969	2.55	2.55	2.55	2.55
1970	2.65	2.65	2.65	2.65
1971	2.75%	2.75%	2.75%	2.75%
1972	2.80	2.80	2.80	2.80
1973	2.85	2.85	2.85	2.85
1974	2.90	2.90	2.90	2.90
1975	2.95	2.95	2.95	3.00
1976	3.00	3.00	3.00	3.05
1977	3.05	3.05	3.05	3.10
1978	3.05	3.10	3.10	3.15
1979	3.10	3.15	3.15	3.20
1980	3.10	3.15	3.20	3.25
1981	3.15%	3.20%	3.25%	3.30%
1982	3.20	3.25	3.30	3.35
1983	3.25	3.30	3.35	3.40
1984	3.30	3.35	3.40	3.45
1985	3.35	3.40	3.45	3.50
1986	3.35	3.40	3.45	3.50
1987	3.40	3.45	3.50	3.55
1988	3.40	3.45	3.50	3.55
1989	3.45	3.50	3.55	3.60
1990	3.45	3.50	3.55	3.60
1991	3.50%	3.55%	3.60%	3.625%
1992	3.50	3.55	3.60	3.625
1993	3.50	3.55	3.60	3.625
1994	3.50	3.55	3.60	3.625
1995	3.50	3.55	3.60	3.625
1996	3.55	3.60	3.625	99
1997	3.55	3.60	3.625	99
1998	3.55	3.60	3.625	99
1999	3.55	3.60	3.625	99
2000	3.55	3.60	3.625	99
2001	3.55	3.60	3.625	99

(Accrued interest to be added) (Where the yield and the coupon are the same, the price is par)

The Bonds of each issue will be callable fifteen years from their date at a call price of 104 and accrued interest, and thereafter, at the times and call prices, as stated in the Offering Prospectus.

The Bonds are being offered, subject to award, when, as and if issued and received by us, and subject to approval of legality, with respect to each issue, by bond counsel to the underwriters. The offering is not made hereby, but only by means of the Offering Prospectus, copies of which may be obtained from such of the undersigned and other underwriters as are registered dealers in this State.

Blyth & Co., Inc. Phelps, Fenn & Co. Lehman Brothers Goldman, Sachs & Co. Smith, Barney & Co. Shields & Company The First Boston Corporation Harriman Ripley & Co. Incorporated R. W. Pressprich & Co.

The First National City Bank of New York

Drexel & Co. Eastman Dillon, Union Securities & Co. Equitable Securities Corporation Merrill Lynch, Pierce, Fenner & Smith Incorporated Stone & Webster Securities Corporation White, Weld & Co. Bear, Stearns & Co.

A. C. Allyn and Company Incorporated Bacon, Whipple & Co. Baxter & Company Alex. Brown & Sons Coffin & Burr Incorporated Estabrook & Co. Gregory & Sons Ira Haupt & Co. Hemphill, Noyes & Co. Hornblower & Weeks

Lee Higginson Corporation F. S. Moseley & Co. Paine, Webber, Jackson & Curtis Wm. E. Pollock & Co., Inc. Reynolds & Co. L. F. Rothschild & Co. Dean Witter & Co. Wood, Struthers & Co.

American Securities Corporation Bacon, Stevenson & Co. A. G. Becker & Co. Incorporated Braun, Bosworth & Co. Incorporated Clark, Dodge & Co. Incorporated R. S. Dickson & Company Incorporated First of Michigan Corporation Fitzpatrick, Sullivan & Co.

Hirsch & Co. Kean, Taylor & Co. J. C. Bradford & Co. F. W. Craigie & Co. Francis I. duPont & Co. Eldredge & Co. Incorporated Folger, Nolan, Fleming-W. B. Hibbs & Co., Inc. Geo. B. Gibbons & Company Incorporated Hallgarten & Co.

E. F. Hutton & Company W. E. Hutton & Co. McDonald & Company The Ohio Company Rand & Co. Roosevelt & Cross Incorporated Shearson, Hammill & Co. Stroud & Company Incorporated Tucker, Anthony & R. L. Day Chas. E. Weigold & Co. Incorporated

The Chase Manhattan Bank Bankers Trust Company Chemical Bank New York Trust Company Morgan Guaranty Trust Company of New York The First National Bank of Chicago Harris Trust and Savings Bank C. J. Devine & Co. Kidder, Peabody & Co. Salomon Bros. & Hutzler

The Northern Trust Company Continental Illinois National Bank and Trust Company of Chicago The Philadelphia National Bank Carl M. Loeb, Rhoades & Co. The First National Bank of Oregon Ladenburg, Thalmann & Co. W. H. Morton & Co. Incorporated Weeden & Co. Incorporated

Mercantile Trust Company Dick & Merle-Smith B. J. Van Ingen & Co. Inc. Seattle-First National Bank Blair & Co. Incorporated City National Bank & Trust Co. Kansas City, Mo. Dominick & Dominick Hayden, Stone & Co. The Marine Trust Company of Western New York Bache & Co.

Barr Brothers & Co. Fidelity Union Trust Company Newark Industrial National Bank Providence, R. I. Laidlaw & Co. Mercantile-Safe Deposit and Trust Company The National State Bank Newark Trust Company of Georgia Baker, Watts & Co.

Federation Bank and Trust Company First National Bank in Dallas A. M. Kidder & Co., Inc. National Bank of Commerce of Seattle National Bank of Westchester White Plains, N. Y. The Peoples National Bank of Charlottesville, Va. Third National Bank in Nashville G. H. Walker & Co.

J. C. Wheat & Co. Tilney and Company Tuller & Zucker

DEALER-BROKER INVESTMENT LITERATURE AND RECOMMENDATIONS

IT IS UNDERSTOOD THAT THE FIRMS MENTIONED WILL BE PLEASED TO SEND INTERESTED PARTIES THE FOLLOWING LITERATURE:

Aircrafts—Report—A. M. Kidder & Co., Inc., 1 Wall Street, New York 5, N. Y. Also available is a report on **Barden Corp., Miniature Precision Bearings Inc.,** and **New Hampshire Ball Bearings, Inc.**

Aluminum Industry—Review and forecast — Equitable Securities Canada Limited, 60 Yonge Street, Toronto 1, Ont., Canada.

Bank Stock Notes — Circular on leading New York City Banks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Capital Investment in Western Europe—Study—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Depressed Stocks—List—Courts & Co., 11 Marietta Street, N. W., Atlanta 1, Ga. Also available are data on **Boeing Airplane, Garrett, Martin** and **North American Aviation.**

Electronic Associates, Inc. — Report — Meade & Co., 27 William St., New York 5, N. Y.

Entertainment Companies — Discussion in December "Investment Letter"—J. R. Williston & Beane, 2 Broadway, New York 4, N. Y.

Federal & State Stock Original Issue and Transfer Tax Rates—Booklet setting forth current rates —Registrar & Transfer Company, 50 Church Street, New York 7, N. Y.

Fire Casualty Insurance Stocks—Discussion of underwriting results as of Sept. 30, 1960—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Gold Prices—Bulletin—Barclay & Crawford, 38 King Street, West Toronto, Ont., Canada.

Investment Policy for 1961—Analysis—Dean Witter & Co., 45 Montgomery Street, San Francisco 6, Calif. Also available is a review of **American Telephone & Telegraph Co.**

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Worthington — Memorandum — Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Joins Williston Beane

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Jay M. Wasserman has become associated with J. R. Williston & Beane, 208 South La Salle St. He was formerly with Hornblower & Weeks.

Blyth Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg. — Loren L. Wyss has been added to the staff of Blyth & Co., Inc., Pacific Bldg.

Now With Hagen Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg. — Harry G. Tuttle, Jr. is now affiliated with E. I. Hagen & Co., Inc., American Bank Building.

Our Reporter on Governments

BY JOHN T. CHIPPENDALE, JR.

There is evidently a growing opinion in the capital market that quotations of fixed income bearing obligations will continue to improve because that pattern of long-term interest rates should move in the direction that will be favorable to these securities. It is believed in some quarters of the financial district that the capital market rates will tend to go lower with the passage of time. This should help the flotation of bonds which would in turn be beneficial to the recovery of the economy.

Short-term rates seem to have gone about as low as they are going to go for the time being, but the money market will have to await the New Year before there will be positive proof of this. In spite of the interest that has developed in short-term issues, thereis still a good overall demand for selected intermediate-term obligations, much of which is now coming from those who were formerly interested in equities.

Strength in Non-Federal Bonds

The demand for fixed income bearing obligations has been on the incline for a period of time, but the break-out into the open evidently came last week. Quotations of all bonds, which include corporates, tax-exempts, as well as Governments, moved ahead on an institutional interest which was prominent in all of these securities, with the largest volume being in the non-Federal issues.

It has been very definitely proved that buyers of bonds had been getting the better of the recent new issue flotations by waiting until stale syndicates were dissolved and these offerings were down in price to levels that were to their liking. This course of watchful waiting also paid off in another way as far as the new offerings were concerned since it brought the original offering prices down to levels that made some of them sell out on the days they were bid for. This seemed to break the log jam because, not only were the obligations which had gone substantially below the flotation prices bid up sharply, but also the longer outstanding issues were bought by these institutional investors.

There had been considerable question as to whether or not the offerings of non-Federal securities were not being made a little too fast and at prices which made them unattractive to buyers of bonds. The supply is still on the ample side, but as an offset to this it appears as though there has not been too much in the way of anticipation buying of these bonds so that yields of these securities can still move down. It is believed that many institutional investors will continue to put funds into bonds, instead of common stocks, because of the better return which is obtainable in fixed income bearing securities.

Governments Firmer

The longer end of the Government list has also come in for attention because not a few of these bonds are selling at levels which are attractive to institutional investors. The buying of Government bonds has been pretty much on the professional side, which means that quotations have been moved about very readily without meaning very much.

Recently, however, there has been buying in these bonds by those who are known as the put-away type of investor. These commitments at the start were not large but they have been increasing in size of late. These purchases, along with the thin market which exists in many of the long Government bonds, most likely means that these obligations will continue to improve market-wise as they find permanent homes in portfolios of investors.

The trend of the economy is going to dictate in no small measure the future course of interest rates in spite of the limitations that may be put on them by the international position of the dollar. It is more evident with the passage of time that world cooperation among the free nations in the field of international finance will do much to improve the position of the dollar. The latest, and second, reduction in the British Bank rate from 5½% to 5% is apparently evidence of such a development.

The money and capital markets seem to be reflecting the demand which has come into them because of funds that would ordinarily be used for expansion and inventory purposes. They are now being put to work in selected short-term and distant maturities of Governments, as well as non-Federal obligations.

With Hornblower & Weeks

SAN FRANCISCO, Calif.—John H. White, Jr. is now connected with Hornblower & Weeks.

With Electronics Sec.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Kenneth R. Allen has become associated with Electronics Security Corp., 3424 East Lake Street.

New Administration Faces Major Protectionist Fight

By Hon. Jacob K. Javits, United States Senator (R.-N. Y.)*

Can we avoid the recurrence of "old fashioned" protectionism seen coming to a head by the adoption of alternative methods to rectify our balance of payments deficit? Senator Javits' affirmative reply to his question constitutes a set of specifics he recommends to the new Administration. We should, he says, increase our exports by 15%, or $3 billion per year, and he would expand our export credit guaranty program, trade fairs, services and facilities required by our exporters to do this. Moreover, he favors passage of the Boggs Bill to encourage investments to less-developed areas; explains his bill to aid businesses injured by foreign imports; and proposes a program to sell America to foreign tourists. Outlined are the harms believed likely to occur were we to cut imports, to recall our military forces, to reduce tourism abroad, to render ineffectual our mutual security program and foreign aid.

A major struggle is shaping up over protectionism in the foreign economic policy of the U. S. in the new Administration. By protectionism I mean an old-fashioned tariff and quota wall to keep out imports competitive with domestic production. The outcome of this struggle will decisively affect the prestige of the U. S. abroad in a way even the two Presidential contenders in the last campaign hardly imagined—whether we can right the adverse imbalance in our international payments; whether our capability to win in partnership with the other free world nations the "cold war"; and whether the requirements of U. S. peace leadership can for practical purposes be placed first before domestic, sectional or individual interests.

Sen Jacob K. Javits

I am convinced that we can and should round out the U. S. tariff and quota structure as administered by the President, with the advice of the Tariff Commission and under the supervision of Congress, to give the President increased authority to safeguard reasonably U. S. business and labor. I am convinced also that we must expand our exports and that the decade of the 60s will be characterized by the trade struggle with the Communist bloc led by the Soviet Union. What I believe the American people must guard against is being rushed or propagandized into an old-fashioned protectionism which will place the whole free world in jeopardy, bring about dangerous trade retaliation against us even by our friends and allies, give the Soviet Union and the Communist bloc an advantage in the less developed countries which could prove decisive and materially retard the economic and social development of these countries, and jeopardize seriously our own economy at home.

It is my intention to sound the warning early, for old-fashioned protectionism, like isolationism, must be ruled out as part of our policy during the grim "cold war." Yet, the signs that an old-fashioned protectionist drive is in the making is clear, and it is essential that all economic interests make themselves heard now—those concerned with peace and those concerned with exports, as well as those who believe themselves harmed by certain imports—otherwise we can retrograde dangerously in our policy.

The signs of danger are everywhere: the intensification of the pressures for additional protectionist measures is apparent in the records of the U. S. Tariff Commission. In the last five years, written briefs from firms, trade associations and labor unions opposing tariff reductions jumped 171%. Those requesting increases in U. S. tariffs increased by 340% during the same period. Then in late September at the Southern Governors' Conference, the 16 Governors representing an area once famed for its consistent support of free trade measures, adopted a resolution embracing protectionist proposals to establish import quotas for several industries, to prevent further tariff reductions through reciprocal negotiations affecting certain industries, and urging a Congressional investigation of our entire reciprocal trade program. Also there are individual drives for protective quotas or tariffs in a number of key industries, like certain types of textiles, chemicals and fabricated metals.

The objective of all of these drives is to drastically reduce our imports, yet this is happening at the very moment in our history when there is heavy employment and a heavy economic stake in our exports and when the U. S. needs to continue its development of an economic policy realistically adapted to the free world's needs and those of the newly developing nations in it. A red light on our national control board is the serious imbalance of our international payments, with the outflow of dollars expected to exceed inflow by over $4 billion for 1960, culminating an estimated $10 billion adverse balance in our international payments in the last ten years.

Import Limits Hurt Exports

There is general agreement that the primary way to deal with this imbalance is through increasing exports, yet we know that what we take in imports will have a decisive effect on what we can sell in exports. If we needed any reminder of this, there is the retaliatory power of the new trading blocs in free Europe which give us on the one hand, if we continue our present trade policy, the promise of new and greater markets for our exports (they increased by over 50% to these areas in the first quarter of 1960 as against a less than 20% increase of our imports from them in the same period), and on the other, a more effective means for organized retaliation if we discriminate against their exports to us. At one and the same time we are now engaged in the establishment with these same nations of the Organization for Economic Coordination and Development to coordinate and increase our efforts in aid to the less developed areas so essential to peace and the success of freedom in the world, and to settle trade problems, but success in a protectionist drive in the next two months could see the collapse of all these efforts and the U. S. driven toward an economic isolationism just as devastating as political isolationism.

Another vital factor is the Communist challenge, for the Communists, through state trading, are in a position to take many of the products we now import off the hands of our supplier nations if we do not do so. Khrushchev said in 1955: "We value trade least for economic reasons and most for political purposes." He has, indeed, declared war upon us ". . . in the peaceful field of trade. We declare a war we will win over the U. S. The threat to the U. S. is not the ICBM but in the field of peaceful production. We are relentless in this and it will prove the superiority of our system." The Communist bloc trade with 41 nations in the less developed areas of the free world has more than doubled between 1954 and 1958; and by the middle of this year, 1960, it will have doubled its trade and payments agreements with free world nations. Indeed, Soviet bloc trade expansion with the free world nearly doubled in the last six years, while our share remained, though much greater in size, generally stable.

In the development of the less developed areas, trade is very often far more important than aid, and if adverse, can nullify and cancel out aid in a very short time. For example, in 1959 U. S. imports of 27 products from the 20 other American republics subject to tariff or quota restrictions provided them with dollar exchange three times greater than U. S. government credits to them and 10 times greater than U. S. government grants to them.

To stem the worrisome uncertainty about what else the U. S. may do in the next few months to correct its imbalance of payments, the new Administration and the Congress must work together in the implementation of a variety of measures affecting U. S. exports and imports. Each of these steps must clearly demonstrate that our foreign economic policy is tied neither to the 19th century concepts of "protectionism" nor, for that matter, to free trade, but is one based on the economic realities of a free world economy in which a great expansion in the trade of its member nations is mutually advantageous. For our own sake, we must dispel any illusions abroad that we may resort to drastic remedies such as recalling necessary military forces from abroad, cutting U. S. imports or the amounts our tourists can spend by some $4 billion annually, or cutting appropriations for Mutual Security and technical assistance programs to the point of real inadequacy in an effort to eliminate the expected $4 billion international payments deficit.

Advocates Three-Pronged Attack

After what happened at Bonn recently, we cannot assume that we alone can write the ticket on how to redress this adverse balance of payments. First, the new Administration should back the major task before the Congress, the enactment of new national trade policy legislation, which should have as its short range target, the expansion of U. S. exports by some 15% or $3 billion a year. Second, the new Administration should lend its support to the establishment of the OECD and to having the U. S. join it. Third, the new Administration should direct its attention to the additional administrative steps and laws required to stimulate at least a 25% increase in tourist travel to the U. S. by foreign visitors—again which would mean a return of some $250 million annually.

Such a three-pronged attack on our dollar imbalance requires strong bi-partisan initiative and support, but its implementation could result in reducing our $4 billion international payments deficit to manageable proportions —at least reduce it to the same $1 billion or less that it was from 1950 to 1958—in a relatively short time.

The maintenance of U. S. economic leadership in the free world is at stake and Congress has its work cut out for it in the coming months. First, to stimulate U. S. exports, now at the record level of some $19 billion a year, we must key such expansion to the extension of export credit guaranties against commercial risks which might be incurred by U. S. businessmen seeking to increase or initiate exports. The Export-Import Bank, which under a directive from President Eisenhower last spring has been stepping up its program to insure against political risks, or a U. S. government initiated corporation, should undertake this new program. We have become the world's largest single exporter with more than a 17% share of world exports during the past decade without this additional stimulus—and in competition with foreign businessmen whose governments have backed them with such commercial risk guarantees for the past 40 years. Should such a program bring us up to their level with between 5% and 15% of all exports insured by the government against commercial and political risks, it would mean that many new American firms, large and small, were seeking to increase their earnings through exports while established exporters were further expanding sales. With it, the average American business would find itself in a stronger competitive position in every important foreign market and will be able to extend more easily the long-term credits now needed in many foreign markets.

Government and private groups must step up and better co-ordinate services and facilities required by U. S. exporters, with special attention to the situation of the small businessman who in the U. S. plays too small a role in foreign trade.

An ever-increasing number of trade fairs is a program requiring the immediate attention of the next Administration and its Commerce Department, so that the impressive start made by the Eisenhower Administration can be built upon for the benefit of increased sales abroad.

Favors the Boggs Bill

Further essential elements in the comprehensive export legislation include providing incentives through tax treatment for increased U. S. private investment in the developing areas inhabited by some one billion people whose average living standards are deplorably low. The establishment of Foreign Business Corporations in less developed nations with a system of tax deferrals on their profits so long as the income is re-invested in the same kind of area was the basis of the bill introduced by Rep. Hale Boggs and passed by the House but not acted upon by the Senate last year. In 1961, Congress should pass such legislation and also a "cross investment" provision whereby payment of taxes on profits from all overseas investments is deferred so long as these same earnings are re-invested in less developed areas. Such a move could make available some $700 million annually in additional investment for Latin America, Africa, South and Southeast Asia, and the Middle East.

Such legislation would attract private capital into the very areas where U. S. and free world economic aid is directed, thus shortening the time it will take to reach basic development objectives and helping us accomplish the most with our limited dollar resources. In addition to capital investment abroad, increased U. S. investment in terms of goods, machinery and technical services would also be stimulated by such Congressional action, and here I believe it is a reasonable estimate that such investment would show an earning capacity of between $200 and $300 million annually.

Would Aid Those Injured by Imports

The core of an effective trade policy is legislation offering needed assistance to U. S. interests injured by foreign imports. Early in the 1961 session of Congress, I plan to introduce a National Trade Policy Act, major trade legislation aimed at dealing fairly with businesses injured by foreign imports:

(a) The Federal Government would be able to extend loans and allow tax incentives to businesses, extend technical and financial assistance to communities, and provide retraining and relocation assistance to workers (as well as added unemployment payments and liberalized old age and survivors insurance benefits), whenever they are found eligible under the provisions of this legislation.

(b) The President's decision to extend assistance would not depend on a finding by the Tariff Commission that imports are threatening or causing serious injury to a domestic industry—the present "escape clause" formula. Thus, even if an industry is meeting import competition but to do so must lay off workers, or relocate and consolidate its operations, or invest large amounts of capital which one or more of its members cannot raise, the workers, communities, and businesses adversely affected by this changeover will be eligible for assistance.

(c) The President would be authorized to provide tariff or quota protection to a domestic industry, upon recommendation of the Tariff Commission, but at the same time may provide for a gradual reduction of such additional protective measures over a period not to exceed 7 years if loan and other assistance is extended to workers and owners in eligible parts of the affected industry.

(d) The President would be authorized to extend the same kind of protection, upon recommendation of the Tariff Commission, and the same kind of assistance which I have described to industries or component parts of industries which because they have not been the subject of any reciprocal trade tariff concessions are not eligible for relief under the escape clause or peril point procedures.

Finally, the U. S. "export" we so often overlook when first glancing at our record of foreign earnings is foreign tourist travel in the U. S. Foreign travel by Americans is expected to amount to more than $2.5 billion in 1960—representing really a U. S. "import" since these dollars go for goods and services paid for abroad. It would be ironic if at the very time that many foreign nations, no longer plagued by a serious dollar shortage, are greatly reducing or eliminating entirely restrictions on the amount of money their nationals can take out of the country for tourist travel, the U. S. should now reverse the situation by clamping on the same kind of foreign travel restrictions against Americans to help correct the dollar imbalance. And yet, the situation might deteriorate to that point.

Encouraging Tourism to the U.S.A.

We need a U. S. Office of International Travel to help "sell" America to the foreign tourist, and I urge the new Administration to support the enactment of a law to establish one. Such a bill passed the Senate in 1960 and died in the House. Today, the U. S. is the only major power in the world which does not have a government travel office, although 32 foreign governments maintain travel bureaus in the U. S., with the little island of Nassau spending some $2 million annually to publicize its tourist attractions. Increased foreign tourism, in reality, is one of the most obvious and most desirable methods of improving our balance of payments picture.

*An address by Senator Javits before the Annual Dinner of the Investment Association of New York, New York City, December 6, 1960.

THE SECURITY I LIKE BEST...

Continued from page 2

portion is higher in much of the rest of the non-Communist world. In fact, the company sold 3½ billion blades last year in world markets versus 2 billion in the United States. Gillette's foreign growth may well be faster than that domestically despite the boost expected here from the large number of youngsters who will begin shaving in the 1960's.

To a considerable extent, this excellence of the company's earnings performance in shaving products has been obscured in recent years by poor results, from a growth point of view, at its Toni and Papermate divisions. Toni has been a profitable acquisition (in 1948) but its earnings recently have been no higher than they were in 1955. Papermate (1955) may have been a mistake. While profitable it particularly has tended to dilute the over-all growth record. In 1959, the two together probably contributed around 50c-60c a share. Their diluting influence on the company's growth, will not therefore be so significant in the future as they make up a smaller piece of a bigger pie. (Unless, of course, women's hair styles change again. Toni's earning power has been hurt by a shift away from home permanents as styles changed. This writer, however, has no ability to predict the course of hair fashions and therefore makes no allowance for an increase in these earnings.)

In the writer's opinion, therefore, what one has in Gillette is the superimposing of new factor, the "Super Blue Blades," which raises the level of basic earning power, on an already strong growth curve, while in the background are the further possibilities inherent in the company's $30 million cash reserve position.

A price of 86 does not discount these prospects. The current 22.3 times valuation of the approximate $3.85 a share earnings estimated for this year is about in line line with the multiples enjoyed by other high quality companies achieving a 6%-7% earnings growth rate. Only a slight premium, if any, is being paid for the sharp upward shift in income expected to be generated by the new blade. Basic earning power could reach a $6 per share rate by 1962 without exhausting, in any sense, the growth potential of the company. Moreover, should Gillette by then, achieve on its reserved cash the 30% or better return it has earned on invested capital through much of its history, another $1 a share would be added to income.

This is the kind of situation that should appeal to substantial investors.

If the speculations outlined herein are fully realized, the stock can be expected to advance 50% or more over the next several years. If the rate of gain is slower than herein projected risks will, nevertheless, be minimized by rising earnings, albeit more slowly, and the probability of higher dividends over the intermediate turn.

Capitalization of Gillette consisits of the 9,342,971 shares of outstanding common stock which are listed on the New York Stock Exchange. Current quotation is 88½.

KEY FINANCIAL DATA

Income Statement

	000,000's Omitted Sales	000,000's Omitted Net Income	Margin	Per Share Earnings	Per Share Dividends
1939	$18.0	$3.3	18.3%	$0.23	$0.15
1949	90.8	13.9	15.3	1.57	0.82
1954	162.2	26.1	16.1	2.77	1.75
1955	176.9	29.0	16.4	3.13	2.00
1956	200.7	31.5	15.7	3.40	2.25
1957	194.9	25.9	13.3	2.80	2.25
1958	193.9	27.6	14.2	2.97	2.25
1959	209.3	31.1	14.9	3.34	2.50
1960 (estimated)	230.0	37.0	16.1	3.85	3.00

Kinnard Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Robert F. Danielson is now with John G. Kinnard & Co., 80 South Eighth Street.

Now With Wagner Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio — Lyle D. Irvine is now with Wagner & Co., 5 East Long Street. He was formerly with Midland Investors Co.

Foster & Marshall Adds

(Special to THE FINANCIAL CHRONICLE)

EUGENE, Ore. — Chester T. Bjerke, Jr., has become connected with Foster & Marshall, 55 West 10th Avenue.

Pistell, Crow Names 3 V.-Ps.

Gerard L. Regard, K. Phillip Dresdner and John W. Hamilton have been elected Vice-Presidents of Pistell, Crow, Inc., 50 Broadway, New York City, member of the American Stock Exchange, it has been announced.

Mr. Regard, who was formerly Vice-President and national sales manager for Texas Fund of Houston, Texas, will be Vice-President in charge of dealer relations for Pistell, Crow, Inc. Mr. Dresdner, formely syndicate manager for J. R. Williston & Beane, will be Vice-President in charge of the firm's syndicate department. Mr. Hamilton, previously associated with Lehman Brothers, will be Vice-President in charge of sales.

Courts & Co. Will Admit New Partner

CHARLESTON, S. C.—On Jan. 1 Courts & Co. will admit Thomas R. Bennett to partnership. Mr. Bennett will make his headquarters at the firm's Charleston office, 18 Broad Street.

Dempsey-Tegeler Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—James W. Hardesty is now with Dempsey-Tegeler & Co., 1000 Locust Street, members of the New York and Midwest Stock Exchanges.

SECURITY SALESMAN'S CORNER

BY JOHN DUTTON

There Is a Treasure of Information Waiting for You to Ask for It

Ideas are what we need in this business. New products, new young companies are springing up right and left. How to keep up with even a small part of this constant parade of scientific progress—that's the problem for most security salesmen. Several weeks ago a client asked me if I knew anything about a company that had brought out a new device that seemed to have great possibilities in automation. She didn't now the name of the company, but a friend of hers was an executive in a bank where she had an account suggested the stock as a possible speculation. After mentioning several companies in this field, I finally hit upon the right one, "That's it," she said, "What do you know about it?" I explained that I did not know much, but I would do some checking. I sent here a statistical report and then decided that I should know more about this company.

So I wrote the executive office for an annual report and other information that was available about the new product and other items they were marketing. If you obtain company literature which gives a complete description with pictures of new products it is very helpful. You can see how a company is advertising, its policies, and something about its merchandising concepts and abilities. Then if you combine this information with a serious look at their financial capacity and progress, as well as the market history of their stock, you have a much sounder concept of your situation.

You can almost make a trip through a plant, see the new products, and make a valuation of the company's marketing ability if you study the literature that some companies will mail to you. And they will usually be pleased to send you this information if you are in the investment business and write them on your letterhead.

Don't Try to Study in the Office Or During Business Hours

When you obtain interesting and informative material from a company, save it for a time when you can give it your undivided attention and complete concentration. The hours during the day should be used for talking with clients and prospective clients. You should read and study when you cannot see customers or talk with them. The best time for this is in the evening and on weekends. Then you won't be interrupted by telephone calls and other matters that need attention. This is important.

It is also advisable to have a quiet place at home where you can work. If this is not possible the office should be available to all men who wish to use it at night or on weekends. In this connection, I might add that some salesmen like to come into the office on a Saturday ostensibly to do some work. But since the day is quiet and the pressure is off they make a few passes at some record keeping and then they want to talk. If you are trying to work on a Saturday, and you need quiet, it is not very helpful to have another salesman come up to your desk and start to talk about last night's fight or the football game tomorrow. If this happens, explain that you have some important desk work to do and ask to be excused.

Write for Information When You See News Items

Often you will read about new products, inventions, drugs or other advances in a company's plans for the future. Don't wait until someone asks you if you think you see an opportunity to capitalize on a situation. Watch the services, your own sources of information, and the financial press. If you hear or see something that looks like it might be worthwhile, write to the company's headquarters and ask for information. You have nothing to lose and you may learn a lot. The worst that can happen is that you won't receive a satisfactory answer but, in many instances, you will be surprised to learn much more than you anticipated. There are those who will say, "Why bother to obtain information when the cat is out of the bag and everybody knows about it?" My answer is simply that many new products haven't even begun to make an impression on the earnings of some of these companies. If you see pictures of new products learn about them, and then let your mind dwell upon the possible markets that may open up, as well as the possible competition that might develop. You are liable to come up with a situation that you can begin to believe in enough to start putting some of your client's investment capital to work.

When it comes to speculative new products you need a strong company with able management, not too large in size so that future earnings can have a (per share) impact. But if you can look at enough of these situations, obtain the information on fundamentals, balance sheets, income accounts, facilities for manufacture, distribution outlets, and you see some aggressive promotion, you are much better equipped to arrive at an informed judgment than if you only make a superficial analysis. If your timing is right and the price is not too fantastic on a times earned basis, you may come up with several real winners during the next few years.

The fellows who foresaw the bowling craze, the "lose weight" product popularity, the lease back and rental operation in the car and truck rental business, the outboard motor and boating popularity now current, and similar trends had to pick the right companies in the field. The information that is available is often more complete than you would suspect. Next time try it out, ask for it, see what happens. Chances are you will increase your understanding not only of a company but an industry.

AS WE SEE IT

Continued from page 1

most daily being called to our attention by the problems surrounding the commuting charges of the railroad—and less conspicuously by the controversies and the difficulties that are being encountered in connection with the fares to be charged on rapid transit facilities. When one thinks of the matter carefully, the fact emerges plain as a pikestaff that a good deal of this movement into the suburbs with daily trips into the central city or near it for work has been subsidized.

Political Subsidy

Whether if it had been required to carry its own full costs, it would have occurred in the same or nearly the same degree, remains a matter of personal judgment. But be that as it may, we now have a situation in and around many of our larger centers of population in which railroad stockholders are being required to bear a part of the cost of the daily operations of those who have chosen to move to the suburbs. In a good many instances, the time has come or is approaching when these stockholders will not, perhaps can not, continue to carry these costs. Meanwhile, commuters have acquired what seems to them to be a vested interest in this form of subsidy, and politicians — who really control the situation—are not eager to say them nay. Just what would happen were these commuters generally required to pay the full cost of their daily journey to and from work, we are not able to say, but we think it highly unlikely that they will be required to do so. More probable is it that the burden or a part of it will be shifted to the payers' shoulders.

But there are other ways in which this trek to the suburbs has been and is being subsidized. Who can doubt that the movement has been greatly accelerated by the ease with which millions of families have been able to get the funds for the construction or the purchase of homes in the suburbs at rates of interest and rates of amortization far below the true market? The Veterans Administration, the Federal Housing Administration have been particularly active in this area. Now, naturally, the difference between actual costs and what the builder or purchaser pays has to be paid by someone. It does not take great economic acumen to understand clearly enough that the "someone" in this case is the taxpayer. Time will tell whether this population migration—which has often left the worst of slums behind it—will prove generally beneficial to the country and its people despite the fact that it has not paid its own way.

Certain other economic effects are also to be observed. Not only have these suburbanites in many instances become burdened with heavy mortgage debts, but when one moves to areas where public transportation is not readily available, some means of getting about has to be found. Conceivably public transportation facilities could be provided on a profitable basis in some instances, and it has been so provided, but there is no reason to doubt that in a great many instances, suburbanites have provided their own transportation in the form of individually owned automobiles acquired in large part by further additions to personal indebtedness.

The market for automobiles in this country, like that for building materials and the like has been enormously enlarged by this suburbanization of the population — to which no one, we are certain, is prepared to object provided it is not the means by which the great rank and file become too heavily burdened with fixed charges. Unfortunately, despite all the attention research economists have given the subject of mortgage credit and instalment credit, no one has undertaken to make a really convincing study of the balance sheet position of the average consumer, but there is hardly room for doubt that that position has grown weaker in recent years—in goodly part as a result of the suburbanization of the population.

Labor Less Mobile

Naturally, too, this great increase in home ownership, however desirable it may be in many respects, has tended very definitely to reduce the mobility of labor, and thus to aggravate the problem of those "depressed areas" to which the politicians are so fond of referring. Under ideal conditions such areas would not be very often found, since the men who operate the industry which has moved elsewhere would move with it. Such ideal conditions are, of course, not to be expected everywhere. There are many reasons why labor is not as mobile as capital, but it seems obvious to us that the situation about which complaint is now made is in part a result of increased ownership of homes by wage earners. Such facts as these should be carefully weighed by those who are now undertaking to find some national program for the relief of these depressed areas.

This suburbanization of the population in this country, along with its increase in home ownership and personal indebtedness, is thus seen not to be an entirely unmixed blessing.

The Need for an Intelligent Forward Exchange Policy

By Paul Einzig

Dr. Einzig questions whether the lowering of the British Bank Rate to 5% will help us, and points out where and why it was a disadvantageous move for his country. The answer to the problem is said to lie in the pursuit of an intelligent forward exchange policy. Puzzling to Dr. Einzig is the limited application of forward exchange policy instead of its application on a more ambitious scale.

LONDON, Eng.—After six weeks' hesitation the Bank of England followed up its last reduction of the Bank Rate by another cut of ½%. The delay and hesitation is understandable. On the one hand, the British authorities are genuinely anxious to assist the United States in resisting the gold outflow, and to that end they would have liked to discourage the influx of funds from New York to London attracted by higher interest rates. On the other hand, from a British point of view, there is no justification for a Bank Rate cut. The balance of payments is becoming strongly adverse and there is a flood of unwarranted wage demands which are bound to derive encouragement from any move towards relaxing the credit squeeze.

There is reason to believe that the way out of this dilemma was provided by the Ford transaction, at any rate as far as its effect on the balance of payments position is concerned. The receipt of some $300 million in payment for the British holdings of Ford shares should go a long way towards meeting the import surplus, even if the influx of short-term funds is checked by the Bank Rate increase. It means that instead of meeting the trade deficit by short-term borrowing it is met by selling out a valuable national asset. It also means that as a result of the slight relaxation of the hard money policy the chances of balancing the deficit have been further weakened.

Admittedly a 5% Bank Rate is still on the high side. But it seems to be utterly incapable of stemming the tide of the wage demands. They are proceeding unabated. The Amalgamated Engineering and Shipbuilding Unions, having recently secured a reduction of a working week by two hours, are now pressing for a substantial increase of wages with complete disregard of the highly unsatisfactory state in the shipbuilding and automobile industries which would call for a wage reduction rather than an increase. The Bank Rate reduction is likely to be interpreted as a green light encouraging unions to stand firm with their demands.

Increase More Appropriate

From the point of Britian's domestic economy, and of a genuine solution of the balance of payments problem, an increase of the Bank Rate to 7% would have been more appropriate than a reduction to 5%. From the point of view of assisting the United States the Bank Rate is much too high even at 5%. Both British and German Bank Rates would have to be brought down to 3% in order to enable the United States to carry out reflation with impunity. But to do so would let loose inflation both in Britain and in Germany.

The answer to the problem lies in the pursuit of intelligent forward exchange policy. The reason why the higher Bank Rate in Britain has attracted short-term funds in New York was that the premium in forward dollars remained throughout the year something like 2% below the differential between interest rates in London and New York. All the time it has been profitable to transfer funds to London with the exchange risk covered. What is surprising is that this has not been done on an even larger scale.

The unwanted trend of short-term funds could have been checked and reversed any time through the adoption of the technique advocated by Keynes, under which the authorities would have to support the forward rate at a figure at which interest arbitrage ceases to be profitable. There is everything to be said for the application of that device in situations as exist between London and New York today. It would be a mistake to bolster up the forward dollar at an artificial level in face of a sweeping speculative attack, since official intervention would really encourage speculation by providing it with facilities on artificially advantageous terms. There is, however, no such sweeping attack in evidence. Had the United States authorities caused a rise in the premium on forward dollars in the vicinity of its interest parties it would not have materially encouraged speculative sales of forward dollars. On the contrary, since those tactics would have materially moderated the outflow of gold the psychological effect might have been a decline in speculative selling.

That the authorities on both sides of the Atlantic are not unaware of the advantages of the application of Keynesian forward tactics to the present situation is indicated by the fact that, while the forward premium on the dollar contracted slightly for a period of one month as a result of the Bank Rate cut, the premium for three months remained unchanged. It is widely understood that official intervention is confined to three months. It seems therefore that while the one month rate was allowed to take care of itself the three months rate was artificially prevented from adapting itself to the narrowing of the differential caused by the Bank Rate cut.

Correct Step

The prevention of this adjustment was decidedly a step in the right direction. But for it the British authorities would have got the worst of both worlds by encouraging wage demands in Britain without assisting in the least the American effort to check the gold drain. For, had the forward rate adapted itself to the changed Bank Rate, it would have remained fully as profitable to transfer funds from New York to London as before the Bank Rate cut.

It is indeed gratifying that the British authorities have applied forward exchange policy even within such narrow limits. What is to be deplored is that, since they are obviously familiar with the right technique, why they have not applied it on a much more ambitious scale in order to eliminate altogether the discrepancy between the forward rate and its interest parities. Even after the Bank Rate cut, the London bill rate remains some 2.3% higher than the New York bill rate, while discount for three months forward dollar is just over 1.3% per annum. It that discrepancy really necessary? If only the authorities applied forward rate policy on a proper scale there would be no conflict between the desire to assist the United States and the desire to safeguard the domestic economy. The flow of gold could be reversed, and the United States gold stock could receive a welcome reinforcement through the return of arbitrage funds from London.

Dean Witter Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Robert J. McDonald has become affiliated with Dean Witter & Co., 632 South Spring Street.

Dayton Bond Adds

(Special to The Financial Chronicle)

DAYTON, Ohio—R. Keith Fudge has been added to the staff of Dayton Bond Corp., Third National Building.

Two With Walston

(Special to The Financial Chronicle)

MEDFORD, Ore.—Andrew J. Guffin and Lawrence N. Schade have become connected with Walston & Co., Inc., 127 East Sixth Street.

Joins Mitchum, Jones

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif. — Richard M. Griffith, Jr. is now affiliated with Mitchum, Jones & Templeton, Russ Building.

Booklet Wins Zellerbach Award

A booklet on Di Giorgio Fruit Corp. produced by the San Francisco office of Albert Frank-Guenther Law, Inc. for Dean Witter & Co. won second place in a contest sponsored by Zellerbach Paper Co.

The awards were made for the best job printing among Zellerbach customers. The AF-GL booklet was submitted by a Zellerbach salesman. For placing second, the production and art departments of the agency were given a seven transistor Westinghouse radio.

Layout and design of the Di Giorgio booklet was a joint venture of Dee W. White, AF-GL art director, and William C. Robin, account executive. The illustrator was artist Bruce Butte. Production was directed by Mrs. Eulalie S. Fuller, AF-GL production manager. Account executive for the Witter account is Richard C. Cruikshank, a Vice-President of the agency.

With Gregory-Massari

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Philip S. Sanders has become associated with Gregory-Massari, Inc., 326 South Beverly Drive, members of the Pacific Coast Stock Exchange. Mr. Sanders was formerly with Dempsey-Tegeler & Co.

J. R. Holt Adds

(Special to The Financial Chronicle)

DENVER, Colo.—William R. Maxwell III is now connected with J. R. Holt & Co., 1700 Broadway.

Negative Aspects of Realty Investment Trust Law

By Marvin Kratter,* *President and Chairman of the Board of the Kratter Corporation.*

Real estate investment trusts face many barriers to getting off to the quick start which its enthusiasts may not know about. Mr. Kratter's analysis of the Act designed to have real estate investment trusts treated the same as regulated investment companies deals with a number of unfavorable and potentially troublesome aspects affecting the organization and operation of this new real estate vehicle. Until these negative factors are corrected, Mr. Kratter predicts this valuable method of real estate financing will not be too hasty in selling securities to the public.

No other event in the real estate field in recent years has had as much publicity and created as much interest and enthusiasm as has enactment of the new real estate investment trust law. However, now that the initial burst of unrestrained acclaim appears to have waned somewhat, a more critical appraisal of the new Act has become both feasible and desirable.

Marvin Kratter

Enthusiasm for the new Act derives from the fact that it amends the Internal Revenue Code of 1954 to provide substantially the same treatment for real estate investment trusts as present law provides for regulated investment companies. Under present laws, regulated investment companies that distribute 90% or more of their ordinary income are taxed only on their retained corporate earnings and thus the distributed portion of earnings are taxable only to the shareholders. This same general type of tax treatment is now to be accorded to real estate investment trusts, effective with respect to taxable years beginning after Dec. 31, 1960.

Unfavorable Aspects

Unfortunately, there are also a number of unfavorable and potentially troublesome aspects to the Act that must be faced by persons intending to organize and operate real estate investment trusts. These may be classified, as follows: (1) uncertainties with respect to explanatory regulations under the Act issuable by the U. S. Treasury Department; (2) restrictive and ambiguous provisions contained in the Act; (3) uncertainties and restrictions in the various State laws potentially affecting and restricting operations; (4) problems in connection with underwriting and sale of securities of real estate investment trusts; and (5) Federal and State securities laws and regulations.

In the time allotted, only brief reference can be made to each of these items.

It will probably be some time before the Treasury issues its explanatory regulations. The regulations possibly could severely restrict flexibility under the Act and make tax benefits available only to companies operating within strict limits. In setting up regulations, consideration, undoubtedly, will be given to the reports of the Senate Committees on Finance and Ways and Means, which clearly expressed, for example, the intention that this tax treatment be restricted "to what are clearly passive real estate investments, as contrasted to the active operations of businesses involving real estate." Regulations reflecting this intention very possibly could nullify intentions expressed by managements of various types of operating and hotel companies to use real estate investment trusts as a means of reducing taxation now paid by these operating companies.

Example of Ambiguity

To cite an example of a restrictive and ambiguous provision of the Act, there is a provision that "the term 'rents from real property' excludes rents from interests in real property, if the determination of such amount depends in whole or in part on the income or profits derived by any person from such property (except that any amount so received or accrued shall not be excluded . . . solely by reason of being based on a fixed percentage or percentages of receipts or sales." Inasmuch as the inclusion of income-sharing and profit-sharing clauses has become an important feature in real estate operations, restrictive interpretation of this one ambiguous provision by Treasury regulations could negate many of the anticipated benefits expected to be gained from enactment of the new bill, by virtue of removal of important anti-inflation protection.

Among the uncertainties are the uncertainties of operation of the trusts under the various state laws. Under some state laws, for example, it would seem probable that ownership of the trust's assets would be vested in the various shareholders of the trust. It should be apparent that operation of a trust under such condition from a legal real estate *title* point of view would be forbidding, if not impossible.

Compared With Mutual Funds

Probably the most important reason for great enthusiasm by many observers is the comparison with sales of mutual fund shares that naturally immediately comes to mind. If billions of dollars of shares of securities investment companies are sold each year, why should not large sums of shares of real estate investment trusts also be sold? But, investment company shares are sold by well-organized organizations formed and developed for the purpose. For an organization currently very successful in selling *securities* investment company shares to shift is a very important step, and to do so for an uncertain product is somewhat hazardous. We are informed that at least one would-be underwriter of a real estate investment trust is encountering serious difficulties in lining up selling organizations.

With reference to Federal and state securities laws and regulations, these can be very troublesome and time-consuming. For example, the concept of variable annuities, also hailed as a wonderful new innovation about five years ago, has been largely tied up by technicalities in connection with Federal and State laws and regulations.

It should be noted that even the tax advantages granted by the new Act are of less significance to real estate operations than they would be to almost any other type of activity, inasmuch as most purchases of real properties generate sufficient legal depreciation deductions to enable large proportions, and sometimes all, of the net cash flow to be "tax free" with the tax impact (on a capital gains basis) deferred until the properties are sold. Also, the new real estate investment trusts still may be subject to most, or all, corporation taxes.

On balance, the new Act would appear very likely to prove one day to be a valuable vehicle for public real estate financing. However, the negative aspects surrounding this new law would appear to limit at least its near-term potential, as well as to preclude hasty action in the sale of securities to the public.

*An address by Mr. Kratter before the General Meetings Committee of the Real Estate Board of New York, Inc., New York City.

Smith, Barney Group Offers Michigan Bonds

Offering of $25,000,000 State of Michigan Detroit Expressway 5%, 4¼%, 3¾%, 3½% and 3¼% bonds due 1963-1984, inclusive, is being made by a group managed by Smith, Barney & Co., Lehman Brothers, Drexel & Co. and Harriman Ripley & Co., Inc. The bonds are priced to yield 2.20% to 3.85%.

The group was awarded the issue at competitive sale Dec. 14 on its bid of 100.009% for the combination of coupons, a net interest cost of 3.6932% to the State of Michigan.

Bonds maturing in the years 1963-1982, inclusive, are not redeemable prior to maturity. Bonds maturing in 1983 and 1984 are redeemable on and after March 1, 1974.

The bonds are being issued for the purpose of paying part of the cost of constructing and planning new expressways in the City of Detroit. The bonds being offered are the second series of a total authorized issue of $100,000,000 and bring the total sold to date to $50,000,000.

Among other members of the offering group are:

C. J. Devine & Co.; Goldman, Sachs & Co.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Smith Incorporated; White, Weld & Co.; Bear, Stearns & Co.; A. C. Becker & Co., Inc.; Blair & Co., Inc.

Hemphill, Noyes & Co.; Lee Higginson Corp.; F. S. Moseley & Co.; L. F. Rothschild & Co.; Shearson, Hammill & Co.; F. S. Smithers & Co.; Weeden & Co., Inc.; Hallgarten & Co.; Hirsch & Co.; and W. H. Morton & Co., Inc.

In New Connection

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga.—William F. Gilmore is with United Southern Companies, Inc. In the past he was with Dobbs & Co.

Joins Zahner Staff

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo. — Charles F. Jones has become connected with Zahner and Company, Dwight Building. In the past he was with Commerce Trust Company.

With Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, Mo. — John N. Free, Jr. has been added to the staff of Dempsey-Tegeler & Co., 17 East 10th Street.

Joins Bache Staff

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif. — Jack Straus has joined the staff of Bache & Co., 445 North Roxbury Drive.

With Patrick Clements

(Special to THE FINANCIAL CHRONICLE)

HOLLYWOOD, Calif. — John W. Lockett is now with Patrick Clements & Associates, 6425 Hollywood Boulevard. He was previously with Standard Securities Corp.

Businessman's BOOKSHELF

Advantages in Taxes, with supplement on real estate investment trusts—National Institute of Farm Brokers, 36 South Wabash Ave., Chicago 3, Ill., $10.00

American Stock Exchange Guide —Rules and practice concerning Exchange transactions and member operations; official and exchange staff; members; securities listed; etc. — Commerce Clearing House, Inc., 4025 West Peterson Avenue, Chicago 46, Illinois $30 per year.

Annual Report of the Comptroller of the State of New York—State Comptroller's Office, Albany, N. Y. (paper).

Attack Against "Dogmatists" and "Sectarians"—Handbook based on materials in the Soviet Press — American Committee for Liberation, 1657 Broadway, New York 19, N. Y. (paper).

Coming Crisis in New York City Finances—New York Chamber of Commerce, 65 Liberty St., New York 5, N. Y. (paper).

Creativity in a Business Readjustment — Marion Harper, Jr. — McCann - Erickson Advertising (U. S. A.), 485 Lexington Ave., New York 17, N. Y. (paper).

Credit and Collection Letters: New Techniques to Make Them Work — Richard H. Morris — Channel Press, Great Neck, N. Y. (cloth), $5.95.

Current Economic Comment — Containing articles on Some Economic Aspects of Military Procurement, Mineral Fuels in the Soviet Economy, Development Credit Corporations, etc. — University of Illinois, Champaign, Ill. (paper).

Economic Indicators — 1960 Supplement — Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. (paper), 60 cents.

Energy in the American Economy 1850-1975: Its History and Prospects—Sam H. Schurr and Bruce C. Netschert — Johns Hopkins Press, Baltimore, Md. (cloth), $12.50.

Energy Resources and Government — Materials submitted to the Subcommittee on Automation and Energy Resources by Federal and State Regulatory and Developmental Agencies — Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. (paper) $2.

Federal Reserve Discount Window: Administration in the Fifth District—George W. McKinney—Rutgers University Press, 30 College Ave., New Brunswick, N. J. (cloth), $4.50.

Modern Railroads — The New New York Central — Modern Railroads, 441 Lexington Ave., New York, N. Y.

Research for Industry—Bulletin—Stanford Research Institute, Menlo Park, Calif. (paper).

Retention and Destruction of Bank Records—American Bankers Association, 12 East 36th Street, New York 16, N. Y. (paper).

State of Hawaii's Finances — A description and analysis of Hawaii's economy, her government and her public debt—State of Hawaii, Dept. of Budget and Review, $5.00.

Supervisor — Key Management—Charles W. Johnson, Jr.—Prentice - Hall, Inc., Englewood Cliffs, N. J. (soft cover), $2.00.

U. S. Trade With Japan, First Half 1960 Compared with First Half 1959—United States-Japan Trade Council, Inc., 1000 Connecticut Avenue, Washington 6, D. C. (paper), on request.

The State of TRADE and INDUSTRY

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

Business activity continues to slide downward as the initial year of the "Golden Sixties" draws to a close, states the December *Barometer of Business* published by Harris Trust and Savings Bank, Chicago.

The publication points out that over 6% of the civilian labor force is now unemployed on a seasonally adjusted basis, the highest unemployment rate since December, 1958, a recession recovery period. Further analysis in the *Barometer* shows industrial production displaying virtual stability according to latest figures, but recent cutbacks in automobile and steel production indicates the index of production resumed its downward trend in November.

Indicators of the future level of economic activity largely suggest that business will soften further into early 1961 the Harris Bank publication states. For example, new orders of manufacturers display no signs of picking up from their low levels of recent months. Heavy cancellations of machine tool orders this fall have cut net new orders of this industry.

Also low ordering of machine tools indicates that expenditures for capital spending will be reduced during the next six months. New orders for paperboard, which is widely used as a packaging material in many lines of industry, have been in a downward trend through most of 1960.

The December bank periodical states that in the consumer sector of the economy, the immediate outlook for housing is not encouraging. Housing starts have risen from the depressed September level, but are approximately 20% below corresponding 1959 months. Also applications for FHA and VA insured mortgages are relatively few in number the *Barometer* indicates.

The latest consumer buying survey of the National Industrial Conference Board revealed somewhat more frequent plans to buy new cars, furniture and appliances than in July. However, the publication states, percentage of respondents who expect to be financially better off in six months declined. Predicted financial position, the monthly periodical says, is often a better forecaster of actual buying than purchase plans.

In discussing the easing policies of the Federal Reserve the *Barometer of Business* says that notwithstanding the accelerated gold loss since June, the Federal Reserve has wisely followed a policy of stimulating the economy. Lower interest rates in the United States than abroad have contributed, however, to the gold outflow. With economic guideposts pointing to a recession in this country, the monetary authorities are correct, Harris Bank says, in easing credit.

The Federal Reserve can ease credit, the publication points out, and has done so through these three types of general controls: (1) purchase of government securities, (2) reduction in the discount rate, (3) lowering reserve requirements.

Federal Reserve purchases and sales of U. S. government securities affect the reserve position of member banks. Free reserves, the difference between excess reserves and borrowings from the Federal Reserve, have shifted from—$400 million to over plus $400 million since the beginning of the year. And during this period commercial banks have been able to reduce their borrowings from over $900 million to less than $200 million during this period.

This improved reserve position of commercial banks has led to an increase in the money supply of over $2 billion since the end of May. And, states the Barometer of Business, past evidence shows that this increased liquidity in the economy will lead to higher spending in the future. During the past five months the Federal Reserve has lowered the discount rate twice and taken a series of steps to reduce reserve requirements.

Federal Reserve action has and is likely to continue to moderate the severity of the recession, states the Harris Bank. Monetary policy currently provides the best evidence that the economy will likely resume its upward trend later in 1961.

1961 First Quarter Capital Outlay Revised Downward

Businessmen have scheduled a modest decline in their capital investment programs in the first quarter of 1961, according to the regular quarterly survey conducted in late October and November by the Department of Commerce and the Securities and Exchange Commission. They have revised downward their expenditures on plant and equipment for the second half of 1960 from the estimates reported earlier this year. Capital outlays of business are now expected to amount to a seasonally adjusted annual rate of over $35½ billion in the last quarter of this year, and $35 billion in the first quarter of 1961. Actual outlays in the second and third quarters of this year were at annual rates of $36¼ and $36 billion, respectively.

Plant and equipment expenditures for the year 1960 as a whole are now scheduled to total $35¾ billion, 10% above 1959. The present estimate for 1960 is about 4% below the amount projected in the early part of this year.

Bank Clearings 1% Higher Than In 1959 Week

Bank Clearings last week showed an increase compared with a year ago. Preliminary figures compiled by the *Chronicle*, based upon telegraphic advices from the chief cities of the country, indicate that for the week ended Saturday, Dec. 3, clearings for all cities of the United Sates for which it is possible to obtain weekly clearings were 1.0% above those of the corresponding week last year. Our preliminary totals stand at $25,781,246,019 against $25,522,716,965 for the same week in 1959. Our comparative summary for some of the principal money centers follows:

Week End. Dec. 10—	1960 (000s omitted)	1959	%
New York	$13,339,644	$13,738,330	— 2.9
Chicago	1,222,989	1,200,112	+ 1.9
Philadelphia	1,033,000	1,003,000	+ 3.0
Boston	767,273	750,984	+ 2.2

Steel Inventories Near Ten-Year Low

Steel inventories are approaching their lowest level in a decade, *Steel*, the metalworking weekly magazine, reported Dec. 12.

It is estimated that consumers have about 11 million tons in inventory, or less than they did at the end of last year's 116-day strike.

Inventories have been cut by as much as 8 million tons since April, making for an average monthly reduction of more than one million tons.

Consumers are thought to be using up steel at the rate of about 6 million tons a month. They'll probably get less than 5 million tons this month from suppliers (both U. S. and foreign), so stockpiles could again shrink by one million tons.

When consumers start buying as much steel as they're using, demand will increase by one million tons a month. To produce the additional tonnage, steelmakers will have to boost their operations to at least 60% of capacity.

As the first quarter progresses, look for increased buying by canmakers, appliance manufacturers, and farm equipment producers. They'll have steel inventories in shape and will be building up stocks of finished goods for spring sales.

Despite favorable trends in other industries, automakers will still have a dominant influence in the steel market's first quarter strength.

Although some mills report more orders on their books for January than they had a month ago for December, the general feeling is that most buyers are concentrating on immediate requirements.

What's more, they're trying to get the mills to accept less-than-carload orders. Steelmakers say they're not honoring such requests, but they are accepting an increasing volume of orders for miscellaneous cars — loads that consolidate small tonnages of several products.

Look for steel production to continue its sidewise movement at less than 50% of capacity this week. Last week, operations dipped slightly to 48.3% of capacity. Output about 1,376,000 ingot tons.

Steel's price composite on No. 1 heavy melting grade of scrap declined to $28.67 a gross ton last week, after holding at $28.83 for four weeks. Japanese scrap purchases for first quarter shipment are strengthening the Eastern market.

The battle for supremacy in supplying materials for the container market is getting hotter, *Steel* reported. Glass, paper, plastics and aluminum are chipping away at traditional tin plate markets.

But steelmen are developing thinner, stronger, and lighter tin plate. One company has announced commercial availability of the product and three others are said to be ready to go into full production when demand warrants.

The first light gage tin plate to be marketed weighs only a little more than half as much as the conventional tin plate, and it costs about one-third less.

Pick Up in Steel Orders Hard to Analyze

The slight pickup in steel orders that began a few weeks ago is still continuing, according to *The Iron Age*, national metalworking weekly.

But steel sales officials are still trying to decide if this gain is a reaction from a poor December or the start of a real upturn.

It is too soon to tell if the pickup is genuine, the magazine notes. But it says that January orders are ahead of what December bookings were at this time last month. And February looks better than January did this far ahead.

The improvement may be largely seasonal, *The Iron Age* says. December will be the worst month of the year, with operations over Christmas and New Years probably dropping below 40% of capacity. After that, orders now reaching the mills suggest a normal improvement in January.

Four reasons are given for expecting a better tone in steel markets: (1) The seasonal decline in tinplate explains part of the December slump; (2) year-end inventory cutting is another; (3) some steel users, notably the smaller plants, have slashed stocks drastically—some are now beginning to place orders through the first quarter; and (4) there has been a pickup in orders from farm equipment makers.

Against this, the magazine observes that there is not much optimism in Detroit. With some automakers reducing orders, setting them back, or actually cancelling, few steel men expect any good news from that direction in the near future.

Sales of new cars are being hurt by good cleanout deals on the 1960 models. And so far in this model year, compacts have taken 35% of production, but only 30% of sales.

Further, *The Iron Age* notes, Detroit is tightening up on specifications on stainless steel, and on nuts and bolts. Stainless trim on the '61 models will be better than ever because of new and more rugged tests for good surface. The general tightening of specifications, automakers say, is the direct result of the longer guarantees on new cars. Also, with business like it is, they know they can be tough and get away with it.

This Week's Steel Output Based On 48.7% of Jan. 1, 1960 Capacity

The American Iron and Steel Institute announced that the operating rate of steel companies will average *86.3% of steel capacity for the week beginning Dec. 12, equivalent to 1,387,000 tons in ingot and steel castings (based on average weekly production of 1947-49). These figures compared with the actual levels of *86.9% and 1,396,000 tons in the week beginning Dec. 5.

Actual output for last week beginning Dec. 5, is equal to 49.0% of the utilization of the Jan. 1, 1960, annual capacity of 148,570,970 net tons. Estimated percentage of this week's forecast based on that capacity is 48.7%.

A month ago the operating rate (based on 1947-49 weekly production) was 91.5% and production 1,470,000 tons. A year ago the actual weekly production was placed at 2,726,000 tons, or 169.7%.

*Index of production is based on average weekly production for 1947-49.

Auto Industry Aims for 550,000 Unit Output in December

In its bid for 550,000 car assemblies for December the auto industry scheduled 139,156 completions in the week ended Dec. 10, *Ward's Automotive Reports* said. The week's volume edged 2.8% above 135,348 for last week and was characterized by a minimum of overtime operations by Ford and AM Corp.

Ward's said GM Corp. took 50.0%, Ford Motor Co. 28.4%, Chrysler Corp. 11.9%, American Motors 8.5% and Studebaker-Packard Corp. 1.2% of the latest week's schedule.

Compact car building, according to the statistical agency, slipped to 32.2% of the week's output from 33.3% last week. Corvair output at Willow Run (Mich.) did not work Monday or Tuesday of this week although Corvair sales set an all-time record in November.

Ward's said Ford programmed its plants at Dallas (Texas) and Norfolk (Va.) for work on Saturday (Dec. 10), also Thunderbird output at Wixom (Mich.), Buick-Oldsmobile-Pontiac assembly at

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General Business Outlook

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dollar economy such a shift in a major "industry," government, cannot help being on the side of contraction, in the short run.

In spite of the large Treasury deficit, the growth of the money supply has been unsatisfactory from the standpoint of expectable growth rates of the economy. Since 1957, except in the 1958-59 recession, the money supply has been down or stagnant, until the last few months. Demand deposits and currency stood at $138.7 billion at the end of 1957; but 2½ years later (June 1960) the figure was lower by three quarters of a billion dollars. This was a potent contractive force. The threat of inflation and our international balance of payments troubles largely account for this sluggish behavior of the money supply. The Federal Reserve Board has not just one, but several policy goals and responsibilities.

While the Fed has moved aggressively toward credit ease in recent months, the international financial situation has thwarted its action.

Thus, the inventory decumulation, the Treasury shift from deficit to surplus, the stagnant money supply and the international balance of payments bind, are together quite adequate to explain the recent behavior of the economy. Indeed, in the face of these obstacles, the strength and level of the economy are surprising.

Other Factors

With the exception of a few lines (autos and appliances, for example), inventories by now are not far out of line with current sales—less than $3 billion above year-end 1957, since which time our population, work force and the entire economy have grown. Steel consumption is exceeding production. But inventory movements take time to turn; therefore some further decline in the next six months is probable. In the last two recessions inventory decumulation extended more than a year. This is now a negative factor.

Raw material and wholesale prices as a whole are stable or soft. Spot prices, a good barometer of demand, are weak, the lowest in 10 years, and adversely affect many foreign countries which rely on one or two basic exports for their foreign exchange.

Plants and equipment expenditures, which reached a high peak in 1957, have recovered moderately from the subsequent lows, but this year they have not reached boom proportions; therefore only a moderate decline of 5 to 8% (McGraw-Hill Publishing Co. says 3%) is expected from this year to 1961, yet the need for cost-reducing investments is urgent.

Total construction in 1961 should equal or exceed that of 1960. F. W. Dodge Corporation foresees a rise of 1% in the value of construction, but a 1% decline in physical volume of total building. Miles Colean and the Department of Commerce look for a rise of 4% to 5% in new construction to reach a new high level of over $57 billion; most of the rise will be in the public sector, even though it will be under one third of the total, with the expected private rise spread broadly across most major sectors including housing starts.

If the European boom continues, our exports should hold close to this year's levels. Agriculture marketings and net income will be about the same as in 1960. Automobile sales, for the new model year, starting out strongly with the new products, more compacts and more reduced-size cars, should be close to those of the last year; but because of high current inventories, auto production may be lower in 1961 than in 1960.

Paperboard sales, new orders and unfilled orders are below a year ago. Manufacturers' sales and unfilled orders are below those of a year ago, when we were in the steel strike slow-down. In October their sales, new orders and unfilled orders were below September; this was the case for both durables and non-durables as well as nearly all of their subclasses. But one month doesn't prove a trend. Consumer debt, including installment is at an alltime high.

The majority of the "leading" indicators of the National Bureau of Economic Research does not suggest imminent general expansion.

Government

The only major "growth" industry for 1961 is government. Total government purchases of goods and services by the end of 1961 will show a steady rise, quarter by quarter, since the first of 1959 right through 1961 and 1961 (except for a small decline in the fourth quarter of 1959). More state and local government bond issues have been approved this year than ever before—involving expenditures which will carry over into 1961. Of the estimated rise of $8 to $10 billion in government purchases of goods and services from the first quarter of 1960 to the final quarter of 1961, some 60% will be at the state and local level. Any substantial increase in national government expenditures, whether national security or other, could raise these totals and shrink the state and local as a proportion of the total.

The budget of fiscal 1961 probably will show a deficit, to be followed by a larger deficit in fiscal 1962, for which the squeeze of corporate profits will be heavily responsible.

Loan Funds and Interest Rates

Loan funds will be relatively more abundant in 1961, and interest rates should be lower. On the plus side is the subsidence of inflationary psychology, for the time being; this has encouraged greater credit ease and somewhat lower interest rates — the latter confined largely to the short-term money market, so far. Quite early, as long ago as March and April of 1960, the Federal Reserve Board began to take numerous steps to improve bank lending capacity; while our continued international balance-of-payments difficulties may impair additional credit ease, the early and continued moves by the Fed will probably continue the credit ease, even though the international balance-of-payments is against us. Commercial bank debts at the Federal Reserve Banks have declined by 85% in the last 12 months and free reserves have risen substantially, putting the banks in a stronger lending position.

The need for further growth of the money supply, as noted above, is urgent if monetary policy is to help put a floor under recessionary tendencies, even though there has been a rise of over $3 billion (unadjusted) since early summer. The current credit situation is a strong plus shift, but only of very recent origin in any substantial sense.

Conclusions

If all of the foregoing is a reasonably accurate assessment of the current situation and the prospects, the 1960-61 readjustment will be mild. From late 1960 to mid-1961 GNP will decline by only 1 or 2%. Personal income and disposable income will decline even less.

The retarded economic growth plus growth in the work force will increase unemployment, particularly evident in the first quarter of 1961. Undue wage-fringe increases, resistance to removal of uneconomic work practices, and a rise in the legal minimum wage would price more persons out of employment. Unemployment is likely to average higher than in 1960, and be troublesome.

But unsettled world conditions, our international balance-of-payments troubles and a new Administration in Washington may alter the trends as seen on Dec. 2, 1960. The art of forecasting, feeble at best, cannot fathom these unknowns.

*A statement by Mr. Schmidt at the conference on the Business Outlook for 1961 sponsored by the Chamber of Commerce of the United States, Washington, D. C., December 2, 1960.

PUBLIC UTILITY SECURITIES

BY OWEN ELY

New England Gas & Electric Association

New England Gas & Electric Association is one of the two principal utility holding companies in New England; it was recapitalized in 1947. The subsidiaries — Cambridge Electric Light, Cambridge Gas, Cape & Vineyard Electric, Plymouth County Electric, Worcester Gas Light and New Bedford Gas & Edison Light—supply gas and electricity in about 40 communities (all in Massachusetts); and steam to Harvard University, (through Cambridge Steam Co.), and 28 other customers. Cities served with both electricity and gas include New Bedford, Plymouth and Cambridge; and with gas alone Somerville, Worcester, Framingham and the Hyde Park district of Boston; Cape Cod has electricity only. About 51% of system revenues is derived from electricity, 47% from gas, and 2% from steam heating. Electric revenues in 1959 were 39% residential, 25% commercial, and 24% industrial.

Despite the fact that New England has been considered a backward area industrially, NEGEA's revenues have increased from $31 million in 1950 to nearly $55 million currently, a gain of 77% in the decade. The decline in old-line textile, machine tool, and leather and shoe industries is being largely offset by the rapid growth of electronics and other research-based firms, especially in the Cambridge area, while the Cape Cod region is benefiting from active development of recreational activities.

Over 89% of the power sold by the four electric subsidiaries was supplied by the Cambridge and New Bedford generating plants; nearly 5% was purchased on firm contract from a neighboring utility, and 6% was obtained by economy-flow interchange. The company's plants are well adapted to use various kinds of fuel, whichever is cheaper; fuel consumption in 1959 was 47% oil, 41% natural gas and 12% coal. Presumably oil was available at lower prices since its use as fuel doubled as compared with 1958. The cost of each of the fuels averaged less than in 1958, which accounted for the small increase in the total bill for fuel despite about 7% greater volume of fuel used in the electric plants. The three generating stations had an average fuel efficiency of approximately 13,800 BTU per KWH produced. Substantial operating economies are anticipated from the new interconnection and power interchange with Montaup Electric (affiliated with Eastern Utilities Associates) completed in recent months.

The system obtains natural gas from Algonquin Gas Transmission (34.5% owned) and Tennessee Gas Transmission. NEGEA also maintains 100% manufactured gas standby; at present its highly efficient oil-gas sets are used only moderately for peak shaving, but usage is expected to increase as the system load grows. With substantial production it has been reported that gas can be manufactured almost as cheaply as natural gas is obtained, due in part to the long haul in the pipelines. Use of natural gas as boiler fuel, together with interruptible sales to customers, have sustained the use of gas in the summer months.

The company is in a position to benefit by both gas and electric househeating in various parts of its territory. Over-all domestic heating sales increased over 11% in 1959 despite warmer weather; the number of house-heating customers increased 4,562 or over 6%. There has been greater growth in gas heating, and saturation is now about 51%.

The construction program in 1959 was about $7.7 million, principally for transmission and distribution facilities, and the outlay in 1960 should approximate $9 million, with about the same amount for next year. The company has acquired a power site near Sandwich for a future generating plant of about 225,000 kw, but this is some years off. The credit for interest on construction is currently quite small and will probably remain at a low level until a new generating plant is built.

The equity ratio is now around 40%, hence equity financing does not seem imminent; a 35% ratio would probably be satisfactory.

Worcester Gas Light obtained a rate increase at the end of June amounting to about $600,000, or 11¢ a share on the stock of the holding company, the effect on earnings being divided about equally between this year and next. There have been various changes in the cost of gas furnished by suppliers, but these (both increases and decreases) are largely passed on to NEGEA customers.

Earnings per share, while irregular during 1950-53, increased in each year thereafter — from $1.23 in 1953 to an estimated $1.80 for 1960—or an average annual increase (compounded) of 5.6%, which is close to the industry average. Dividend policy has remained conservative, annual payments raising from 95¢ in 1950 to the recently increased rate of $1.24.

For the 12 months ended Oct. 31, 1960, earnings were $1.78 on the average number of common shares outstanding, compared with $1.70 in the previous 12 months. Gas sales (mcf) were up 3%, electric sales nearly 4% and revenues over 5%. The number of degree days was 5,704 compared with 6,038 in the earlier period; and despite warm weather in November, sales were off only 1% in that month. The hurricane this fall cost the company about 7¢ in earnings, some of which has already been absorbed, while the balance will be amortized over the next two years.

The stock is currently selling over-counter around 24½ to yield 5.1%. The price-earnings ratio is about 13.6.

With Mutual Fund Assoc.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Phillip B. French has become associated with Mutual Fund Associates, Inc., 3837 Wilshire Boulevard. In the past he was with Crowell, Weedon & Co.

THE MARKET . . . AND YOU

BY WALLACE STREETE

The strength in this market still seems to be confounding many of the market experts. It was not too long ago that the bears were looking for 500 in the Dow-Jones averages and some diehards were even looking for 400. Even the most optimistic bull was willing to admit things looked pretty rocky, and certainly his most optimistic estimate for the short-term was not much over 600 in the averages.

The business figures still do not look particularly encouraging, what with unemployment hitting new highs for November and lay-offs in basic industries still continuing. There is, however, a gleam of light in the sharp increases in the heavy construction contracts that have been awarded. Road building and municipal building contracts have shown very sharp increases.

Depression Doubted

Another important factor which certainly cannot be charted is the fact that no one really seems to believe that there is going to be a depression. A recession yes, but we have had many of these in the last 20 years and we have always worked out of them to make another new high in business. The feeling seems to be that this is just another cycle. As long as this confidence remains the consumer would be willing to spend, and one of the amazing things about this recession is that the consumer still has money to spend. Savings and Loan Associations report very sharp increases in their deposits, and in fact most of the banks around the country are also making the same report.

Some "Tax-Sold" Stocks

This does not help the analyst too much when one tries to decide what should be bought. Certainly the old rule about buying stocks that are depressed by tax selling might still be in effect. However, it would also seem that one is going to have to be particularly selective this year. Some of the road building stocks might be very attractive. Mack Truck looks particularly interesting. The company is expected to earn in the neighborhood of $4.00 to $4.25 in the current year which is down from last year's $5.71. In 1960 the stock sold as high as 52 and at the present price of 34 is down about 18 points from its high. The yield is about 5½% and unless something unforeseen develops, this dividend should be continued. There have been some basic changes in the company one of which is the relocation of the company's main plant to Frederick, Maryland. The new equipment in this plant should help to reduce operating costs and the immediate benefit would also be a much better labor contract than the one that existed in the old plant. For the person willing to take a slightly greater risk, the company has warrants outstanding on the American Stock Exchange.

Another interesting stock might be Fruehauf Trailer. This company's business at the present time leaves a lot to be desired. The company has trimmed down its operations, and should there be a general pickup in business in the next year or so, this company could have a very nice recovery. The high in 1960 was 30 and the present price of 19 is within a couple of points of the low of the year.

Steel in a Squeeze

The steels are a group that are particularly hard to analyze. Inventories do seem to be depleted, and although there is no indication of an early rush to buy, undoubtedly better business will materialize. However, recently the industry was hit by wage increases that were guaranteed under the labor contract that was settled last year. It seems unlikely that the steel picture will brighten enough so that these companies will be able to pass this increase along to the consumer by increasing the price of steel. The industry is still having competitive problems from abroad also. It is possible that there may be a technical reaction when the tax selling lifts so that if one were to buy in this group, we would most certainly stick with the leaders, including Jones & Laughlin, Republic, Allegheny Ludlum and Granite City.

Stocks from Santa Claus

Parents seeking a worthwhile Christmas present for their children might consider giving their progeny a share in American business. Not only can this be of value towards insuring their future education and educating them in financial matters, but it can also be made to open new avenues of interest to them. If a child has a particular interest such as electric trains or rockets or missiles, a few shares of a good railroad stock or a good missile stock can be just as exciting as a new toy. He will receive regular dividend checks which will encourage him towards saving and he will also receive the annual reports. Many of these annual reports today make interesting reading, for the children if not for the text, certainly for the pictures that are contained.

One should be extremely careful as to how these securities are given. If the security is given in the child's name one can get involved in all kinds of legal wrangles. In fact, it can be argued that once the certificate is in his name that it cannot be sold until he is 21. On the other hand, most States now have custodian laws which resolves these problems. One's broker can set this up with very little time and effort. The only point that must be remembered here is that if a father sets up the custodian account for his child, he must name someone other than himself as custodian. This other person may be his wife or his grandmother, *et al.* In this way the income can be tax-free to the parent,* and also the stock accumulated does not return to the father's estate should the father die. For the parent who sets up the account and names himself custodian, the securities that are accumulated would revert to his estate should he die before the minor reaches majority.

*Subject to certain provisions.

Signing Up for Additional Holiday

Another thing which should be considered is that if this program is being developed on a continuing basis so that gifts may be added for Easter, birthdays or any other special occasion, and if it is possible these sums might eventually accumulate into a sizable amount of money, it would be wise to discuss the problem with a lawyer with a thought of setting up a simple Trust Agreement.

The Trust instrument when properly drawn can give almost unlimited powers to the Trustee as far as buying and selling and accumulating funds for the minor's account. The tax benefits that can accrue can be substantial, but once the Trust is drawn it is irrevocable so that it is important to establish when it is set up exactly what is wanted.

[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.]

W. F. Parvin With Funk, Hobbs, Hart

SAN ANTONIO, Texas—William F. Parvin has become associated with Funk, Hobbs & Hart, Inc., National Bank of Commerce Building, members of the Midwest Stock Exchange, as Vice - President and manager of the municipal bond department.

William F. Parvin

Mr. Parvin, who has been in the investment business for many years, was formerly a partner in Austin, Hart & Parvin. In the past he was manager of the municipal department for the City National Bank & Trust Company of Kansas City, and was executive manager for Roe & Company of San Antonio.

Ryan May Act as Inv. Consultant

HONOLULU, Hawaii — Former Wall Streeter William F. Ryan, who has been in Hawaii since October, 1959, as account executive with Schwabacher & Co., has resigned. An East Asian specialist in the diplomatic service during the Truman Administration, he has received an offer to act as consultant to a Japanese stock-brokerage firm in Tokyo, but as yet he has not announced his future plans.

Prior to joining Schwabacher & Co., Mr. Ryan was associated with Merrill Lynch, Pierce, Fenner & Smith in New York City and Detroit.

Mr. Ryan is an officer of the Investment Society of Hawaii.

Joins Wagner Staff

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio — Charles S. Thomas has joined the staff of Wagner & Co., 5 East Long Street.

FROM WASHINGTON ...Ahead of the News

BY CARLISLE BARGERON

The so-called Liberals in the House and Senate are threatening to be worse enemies of President-elect Kennedy than any coalition of the conservative Republicans and Democrats. As of now, they are threatening to attempt to change the rules of the Senate at the outset of the session. They would change the rules to prevent filibustering by providing that a simple majority is necessary to cut off debate.

Senator Mansfield, who is expected to become majority leader, has argued that the Liberals' proposal will simply tend to tear the party to pieces before President Kennedy can get through his program or any part of it. It would bring on the very coalition which the Administration fears.

The reason the Liberals want to change the rules is in order to pass more civil rights legislation. It is hard to see just why any more legislation is needed. Mr. Kennedy during the campaign said that more progress could be made in the field of civil rights by Presidential leadership. The Negroes now have the right to vote and are voting in the South. It was the heavy Negro vote in states like North Carolina and South Carolina and Texas which favored the Kennedy cause, according to the Gallup Poll. No more legislation is needed, and if it is sought it will throw the Senate in the throes of a filibuster right at the outset.

This, Senator Mansfield and other leaders of the Senate do not want to see. It would endanger Mr. Kennedy's legislative program. The Liberals, however, see civil rights to the exclusion of everything else. They are not a very responsible lot, impractical rather than practical, out to make a record regardless of whether they accomplish anything or not.

Mr. Kennedy's cabinet appointments so far are not very reassuring to the majority of businessmen, particularly in the case of his Budget Director. His emphasis has been upon youth and men of vigor but without the maturity that comes with added years.

David E. Bell, his Budget Director, has been Secretary to Harvard's School of Public Administration and a teacher in its Economics Department — where Federal spending is considered a positive virtue. Bell looks very favorably upon Kennedy's "New Frontiers."

He is convinced that the budget is a device for achieving social gains, not a sound dollar. In contrast to the present Director, Maurice Stans, he is expected to push almost every agency's budget request, and all legislation needed to enact Kennedy's program which, according to various estimates, will cost $17 billion more than the country is now spending.

A veteran Washington reporter, Jerry Klutz of the *Washington Post*, says that Bell intends to pursue the same policies as Roosevelt's wartime director, the late Harold Smith. The latter used every means at his command to wring every penny from Congress that he could.

Smith would actually prod Cabinet members into asking for more money than they thought was necessary. He would ask them if they were sure what they asked for was all they needed. "Perhaps, you will need a substantial increase to do the job," he would say.

Of course, his budget was financed by wartime wage and price controls and deficit spending.

John K. Galbraith, another Harvard adviser to the President-elect, advocates price and wage controls in his newest book "The Liberal Hour."

Chester Bowles, the new Under-Secretary of State, was OPA Administrator during the war and he kept business in a turmoil by trying to use the price regulations to make the country over. Galbraith was with him.

Bowles, won't have anything to do with business in his new post, of course, but he is an impetuous fellow, a confirmed Liberal, who made $10 million out of the advertising business and then, much to our misfortune, decided to devote himself to public service.

Pacific Coast Secs. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — John E. Lalich is now with Pacific Coast Securities Company, 1054 Broxton Street. He was formerly with Marache, Dofflemyre & Co.

MUTUAL FUNDS

BY ROBERT E. RICH

Look Back in Anguish

"I often wonder what the vintners buy
One half so precious as the goods they sell."
—RUBAIYAT OF OMAR KHAYYAM.

Few fundmen look back with pleasure on the fading year. For most of them, 1960 has been a trial, sometimes even an ordeal. Some of the more nimble have been able to console themselves and, more importantly, their stockholders with the thought that they were not buffeted nearly so badly as the go-it-alone owners of individual issues. Finally, there are the select few who can point to 1960 as a stand-out year and pray that pride goeth not before a fall.

For the most part, however, investment managers will nod ruefully at these words from the latest annual report of the Los Angeles-based American Mutual Fund: ". . . in a broad and severe decline in the securities market, the stocks of even the best companies can go down as well as up." This was a prelude to acknowledging that in the year ending Oct. 31, 1960, net assets per share of that fund, as well as innumerable others, sustained a decline.

But fundmen, no less than motor moguls, must exude confidence at the oncoming year. The question, of course, arises as to what they are pinning their hopes on — what are they buying and what are they selling? Scanning their buying and selling record of the latter part of this year will confuse the denizen of the marketplace as completely as the vintners of ancient Persia perplexed the astronomer-poet. Thus:

Lockheed Aircraft was being sold by Television - Electronics Fund while that same stock was being snapped up by Chase Fund of Boston, and Affiliated Fund. Georgia - Pacific, the plywood kingpin, was a sale at Lazard Fund and a buy for National Investors.

In the matter of the oils, out of favor the last few years, Carriers & General Corp. and Nation-Wide Securities eliminated their holdings of Pure Oil, but Institutional Growth Fund and State Street Investment were adding substantially to their already sizeable interest in Pure. Indeed, Pure Oil fared far better than such internationals as Standard Oil (New Jersey) and Texaco, which found few friends.

The world's premier investment equity, American Telephone & Telegraph, probably fared as well as any issue. While State Street Investment sold 5,500 shares, it did retain 115,160 shares of A. T. & T. Meanwhile, a dozen or so funds were making a new commitment or adding to their already considerable ownership of that blue chip.

If there was a large degree of unanimity about the bright prospects for Telephone, there also was a goodly measure of agreement on the poor outlook for paper and pulp issues. It wasn't so many years ago that these very stocks had almost as much glamour as today's electronics companies.

Agreement by the funds on the outlook for a stock or industry, of course, is no infallible guidepost to fat capital gains. This was being demonstrated in the closing days of this year in the case of Deere & Co., the top-flight producer of farm equipment. The investment research department of E. F. Hutton & Co. pointed out: "Important single areas of agreement (by investment companies) were seen in the sale of Deere & Co. by seven funds—this in contrast to considerable accumulation of this issue during the last quarter of 1959." Well, those who persisted in the view that Deere was cheap have cause to congratulate themselves, for the stock has been turning up on the list of new highs.

One thing is sure: if you don't like the style in stocks, then stick around, because it's certain to change. Thus, investment managers who invariably fled at the suggestion that they take a screen test, now are showing unusual interest in movie stocks.

None of the foregoing is designed to make your Christmas shopping easier, especially if you've thought of gifts of securities. Still, as the helpful folks down at the National Association of Investment Companies note, you can simplify your "gift-giving" by purchasing shares of mutual funds or closed-end companies. At that, you do have a wide selection — there are 187 on the N. A. I. C. counter.

All you have to do is pick the right one. Anyhow, there's always this solace: the recipient won't know for a long time to come. So there's small likelihood he or she will turn it back for cash or something else before the mistletoe has been taken down.

Incorporated Income Fund reports that at the close of the Oct. 31 fiscal year net assets totaled $103,612,945, equal to $8.93 a share on the 11,608,743 shares. This compares with year-ago assets of $101,081,274 and $9.56 a share on 10,568,416 shares.

* * *

Axe-Templeton Growth Fund of Canada, Ltd. reports net assets (in Canadian funds) at the end of the Oct. 31 fiscal year totaled $5,372,453, or $8.64 a share. This compares with $4,144,464 and $7.10 a share a year earlier. Shares outstanding increased to 621,981 from 583,683 at the end of the preceding year.

* * *

Templeton, Damroth group of funds during November showed an increase in sales from the previous month and the like month of 1959, but said "an analysis indicates the increase to date is due largely to the addition of new dealers." It asserted that "investors have turned cautious since the election and many seem to be postponing purchases pending clarification" of the new Administration's policies.

* * *

Continental Growth Fund reports that since its June 30 semi-annual report it has added these holdings: Siemens & Halske, Norwich Pharmacal, Scott & Fetzer, Holt, Reinhart & Winston, Inc., Coastal States Gas Producing Co., Beauty Counselors, Inc., Cenco Instruments and Suburban Gas.

"Near-term prospects for business are for further softness," according to Dr. John W. Harriman, economist for **Tri - Continental Corp.** But the recession now in progress probably will be mild, he said, adding that "by the second half of 1961 the economy will have reversed the downward movement."

* * *

Energy Fund reports that at Nov. 30 net assets totaled $13,932,568, equal to $20.18 on each of the 690,308 shares outstanding, against $9,181,367 assets, $21.29 a share and 431,189 shares a year earlier.

NEWS ABOUT BANKS AND BANKERS

Consolidations • New Branches • New Offices, etc. • Revised Capitalizations

The Chase Manhattan Bank, New York, has promoted Milton J. Redlich to Vice-President, George Champion, President, announced yesterday. Mr. Redlich will become head of the agency administration division of the trust department on Dec. 19, succeeding J. Bryson Aird, who retires at the end of the year.

Mr. Redlich joined the **Seaboard National Bank, New York,** in 1929. (Seaboard National merged with Equitable Trust Company in 1929 and Equitable became a part of Chase National Bank in 1930.) He was appointed a corporate trust officer in 1950 and was promoted to Assistant Vice-President in 1957.

* * *

Chemical Bank New York Trust Company opened its 106th metropolitan banking office on Dec. 12, at Maiden Lane & Pearl Street, it was announced by Chairman Harold H. Helm.

Assistant Vice-President James D. Elleman will be in charge. His staff includes Chandler L. Mahnken, Assistant Secretary; Raymond H. Mazanec, Assistant Manager, and Miss Jeanne Hausman, Officers' Assistant.

* * *

On Dec. 5, Harold E. Harris, Vice-President of **The Chemical Bank New York Trust Company, New York,** died at the age of 57.

In 1926, Mr. Harris joined Chemical in a junior clerical post. In 1952, he became Assistant Vice-President, and Vice-President in 1957.

* * *

Appointment of Harry J. McKeever as an Assistant Vice-President of **Manufacturers Trust Company, New York,** was announced by Horace C. Flanigan, Chairman of the Board.

Mr. McKeever, who is assigned to the bank's Branch Administration department, joined Manufacturers Trust in 1925 and was appointed an Assistant Secretary in 1955.

* * *

Appointment of Cora R. Callahan as an Assistant Secretary of **Manufacturers Trust Company** was also announced by Mr. Flanigan.

Miss Callahan came to the bank in 1943. The appointment of Miss Callahan brings the total number of women officers of the bank to 35.

* * *

George O. Nodyne, President of the **East River Savings Bank, New York,** announces that at the Board of Trustees Annual Meeting, Walter H. Nelson, Walter G. Driscoll, and Walter H. Baily, former Assistant Vice-Presidents were elected Vice-Presidents.

* * *

Approval for an office in West Hempstead has been received from the New York State Banking Department, according to an announcement by Frederick Hainfeld Jr., President of **Long Island Trust Co., Garden City, N. Y.**

Subject to approval by the Board of Governors of the Federal Reserve System, the bank's new branch, to be known as the Cherry Valley office, will be located at 490 Hempstead Turnpike at the corner of Cherry Valley Road.

The new office will open in temporary quarters at the same address about the first of the year. Permanent quarters are under construction with completion expected in the spring of 1961.

* * *

On Dec. 8, Ben C. Peticolas, 53, Executive Vice-President of the **Meadow Brook National Bank in West Hempstead,** died.

Before joining Meadow Brook, Mr. Peticolas was a Vice-President and Controller of the **Passaic National Bank and Trust Company, Passaic, N. J.** and a former President of the **First National Bank and Trust Co. of Kearny, N. J.**

Mr. Peticolas joined Meadow Brook in 1953 as a Vice-President and was named Executive Vice-President in 1958.

* * *

A merger certificate has been issued approving and making effective Nov. 30, the merger of **The Salem National Bank, Salem, N. Y.,** with common stock of $50,000, into **The Manufacturers National Bank of Troy, Troy, N. Y.,** with common stock of $1,500,000, under the title of **The Manufacturers National Bank of Troy,** with capital stock of $1,562,500, divided into 62,500 shares of common stock of the par value of $25 each.

* * *

The plan to merge of the **Merchants National Bank & Trust Co. of Syracuse** and the **Cicero State Bank,** which has already been approved by the Directors of both banks, will take effect March 1, pending stockholder approval.

* * *

By a stock dividend, **The Framingham National Bank, Framingham, Mass.,** has increased its common capital stock from $300,000 to $450,000, effective Nov. 29. (Number of shares outstanding—45,000 shares, par value $10.)

* * *

The First National Bank and Trust Company of Kearny, Kearny, N. J., has increased its common capital stock from $700,000 to $800,000, by the sale of new stock, effective Dec. 1. (Number of shares outstanding—32,000 shares, par value $25.)

* * *

The National State Bank of Newark, N. J., announced that it will pay a stock dividend of 40,000 shares at the rate of one new share for each 14 held.

In addition, the bank plans to offer 40,000 additional shares, par value $12.50, for subscription by the shareholders at $52.00 per share on the basis of one for each 15 shares of capital stock held, after diving 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 640,000 shares from 560,000 and capital stock from $7,000,000 to $8,000,000. Surplus account would be increased from $20,000,000 to $22,000,000.

The bank also announced that at the monthly Board of Directors' meeting held Dec. 8, two new members were appointed to the Board. The new Directors are Mr. Nicholas Dekker, and Mr. William H. Keith, Executive Vice-President of the bank.

* * *

Western Pennsylvania National Bank, Pittsburgh, Pa., has received permission from the Comptroller of the Currency to open a new banking office on McKnight Road in the North Hills, M. A. Cancelliere, President, announced.

* * *

R. William Oster has been elected a Director of the **Baltimore National Bank, Baltimore, Md.,** according to Hooper S. Miles, Chairman.

* * *

The Maryland State Bank of Montgomery County, Gaithersburg, Md., and **Suburban Trust Co., Hyattsville, Md.,** merged under the title of the Suburban Trust Company. The date of effect is Dec. 1.

* * *

The election of two new officers at **Central National Bank of Cleveland, Ohio,** was announced Thursday, Dec. 8, by James J. Nance, President of the bank.

Donald W. Fraser was elected Assistant Vice-President in the National Division of the Commercial Banking Department. Norman A. Hodgson was elected Manager of consumer services at the bank's Main Office.

* * *

The application of the **National Bank of Lorain, Lorain, Ohio,** and the **Lorain Banking Company, Lorain, Ohio,** to consolidate under the title of **The Lorain National Bank,** has been approved. The effective date is to be determined.

* * *

The conversion of the **Merchants Trust Company, Muncie, Ind.,** and its two branches, into the **American National Bank and Trust Co. of Muncie, Muncie, Delaware County, Ind.,** was effective as of Nov. 30. Its President is H. E. Woods and its Cashier is James O. Timbrook. The bank has a total capital and surplus of $1,327,946.25.

* * *

Mr. C. Edgar Johnson has been named Senior Vice-President, but will continue in charge of the operating and personnel department, of the **First National Bank of Chicago, Ill.** Also, James Thomson was appointed a Vice-President.

* * *

The Peoples National Bank of Chicago, Chicago, Ill., has increased its common capital stock from $300,000 to $500,000, by a stock dividend, effective Nov. 30. (Number of shares outstanding—50,000 shares, par value $10.)

* * *

On Nov. 30, a certificate was issued approving and making effective the merger of **Kaspar American State Bank, Chicago, Ill.,** with common stock of $250,000, into **Central National Bank in Chicago, Chicago, Ill.,** with common stock of $2,500,000, under the title of **Central National Bank in Chicago,** with capital stock of $2,750,000, divided into 275,000 shares of common stock of the par value of $10 each.

* * *

George F. Parker, Jr. has been elected Executive Vice-President of the **National Bank of Detroit, Detroit, Mich.** Norman B. Weston was also elected a Vice-President and Assistant Trust Officer to succeed Mr. Parker. Also Vice-Presidents Raymond J. Hodgson, Richard D. Mange and Robert M. Surdam were elected Senior Vice-Presidents.

The Johnson County National Bank and Trust Co., Prairie Village, Kansas, had increased its common capital stock from $400,000 to $500,000, by a stock dividend, effective Nov. 29. (Number of shares outstanding — 5,000 shares, par value $100.)

* * *

By a stock dividend, the **Southern National Bank of Lumberton, Lumberton, N. C.,** has increased its common capital stock from $450,000 to $600,000, effective Nov. 28. (Number of shares outstanding—60,000 shares, par value $10.)

* * *

By the sale of new stock, the **Florida National Bank at Arlington, Arlington, Florida,** has increased its common capital stock from $150,000 to $250,000, effective Nov. 29. (Number of shares outstanding — 10,000 shares, par value $25.)

* * *

By the sale of new stock, the **Commercial National Bank in Shreveport, Shreveport, La.,** has increased its common capital stock from $5,000,000 to $5,250,000, effective Nov. 28. (Number of shares outstanding—210,000 shares, par value $25).

* * *

A charter has been issued to the **Arapahoe National Bank of Boulder, Boulder, Boulder County, Colo.** It will have J. H. Kingdom as its President, Michael C. Trent as its Cashier, and a total of $400,000 in capital and surplus.

* * *

The **Bank of America National Trust and Savings Association, San Francisco, Calif.,** has announced the appointment of Robert Leigh James as Washington Representative.

* * *

The **Bank of America, San Francisco, Calif.,** has appointed Gordon Toledo as Resident Vice-President for Europe. Y. J. Johnson will succeed him as Vice-President and Manager of the London branch.

* * *

The President and Board Chairman of the **Royal Bank of Canada,** Madison M. Walter, died on Dec. 9, at the age of 63.

Alloys Unlimited Common Offered

Newburger, Loeb & Co. and C. E. Unterberg, Towbin Co. offered on Dec. 14 135,000 shares of Alloys Unlimited, Inc. common stock at $15 a share.

Of the total, 75,000 shares are being sold by the company and 60,000 for the account of selling stockholders. The company will use part of the proceeds to repay certain bank borrowings, part to expand its operations into new areas, part for research and equipment to improve present facilities, and the balance to increase working capital.

Alloys Unlimited, Inc., formed in July 1957, manufactures alloy components for a wide range of semi-conductors and sells such components to manufacturers of semi-conductor devices.

Upon completion of this financing, capitalization will consist of 525,003 outstanding shares of common stock.

Dempsey-Tegeler Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Victor Adorian has joined the staff of Dempsey-Tegeler & Co., 210 West Seventh Street.

With Murch & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — James F. Skufca has been added to the staff of Murch & Co., Inc., Hanna Building, members of the New York Stock Exchange.

BANK AND INSURANCE STOCKS

BY LEO I. BURRINGTON

This Week — Bank Stocks

THE MAJOR PHILADELPHIA BANK STOCKS

In the "City of Brotherly Love" the seemingly complacent attitudes held by bank officers may be giving way to enthusiastic activity. Provident Tradesmens Bank and Trust Company recognizes this movement by headlining its advertisements—"Things are changing in Philadelphia." As the biggest city in the nation's third most populous state, it is unique, indeed, that Pennsylvania's largest bank is located elsewhere. In conversation with a Philadelphia banker recently, this columnist was again reminded that a major reason why Philadelphia banks lag in growth relative to the nation is that there are too many banks around. This drastic loss of leadership, greatest by far for a leading area, is nonetheless tempered by merger steps in recent years. During the past ten years the number of Philadelphia banks has been reduced from 34 to 15 banks, and since 1949 the eight-county Philadelphia Metropolitan area has reduced its commercial banks from 162 to 98.

Pennsylvania leads all states in the number of banks where branch banking is permitted, yet the number of branches just slightly exceeds the total number of banks. Even Pittsburgh's second largest bank presently has more branches than any of the leading Philadelphia banks. Again, however, the trend is encouraging since Philadelphia's commercial banks at the end of 1959 had 205 offices as against only 106 in 1949. A dramatic change is underway with the recent announcement of merger plans for the city's second and third largest banks. A decision by the Comptroller of the Currency is expected shortly on the proposal to merge Girard Trust Corn Exchange Bank into Philadelphia National Bank.

The combined bank, to be named Philadelphia Girard National Bank and Trust Co., will have assets of $1,750 million, deposits in excess of $1.5 billion, and capital funds of $150 million. It will restore Philadelphia National to top rank position in the city, which it lost in 1955 to First Pennsylvania Banking and Trust Co. The number of branches will total 66 and thereby surpass Mellon National of Pittsburgh temporarily on this characteristic. The merger combines Girard, noted mainly for its trust and retail banking services, with Philadelphia National which is more concentrated in wholesale banking activities. The latter has held its lead as Philadelphia's leading bank for correspondent bank balances. The proposal calls for Girard shareholders to receive 1.2875 shares of the merged bank for each share of Girard stock currently held. Stockholders of Philadelphia National will retain shares currently held. The merged bank expects to establish a $2 annual dividend rate.

Major Philadelphia Bank Stocks

		Percentage Gain*				
	Deposits† 9/30/60	Total Deposits	Total Assets	Total Loans	Oper. Earns.	Book Value
First Penn. Bkg. & Tr. Co.	$1,036	0.1	3.5	10.4	18.0	3.7
Philadelphia Natl. Bank	935	6.7	7.3	10.4	18.9	3.7
Girard Tr. Corn Exch. Bk.	663	3.9	2.4	3.4	21.3	3.1
Provid. Tradesmens B & T	452	6.1	0.9	10.6	9.4	1.5
Fidelity-Phila. Trust Co.	425	5.2	4.9	7.2	9.2	3.3
Central-Penn. Natl. Bank	245	3.0	3.4	11.7	18.9	1.2

†Millions of dollars. *Sept. 30, 1960, over Sept. 30, 1959.

In line with the excellent progress being made in 1960 by banks generally, the Philadelphia banks are enjoying another highly profitable year as in 1959. Future substantial gains depend largely on the active programs underway in the "Keystone State" for industrial development, redevelopment and urban renewal to bolster Philadelphia's good geographic position as a distribution center in particular. Much of the progress has centered around the city's Delaware river port, the second largest port in the U. S. Bulk materials, such as petroleum, sugar and chemicals, account for more than half of the Port of Philadelphia's incoming cargoes. The banks are giving more attention to foreign business. During 1960, First Pennsylvania acquired The Virgin Islands National Bank and announced it ultimately plans to expand in the Caribbean and Central American areas.

Per Share Statistics

	Aprx. Bid Price Range 1960-59	Recent Mean Price	Divid.	% Yield	Est. 1960 Earns.	*Book Value	Shares Outstdg. (000)
First Penn. Bkg. & T. Co.	52-44	50	$2.30	4.60	$4.20	$39.85	2,370
Philadelpria Natl. Bank	45-40	44	2.10	4.77	3.50	35.74	2,648
Girard Tr. Corn Exch. Bk.	58-51	56	2.65	4.73	4.75	44.27	1,692
Provid. Tradesmens B & T	60-53	58	2.85	4.91	5.00	52.74	1,093
Fidelity-Phila. Trust Co.	57-44	53	2.50	4.72	4.65	43.59	957
Central-Penn. Natl. Bank	50-38	45	2.20	4.89	3.90	42.54	590

*Book value as of Sept. 30, 1960.

A healthier attitude toward retail banking services is emerging. The five biggest Philadelphia banks have check-credit plans operating. Since 1959 time deposits development has been enhanced by offering a 3% return on such deposits. In 1960, the Greater Philadelphia Small Business Investment Co., owned 40% each by Philadelphia National Bank and First Pennsylvania and 20% by Central-Penn National Bank, was organized.

Present stockholders are receiving increased dividends this month. Year-end extras have been declared as follows: Philadelphia National, 10 cents; Girard Trust Corn Exchange Bank, 25 cents; Provident Tradesmens, 25 cents; Fidelity-Philadelphia Trust, 30 cents, and Central-Penn, 20 cents. Although the annual payout by First Pennsylvania remains the same at $2.30 as in 1959, when a 10c extra was declared, the annual rate of $2.50 is an increase over $2.20.

While Philadelphia banks continue to hold investment interest primarily as sound income stocks, the future may find several of the issues as healthy growth situations, as well, should banking services undergo more intensive development.

L. J. Fertig Joins Fulton, Read & Co.

FT. WAYNE, Ind.—Fulton, Reid & Company, Incorporated, Cleveland, members of the Midwest Stock Exchange, has acquired the securities business of Leonard J. Fertig & Co., established in 1936.

Leonard J. Fertig

Fulton, Reid & Company will continue their Fort Wayne operations under the direction of Keith R. Barker, Vice-President, and Leonard J. Fertig, Assistant Vice-President.

Beneficial Finance Debs. Offered

Eastman Dillon, Union Securities & Co. heads a group which offered publicly on Dec. 14 $50,000,000 Beneficial Finance Co. 4⅞% debentures due June 1, 1981, priced at 99.04 plus accrued interest to yield 4.95%.

Proceeds will be used to reduce outstanding short-term bank loans with the balance slated for the company's general funds.

The debentures will be non-redeemable prior to Dec. 1, 1968; in the 12-month period starting Dec. 1, 1968, the debentures may be redeemed at the option of the company at 102.04% and at decreasing prices thereafter to maturity.

Beneficial Finance Co. is a holding company with subsidiaries engaged primarily in the small loan business and in the sales finance business. The firm has 1,107 offices in this country, 159 in Canada and one in London.

For six months ended June 30, 1960, the company reported gross income of $66,372,107 and net income of $12,330,650, compared with gross of $60,596,164 and net of $11,264,591 for the same period of 1959.

Last July 11, a wholly-owned subsidiary purchased 46.7% of the outstanding common stock of Western Auto Supply Company, a nationwide merchandising chain.

Capitalization of the company on Sept. 30, 1960, adjusted to reflect the current sale of debentures, consisted of $405,250,000 in long-term debt, $180,188 in short-term obligations, 586,213 shares of 5% cumulative preferred stock of $50 par value and 10,001,218 shares of common stock of $1 par value per share.

With W. H. Newbold's Son

HAVERFORD, Pa.—W. H. Newbold's Son & Co., members of the New York Stock Exchange and other leading exchanges, announce that L. Page Brown is now associated with them as a registered representative in their Haverford, Pa., office, at 354 Lancaster Ave.

Gold and Sound Money

By Henry C. Alexander,* *Chairman of the Board, Morgan Guaranty Trust Company of New York*

One of the country's largest commercial bankers advocates completing the 1933-34 departure from the gold standard except for the use of gold in making international settlements. Mr. Alexander suggests the propitious moment for removing gold reserves from behind our Federal Reserve notes and deposits would be when our balance of payments evidences clear-cut signs of improvement. Until then, he urges pursuit of every measure to correct our payments-deficit, indorses measures taken recently, opposes devaluation, and recommends prohibiting ownership of gold by U. S. citizens abroad. There's no road back to the gold standard, he adds, in asserting that sound money depends on monetary, fiscal and economic policies and the wise, sound, honest human judgment required. Business and government are asked not to resume their opposition to each other ended eight years ago.

Membership in the IBA is cherished by our bank. We value our membership as a government securities dealer and as a municipal securities underwriter and dealer. But we also have a sentimental reason for holding this affiliation dear.

Henry C. Alexander

It preserves a link in spirit — though unfortunately not in profits — with the days when J. P. Morgan & Co. and the Guaranty Company were full participants in the investment banking business. I trust it is no violation of the Banking Act to recall, with some wistfulness, that those were exciting days. For sheer, agonizing drama, packed into a short space of time, I doubt that there is another process in the business world to compare with an important piece of underwriting. It has the careful build-up, the mounting tension, the moment of truth when the books are opened, and then the quick unraveling of the plot — either glorious success or . . . sudden death. It all has a format as classic, in its own way, as the theater of the ancient Greeks. But, for those of us in commercial banking, that particular kind of excitement ended some 26 years ago, in the early days of a Deal that was then called New.

Going back to dwell on that period hardly makes, I fear, a cheery thought for many of us; but there is a point to be drawn from those days and the ones that followed which has some meaning for the present.

Hostility to Business

Then we were in the first stages of a political era in this country which was to last in all for 20 years, and which was to carry, among its other trade-marks, the stamp of being generally hostile to business. Not surprisingly, this climate produced in most businessmen a defensive reaction that was equally hostile. One does not have to be a deep scholar of history to see that a prolonged period of such cross-purpose in our society was a bad thing. Without trying to apportion the blame, I believe most people will agree that an atmosphere that set government against business, business against government, was a costly misfortune for all groups in this country.

That 20-year era was followed by eight years in which the atmosphere was different. There was a turn away from the direction of constantly more government intervention in the lives of people and in the work of business. It was a turn toward the firm road of free enterprise.

Now again the nation prepares for a change in national Administration. By earlier rules, perhaps, this would call for a hasty return to old battle stations, for quick resumption of old stances and the invocation of old slogans. I hope we have outgrown those rules. I hope no future government in this country will regard its mission as one of punishing business. I hope no generation of businessmen will automatically and instinctively lapse into a persecution complex about government.

No Time for Sulking

The majority of businessmen, I believe, hoped that Vice-President Nixon would be elected. I know I did. The electorate has rendered its decision—a close one indeed. Those of us who supported the Vice-President might well follow his example of graciousness in reaction to the outcome. I don't doubt that we, or some of us, shall find things to criticize in the new Administration. But let's not rush to dig into the back corners of the closet for the uniforms marked "opposition," the ones we put away eight years ago. Let's not, as businessmen, wall ourselves off, or sulk in our tents. Let's keep the lines of communication open. The great problems facing this country don't permit any group, however disappointed, to withdraw from the search for sensible solutions, to pout on the sidelines. I would add that those problems also do not permit any group — though defeated at the polls—to be put in the penalty box.

Among the most urgent of those problems is the problem of money. For, if you go down the list of our great national objectives—the preservation of peace, the protection of the free world, the making of a better life for our people and for those in other lands — not one of these ideals will be within our grasp unless we keep our economy strong, and that means keeping our currency sound.

This, I realize, does not sound like an heroic challenge. It is not romantic, not very exciting. The task I outline lacks the glamor of new frontiers, but it does possess the hard truth of old realities, the bedrock—not the shifting sands—upon which we can build the enduring structure of our nation's great future.

Gold and Sound Money

Many speeches have carried the message about the need to keep our money sound. But today this message is being proclaimed, in terms more eloquent than all the speeches, by that ancient commentator, gold. As the poet said,

"Gold! Gold! Gold! Gold!
Bright and yellow,
hard and cold."

When gold speaks, men listen. When gold moves, men watch. Lately we have been treated again to glimpses of the fascination this substance holds, the purpose it serves, the myths it inspires. There are facts about gold and there are fancies, folklore and fables. Which is which is not always easy to know, but we must know more.

Gold is in many ways a distinctive substance. It's pleasing to look at, bright without being flashy. It's easy to identify, impossible to counterfeit. Man tried for centuries, but he doesn't even try any more. Gold doesn't deteriorate with time. It doesn't shrink or expand with changes in the weather. Its always been scarce enough to be much craved and sought after and never to be for long in surplus. Even today, after man's quest for it over the centuries, the total store of gold held for monetary purposes in all the free world amounts to some 36,000 metric tons. At the U. S. Treasury's official price of $35 an ounce, it is worth about $40 billion. That's less than half of what our Federal Government spends in a year. You could stack all of it solidly in a room about 40 feet long, 40 feet wide and 40 feet high — a space no larger than a small ballroom.

The amount of new gold mined annually has been rising. Free-world production is running about a thousand tons a year — something over a billion dollars at the official rate. The output of the Soviet Union and its satellites is a secret, but we do know they are important producers. This despite the fact that Communist doctrine ridicules the metal and Lenin is said to have promised that one day the public washrooms of Moscow would be plated with it.

1933 in Retrospect

Here in the United States we have never lacked respect for gold, though in normal times our appetite for it has tended to be somewhat restrained. It was not restrained, however, in the frantic days of 1933, when the great depression was deepening and faith in all currencies was failing. The public demand for gold was so great that the government slammed the lid on domestic convertibility and temporarily embargoed shipments abroad.

Franklin Roosevelt, in the first days of his Administration, used the emergency powers of a World War I law to do this. Such drastic action was justified only by the grimmest of necessity. Over the next nine months, in helter-skelter fashion, laws were passed, directives issued, market maneuvers undertaken, and the gold clause in contracts abrogated. There were mistakes, and there were injustices. But, improvised though it was under the gun of panic or near-panic, the gold policy which emerged from those days has proved workable and is with us still. It has enabled the dollar to become the fixed point about which nearly all the free world currencies now array themselves in a monetary solar system.

The important thing about 1933, in retrospect, is not that we went off gold, but that we stayed on it in a different way. We stopped coining gold and took it out of domestic circulation. But, for legitimate monetary purposes, we declared our readiness to buy and sell gold at a fixed price in transactions with foreign governments or central banks. In narrowing the utilization of gold, we were following a trend which the other major financial countries had begun as they worked their way back from the chaos of World War I. Those countries, holding much less gold than we did, but nevertheless wishing to tie their currencies somehow to gold, looked for ways to economize their supplies of the metal. For the most part, they stopped minting coins of gold — a practice Winston Churchill described as "unwarranted extravagance." The place for gold, this line of reasoning holds, is not in people's pockets or under their mattresses but in the official holdings of governments and central banks for use in the settlement of international balances.

That reasoning is the core of our gold policy today. That is why none of us is allowed to own gold in this country, and why we shouldn't be allowed to hold it abroad. To satisfy considerations of taste, custom, or utility, incidental use of gold is permitted in the arts, in jewelry, in ceremony, in dentistry, and in industry. Taken all together, these applications don't claim enough gold to threaten the adequacy of the world supply available for official monetary purposes.

Hits Hoarding and Speculating In Gold

A threat is posed at times, however, by two other uses to which gold is put—hoarding and speculating. By drawing gold into private hands, those uses work against the policy adopted by this country and most others of conserving gold in official holdings.

Some countries, in deference to local custom or other considerations, allow the private buying and selling of gold under certain conditions, even though they have the same general policy of economizing their gold reserves as we have. These are the so-called free markets in gold, about which we have heard a great deal recently. The best-known is the one in London. It has been open since 1954, after being closed for nearly 15 years during and after World War II. Other markets, varying in degree of organization and formality, include Paris, Zurich, Brussels, Amsterdam, Frankfurt, Beirut, Hong Kong, Macao.

The supply of gold to these markets comes from new production (including sometimes that of the Soviet Union), from hoarders who have grown tired of hoarding, from speculators who have decided it is time to sell, and on occasion from governments or central banks which enter the market for one reason or another. The demand comes from hoarders and speculators who are on the buy side, from people who are uneasy about their currency, and — again on occasion, when the price is low enough—from governments or central banks.

The price gold brings in these markets tends to fluctuate, sometimes rather violently. In the first few years after World War II, gold sold often at well above $50 an ounce in the markets then open. This didn't attract much attention in the United States—nothing at all like the run-up in price in London last month. The London market, because of that city's historic financial role and its prestige, draws more notice than the others. This explains why there was concern recently at seeing gold quoted there as much as $5 above the official price maintained by the U. S. Treasury.

U. S. Should Not Enter Gold Market Operations

Concern was proper, but not principally over the brief appearance of $40 gold in London. After all, the appetite for gold is a capricious thing, like all human appetites, and sudden flare-ups or fall-backs of demand in thin markets can produce sharp swings in price. More troublesome is the question whether such markets will in time draw into private pockets and strongboxes significant quantities of gold that are needed for official holdings. This involves also the question whether the official reservoirs should, in an effort to discipline such markets, pour their gold into pipelines that may lead to the great sink-hole of hoarding and speculation.

Certainly the United States, which has not seen fit to allow private trading in gold here, would have nothing to gain—and conceivably a good deal of its gold to lose — in undertaking to stand astride the foreign markets and keep the price there pegged. That is not the way to defend the dollar. We must defend it at home with sound monetary and fiscal policies, with wise monetary and fiscal management, and with the strength of our economy. The dollar is not up for trial by the whims of the world's gold markets.

We hear criticisms of our officials for letting some speculators pay $40 for gold in London rather than presenting them with gold to which they were not entitled and charging them only $35. The Treasury's stated policy toward premium prices for gold in foreign markets has quite properly been one of flexibility and noncommitment. It has been neither open-mouth or open-faucet. The Treasury is free to stay out of those markets or to find ways of going in if it believes that course best for our national interest. What the Treasury's day-to-day decisions in this regard have been, I of course do not know. Neither does any other private citizen, although the fact has not prevented the tipsters, the inside dopesters, and the oracles from being busier than ever.

The free markets for gold are not this country's responsibility. Nor do they provide, as is sometimes supposed, a bridge by which we may hope one day to return to a gold standard of full domestic convertibility such as we had prior to 1933. There is no bridge that will take us safely back there. We ought to face that fact squarely.

Sees No Need to Adopt Convertible Gold Standard

Too much lip service is paid to the notion of "getting all the way back on gold," always with the reservation that we should do it "when the time is right." This ritual has become a sort of loyalty oath by which to prove one's belief in sound money. It shouldn't be. Sound money is well-managed money, honestly managed money, wisely managed money; and we will get it by having sound, honest, wise monetary authorities and sound, honest, wise fiscal and economic policies. We will not get it by submitting to the automatic, unreasoning operation of a gold coin standard with full convertibility here at home. For all the reverence still paid to it, did that standard actually work so well? It was supposed to stabilize, but we had the wild boom of the 1920's and the deep depressions of the 1890's and the 1930's.

We cannot and should not move all the way back to gold. But it is essential that we retain in our monetary system, as indeed we do, the discipline that gold exerts through its flow from country to country. Man, in his history, has tied his currency to many substances. None of them has been perfect; when the imperfections of one become too troublesome, he has moved on to another. If ever—and this does not seem a near probability—but if ever our present system for settling international transactions becomes an obstacle to true economic progress, then a new system will have to be devised. It might or might not involve a breakaway from dependence on physical masses of metal. But of this we can be sure: if currencies ever are to have their base not in some metal but in a code of rules, then those rules must have the firmness of metal and must provide a dis-

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Why It Is Essential That Will Making Not Be Deferred

By Roger Babson

Forgetfulness in preparing a will costs much in many ways but can cost little when not neglected. Mr. Babson hits hard on this point in a reminder on the importance of having a will as the best way to make sure that property will be distributed in the way desired.

While Mrs. Babson and I were in Europe this Fall, three of our intimate friends passed away. Two of these I knew had made no will, despite my urgings. One had promised he would do so "when he had time." He begrudged the expense and felt it really was not necessary. Let me discuss these three cases.

Case Number One

In this case, the man left a wife and three children, and several brothers and sisters who have children. The wife assumed she would get all of her husband's estate and then will it to their children. But she did not. Since her husband left no will, she was given only one-third; the remaining two-thirds was divided equally among the children. Nothing was available for the deceased's brothers or sisters or cousins. This is as it should be.

Cases Number Two and Three

The second man left no wife—but two children as well as brothers, sisters, and cousins. All of his estate went to his children outright, in equal proportions, or to their heirs. None went to the brothers or sisters or other relatives. One child 23 years of age received the money outright; since the other was a minor, his share was entrusted to the guardian appointed by the Court.

The third man left a wife but no children; he did have brothers and sisters and cousins. His estate exceeded $100,000. The wife will be given the $25,000 which she would automatically receive from an estate valued at $25,000 or over. In this case she also will get a second $25,000. The remainder will go to the man's brothers and sisters or their heirs who are now springing up in all directions.

Wills Oldest Legal Documents

Originally when a man died all his property went to the oldest son. He was supposed to take care of his mother and to secure work for any other children. Then land owners sometimes died without leaving any children; anticipating this, the father left a written document outlining his wishes or "will" at his death. These wills were considered sacred by the Roman Courts, and their policy and purpose were adopted by the English Courts and carried to America.

I have recently been seeking copies of early records of the 40 families who settled Cape Ann (which now comprises Gloucester and Rockport, Mass.). The very earliest documents are the wills of these inhabitants around 1620-30. The first Babson arrived in Salem from London after 60 days in a small sailing vessel. She was a widow named Isabel and she came to Cape Ann in 1637. She was very enterprising and — as there were no doctors—served as a midwife. Also, since there were no lawyers, she helped the fathers make wills. Although these were written on scraps of paper—perhaps on birch bark — they were held very sacred and history still records their contents.

Cost of Making a Will

To enable your life's savings to go as you would like, you should have your local lawyer make up your will. If it is simple, namely leaving all to your wife, he may not charge you more than $20. If it is more complicated, leaving property perhaps to your wife, in trust—allowing her the use of it and the income during her lifetime with provision for equal division among your children or their heirs—then your lawyer will charge more. He will charge according to the amount of his time you take.

Laws concerning the distribution of estates where there is no will are subject to change. *The cases cited above are based upon the laws in effect in Massachusetts as of Jan. 1, 1957. When the time comes for settling your estate, these laws may be quite different.*

The best way to assure distribution of your property exactly as you wish is to have your will drawn now by your lawyer. This also enables you to make some donations to your local church and hospital, which everyone should do. To provide for the carrying out of your wishes, your will should name an executor in whose efficiency, stability and responsibility you have confidence.

Smith, Barney Co. To Admit Five

Smith, Barney & Co., 20 Broad Street, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Max F. Brubaker, William R. Grant, Edmond N. Morse, Roland H. Schuerhoff, and Robert F. Seebeck to partnership. Mr. Schuerhoff will make his headquarters in the firm's Boston office.

Shields & Co. Will Admit Partner

Shields & Company, 44 Wall St., New York City, members of the New York Stock Exchange, on Jan. 1 will admit John B. Lynch to partnership.

With George O'Neill

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif. — Dale B. Fleischmann has become associated with George, O'Neill & Co., Inc., 8929 Wilshire Boulevard. He was formerly with Glore, Evans & Co. and Wedbush & Co.

Role of the Individual in These Challenging Times

By Charles H. Percy,* *President, Bell & Howell Company, Chicago, Ill.*

There is a greater need for more courageous men than ever before in our history to cope with the challenges and opportunities facing us at home, abroad and in space. This era, Mr. Percy makes clear, holds more promise, more opportunity and more challenge than ever before in history and requires that we act without waiting for a threat to pressure us into acting. The well known, successful businessman asseveratively singles out education, urbanization, individual freedom, business practices, taxes, threat to our raw material sources and markets, world development, world peace and space science.

The investment banking field has been subject to almost as many bad jokes as the field of home movies, but I believe that the image of the amateur photographer boring his captive friends with poor movies is as obsolete as the image of the Wall St. banker holding the starving widow in his clutches. Certainly, from my own experience of 22 years' association with Bell & Howell, I can testify that we rely heavily on our friends and associates in the investment banking field for advice and counsel. Not only are you providing the capital necessary for the vitality and growth of our system; but, more important, you are bringing creative, dynamic ideas and opportunities to our businesses and making major contributions to their growth and development. From our point of view, then, we see no problem whatsoever in "being in the hands of the bankers." Whether commercial or investment, we have come to look upon our bankers as partners in our business.

Charles H. Percy

The economic face of America is changing, but its principles will remain the same. Broadly based private ownership of the means of production is the basis for initiative and growth. The **profit system** is the incentive for progress. And **individual freedom** is the life blood of the system. A violation of any one of these principles weakens the others. The capitalist fulfillment is not guaranteed. In fact, a free system is always precarious. Lacking the rigorous controls of the totalitarian system, we willingly subject ourselves to the risks of freedom and individual action.

Role of the Individual

In a democracy—in a capitalistic system—the seat of authority is the **individual**. So the question is: What can we as **individuals** do to make as certain as possible that the promise of capitalism is fulfilled and that a free society can continue to demonstrate its superiority? As individuals — and as businessmen — we face great challenges at home and abroad and what we do as **individuals** will determine the course of the future.

Between now and the end of the century we must work for the solution of pressing domestic problems of tremendous magnitude. In education, in civil rights, in the maintenance of a stable and growing economy, in the great urban centers of population and on our farms we face challenges that we **must meet** and problems that we **must solve** lest our system be so weakened that our people turn to the government for the solutions to their problems rather than to the system that has provided for us the highest standard of living in the world.

Essentiality of Education

The problem of our education system is an outstanding example of the magnitude of the challenge that lies ahead. Education is not a cultural nicety; it is the cutting edge of civilization. We **must** have it for survival. By 1976 there will be 76 million Americans of school and college age. There will be 42 million children in primary schools and 13 million in high schools. We will need 600,000 new school rooms in the public schools alone and 500.000 new teachers. And the job of meeting this tremendous need rests with **individuals** acting in the interest of their own local communities, and with the resources that they can muster **locally.**

Our great metropolitan areas offer another great challenge. With more than two-thirds of our population living in metropolitan areas, the interests of the urban dweller are of highest priority in our national scheme of things. As the tendency towards urbanization increases in the U. S. and as the great metropolitan areas increase in size and complexity, the mutual obligation of the individual to his city and of the city to the individual citizen will increase and become more intense. Man cannot create so vast a social organization and then disavow responsibility for its continued well being. In many of America's great cities in recent years there has come a great moment — a critical moment of recognition. It has been a recognition of two things: A recognition of the desperate plight of the city and its people and a recognition of the responsibility to do something about it. Where the local recognition of individual responsibility has not occurred, there we see no resurgence, no halt to the processes of decay and obsolescence that the great metropolitan areas are suffering.

Practicing What We Preach

On no other matter is the U. S. watched more closely by the rest of the world than on the matter of individual liberty. If America cannot guarantee individual freedom to every citizen of the United States, how can we expect to exert leadership in a world where the majority of the population is non-white? How can we convey understanding and help to the struggling new nations and win them to the side of freedom if our own hands are unclean? How can we, as individuals, fulfill our complete responsibilities as citizens if we countenance second class citizens among us? This is part of the American dream, then, which is unfulfilled. This is part of the job remaining to be done.

But to do all of these things, to meet all of these challenges we must be strong. Unless we are strong, unless our economy continues to grow and to provide opportunity for every one of our citizens, we may fall short. The economy of the United States of America is not the White House, the Treasury Department or the Federal Reserve System. It is largely dependent upon the buying decisions of 180 million people, and their decisions rest upon their confidence in the future.

Businessman's Role

We in the business community contribute substantially to this confidence. We contribute by the risk we take, by the product innovations we make, by the investments we undertake to keep our plant and equipment modern and product costs low, the market strategy we use in moving product, the labor relations we adopt and the educational programs we carry on to be sure that governmental policy is designed to stimulate initiative and encourage enterprise.

I think we can learn from our past experiences as we look ahead. The recession of 1958 and the recent softness in certain segments of the economic system have caused American businessmen to carefully re-evaluate some of their management decisions and some of their actions. We were gratified at our firm in 1958 to be able to counter the deflationary swing of the cycle by taking positive action, rather than tightening up all along the line, retrenching and "battening down the hatches." We ended that year with a 20% increase in sales and a 15% increase in profits.

A company can, of course, weather the storm by taking negative actions. But times of attrition also present positive opportunities to take action for expansion and active growth. I think it is a sound general principle to say that a recession period is a **good** time to work on market expansion, a **good** time to buy and utilize resources which are in abundance and are available on better terms, a **good** time to meet the competitive pressures by lowering prices and increasing volume in order to maintain a full work force and bring a better product to the market at a lower price.

Tax Laws Need Overhauling

The government also has a **positive** role to play in assuring a growing strong economy. Where the tax system works against capital accumulation, where it gives unequal advantage to individual industries, where it limits initiative and reduces incentive, where it penalizes unduly, and where it erodes our capital base—these are the places for reform. Depreciation and capital accumulation call for careful review. Our tax laws are still too rigid and restrictive in the treatment of depreciation. America's industrial plant has been growing progressively older, on the average, for the past 50 years. One-third of American capital equipment is obsolete.

Creative depreciation policies, beyond the improvements made in 1954, can step up our rate of investment, improve our efficiency, reduce costs, and create more jobs by making American products more competitive in world markets.

It is more difficult today than ever before to save—to accumulate the means for creating more capital. But in an economy that depends on private capital there must be no barrier to individual and business savings because they are the fountainhead for investment. It becomes increasingly hard to justify the 91% tax rate. Confiscation is **not** a sound basis for capital creation.

The tax reform measures of 1954 took a long step forward in restoring our faith in the effectiveness of the incentive system as the one best way of doing the job. But more needs to be done. If our **individual** plans for the future do not take into account some of these fundamental issues and problems; If we, as **individuals**, do not work toward their solution; If investment bankers, the outstanding businessmen of the richest nation on earth, do not **individually** take upon themselves each problem confronting **our** economic system; then, in a free enterprise system which **depends** upon individual decision making —**who will?**

The great significance of the solution to our **domestic** problems lies in the effect that these have on our solution to the challenges which face us **abroad.** We cannot adequately confront the challenge of Communist domination unless we are free and strong at home.

Threat of Moscow-Peiping

Lest we become complacent, let us for a moment visualize the vast continuous land mass which stretches from the Atlantic and the North Sea in the West to the Pacific in the East. This great

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Role of the Individual in These Challenging Times

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Eurasian land mass constitutes two-fifths of the land area of the world outside the polar regions. There dwell upon it perhaps three-fourths of the human race. With the industrial complexes of all Europe, including Great Britain, and all Asia, including Japan, and with its vast natural resources, Eurasia comprises within itself the major elements of world power. Whoever, can dominate Eurasia can potentially dominate the world. The new axis threat—the Moscow-Peiping axis—lies at the very heart of this area.

From their strategic center, the Communists can thrust at Berlin and Western Europe. Or they can turn to the opposite side of the world and thrust at Korea which could become a dagger pointed at Japan. Or they can seize Tibet as Red China did in 1953. Or they can send arms to Egypt or Iraq to inflame the Middle East or send guns thundering into the Formosa Straits one week and precipitate a crisis over Berlin the next. Whoever controls Eurasia can easily control Africa. And a Western Hemisphere cut off from the materials and markets and manpower of the rest of the world could not long remain independent, economically or politically.

The Communist strategy, then, is to cut America away from her sources of raw material and her markets. To isolate America economically and politically would be the greatest victory the Communists could achieve. And they can do it without firing a shot. These are the facts we all know and in themselves they give us some measure of the job we face ahead.

If this strategy is ultimately successful, that part of the earth left to American influence will either be so small as to constitute grounds for surrender or as a minimum bring about a drastic reduction in our economic well being at home.

U. S. Must Assist in World Development

In our relationships with the rest of the world, no problem is more pressing, no challenge more exciting than the emergence of the developing nations. As new nations come into being and as old nations seek new economic, social and political achievements for their people, America and the free world have a deep obligation to provide leadership, to offer assistance, to give guidance from our experience and to be constantly on guard to be absolutely certain that the foundling nations do not mire in a chaos of unrealistic aspirations and fall in with the easy delusion that individual freedom can be realized in a captive nation. America must join with the mature and developed nations in making available resources and technical aid to the emerging nations in such a manner as to insure maximum independence and mutual respect.

If America's economic system is not strong and if we as individuals fail to play our part in keeping America's strength, we will not be up to the demands that the world now imposes upon us. We must maintain our strength at home in order to assure the rest of the world that their confidence in America is not misplaced.

The individual American business firm and the individual American businessman can take small but firm steps in the road toward international understanding, the spread of the idea of freedom, and world peace. Speaking for my own firm, we have tried to examine the role of business and businessmen and their impact on American culture through our use of mass media. Business has a virtual monopoly of prime night time in the greatest communication medium in history, and we must ask ourselves whether we are using it to convey meaningful information and knowledge. Our own experiment has proved worthwhile. Eighteen months ago we decided to devote 100% of our television budget to the sponsorship of public service shows on prime night time, which, with the cooperation of the networks, became a television first.

Sponsorship of such great programs as NBC's "Why Berlin?" CBS REPORTS' "The Population Explosion," and "Who Speaks for the South?" ABC's Churchill's VALIANT YEARS, as well as exclusive sponsorship of all ABC's public service shows, has convinced us that the American public wants TV diet more sturdy than pablum. A portrayal of the real problems and challenges of our time seems more appropriate and equally as exciting as a portrayal of the West as it probably never was.

We have also demonstrated that such programs make it possible for us to reach an important part of our market with considerable impact. And we believe we are also fulfilling an obligation to help keep our country strong through greater understanding. This is, indeed, the precept of Adam Smith's "invisible hand" making itself felt in modern society.

Peace and Science

A third great challenge confronting America is the achievement of lasting peace. We must give the human world a breathing space, a chance to devise new institutions and new relationships which will provide a new setting for the achievements of science. Never before in history has the potential lag between man's scientific achievements and his political achievements been so great. This must be repaired. The gap must be closed with whole new concepts of how men can live together.

My company entered the Space Age and the electronic instrumentation field early this year in its merger with Consolidated Electrodynamics Corporation. The five miniature tape recorders in the Courier satellite, which can receive and transmit teletype traffic at the rate of 68,000 words per minute, were all developed by CEC. We have all watched Echo I move across the skies, marveling as all men do at the majesty of this great achievement. As we have established another small but historic speck of influence in the universe, we have come to realize the immensity of the new dimension that has been opened, and the relative unimportance we occupy as human beings unless we can demonstrate and use the God-given reason that we possess. No more dramatic challenge has ever been laid before the people of this earth. If our eyes are not now lifted, whenever will they be? If our horizons are not now expanded, can they ever be? If our minds are not challenged by these vistas, how can we ever come to grips with the problems which beset us on this planet?

The great opportunity which space exploration offers us is **not** the chance of going to the moon, **not** the possibility of finding life on Mars—it is the opportunity to gain a new perspective on **ourselves**. The achievements of science will be meaningless if they tell us nothing of ourselves. If we do not stand humbled by the findings in the universe, how can we lay aside our petty quarrels and differences on this earth? The probing of space offers America and Russia and the rest of the world an opportunity to **rediscover the earth.**

The great strides of science and technology offer us an opportunity to work together in peaceful harmony—a greater opportunity than we have ever had. If we were attacked from Mars tomorrow, we would solidify this earth in a great defense of everything we Earthlings hold dear. But why must we always act at our best when we are threatened with the worst? Can't we use the same great spirit of cooperation which made the International Geophysical Year such a success, such a magnificent experiment, as the basis for future peaceful cooperation to free the world from fear?

Meeting the Challenges

We have talked about the challenges at home, the challenges abroad, the challenge of the new dimension of space. To meet these challenges there is a greater need for more courageous men than ever before in history. The greatest deeds we will be called upon to do as a nation will demand the unsparing individual effort of many millions of citizens. A nation is most secure and its future brightest when its citizens are trained in self-discipline, self-reliance, and resolution.

We have our friends, our freedom, and our strength. We have a treasure of resources. We have a great will to do the things that need to be done. We have faith. The new era holds more promise, more opportunity, more challenge, than at any time in history. It is up to each of us to be certain that we meet the challenges that lie ahead and fulfill the promise that America and a free world hold up before us.

*An address by Mr. Percy before the Investment Bankers Association Convention, Hollywood, Fla., Nov. 30, 1960.

Mitchell, Hutchins To Admit Partner

On Jan. 1 George P. Denny, Jr. will become a partner in Mitchell, Hutchins & Co., members of the New York Stock Exchange. He will make his headquarters at the firm's New York office, 1 Wall St.

Now With Vercoe

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio — David S. Brownell has joined the staff of Vercoe & Co., Huntington Bank Building, members of the New York Stock Exchange. He was previously with Westheimer and Company.

With Stephenson, Leydecker & Co.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif. — Franklin W. Schindler has been added to the staff of Stephenson, Leydecker & Co., 1404 Franklin Street. He was formerly with Dean Witter & Co.

Civil Aeronautics Board And the Aviation Industry

By General Elwood R. Quesada*, *Administrator, Federal Aviation Agency*

Our first administrator of the newly-created Federal Aviation Agency plots what the investment banking industry can expect in the way of future aviation progress and financing areas. The experienced administrator expounds on what is being done to promote air commerce which includes the staggering problems of supersonic transport and an assessment of the role of government. Gen. Quesada makes clear where he agrees and disagrees with the F. B. A.'s Aviation Securities Committee, reviews such technical problems as all-weather landing system, dwells on the need for an all-cargo airplane, and appraises the conflicting problems of regulation. His concluding remarks contain an up-to-date analysis of the "Electra" airplane experience.

I would like to refer, if I may for a moment, to at least a few of the remarks of your previous speaker.[1] I would like to refer specifically to his comments towards MATS, and the fact that they are competing against Air Commerce. Members of the IBA might be surprised that these statements should come from me because I spent my life in the Military Service, but I would like to urge you to pay heed to what Mr. Kahn said and do everything you can to overcome this evil.

E. R. Quesada

I might say that in the last 10 years, or even 15 years, MATS has not transported a military unit, a combat unit as large as a battalion, whereas during this same period I suppose they have transported hundreds of thousands of people between city paths that are served by our large air carriers, specifically, and as an example, from New York to Frankfort. I might re-enforce this support of your previous speaker by saying that MATS in the last 10 years has carried more children, under 10, than it has carried combat units. And I think this is all wrong, and I think it is contrary to everything that free enterprise stands for, and I hope that something can be done about it, and I hope that IBA members will assist. I assure you that I am trying. It is a scandalous situation, at least, in my opinion.

Now, it is obvious that I got wound up, so I will try to be more objective perhaps in my remarks.

The aviation industry in its broadest sense is a very, very large industry, and it affects all of us in one way or another as it progresses, whether it is healthy or unhealthy. I might add that what the agency that I head does also affects the aviation industry, and hence I will comment on a few points that our agency engages in, with respect to this vast industry.

The duties that befall the administrator fall into two categories, one of which is pleasant, and the other extremely unpleasant, but from time to time they both attract controversy. I refer to the pleasant first, namely, the duties that fall upon us to promote air commerce, both domestically and abroad, and I will comment on some of the things we are attempting to do in this respect and to which the previous speaker made reference, although casually.

We are, among other things, attempting to encourage the development of a supersonic transport, and at the same time attempting to develop the government's role in this very staggering program.

Supersonic Transport Program

It is obvious to us, judging from the experience that we have had in our studies, that the government must take an active role in this program. It is likewise obvious that there isn't anything that can be done that is going to stop the development of a supersonic transport. This is as sure as day, and as sure as night.

We are convinced that this supersonic transport will be in the range of mach No. 3, or 3.2, which means three times the speed of sound. This would permit travel between New York and London, as an example, on the order of 2½ hours or less.

Now, the development of such a program is accompanied by some staggering problems. The cost is staggering. We are convinced, and I would imagine others are as well, that private industry cannot and will not be able to bear this burdensome expense, and hence, if it is to be accomplished, the government must take some active part in it. What that part should be is, in itself, a very difficult problem. As far as I am concerned, and as far as the agency is concerned, at least to Jan. 20, we are convinced that whatever part the government takes, it should preserve the better elements, or the elements of the free enterprise system, and any aid that the government provides — and it must provide some — must be accompanied by some degree of risk on the part of those who receive the aid. And it is within this general framework that we are progressing.

We are convinced that the government must make a real effort to develop the necessary propulsion system. We are convinced the government must make more than a casual effort to develop the airframe which is going to be a very, very complex device, and a very costly undertaking.

Multi-Billion Program

At the present time the government, in the form of the Air Force on this occasion, is developing a B-70, which is a supersonic bomber in the same speed range to which I have previously referred: 3 to 3.2 in mach number. This is costing several billions of dollars. It is obvious to me, and I hope it is to you, that it would not be reasonable to engage in a repetition of this order of spending.

When you start spending billions of dollars you are having a profound effect on our whole economic structure, particularly if you are doing so on one product.

So our whole program, which is progressing with reasonable speed, is geared to follow, so to speak, the B-70 program and extract from it everything that is possible as a contribution to the development and use of the supersonic transport.

If this is accomplished, and the supersonic transport is eventually the product, this is going to result in a saving of at least 2 billion dollars, and give to us a supersonic transport, perhaps a decade sooner than we would otherwise have it.

We are convinced that it would be physically impossible to have a supersonic transport, certainly in that speed range, without exploiting to the maximum degree possible, the know-how that has developed from the B-70 program.

Now, in terms of time, we are anticipating an operation unit, and the first one, in the area of 1970. I am sure that this is of some interest to investment bankers, as it has been to us, because of the financial burdens that now beset the air transportation industry.

We anticipate that by 1970 the present economic burdens, to which reference has been made, will be behind us, and the industry will be prepared to go through another convulsion. So these two points are somewhat compatible.

Many Technical Problems

There are many, many technical problems that have to be faced, one of which is the alloy metal, the material to be used. There is a vast fundamental difference between the British and ourselves, and I might inject at this point that we are attempting to cooperate with any and all the countries of the Free World and share in our effort to develop a supersonic transport.

This obviously is accompanied by frustrations, because some of these countries are more socialized than we are. So this means problems, but none of them seem to be insurmountable.

The British are somewhat committed to the use of the light alloys, aluminum, or other light alloys, whereas we are irrevocably committed to the heavy alloys, such as steel. We are convinced, and for technical reasons, that if you are going to go into this speed range, you cannot use aluminum because the airplane gets what we call "heat-soaked," and the molecular movement within the various metals due to getting hot and cold and hot again, in very rapid order, would create a short life for the unit once built.

This is only one example of the complexities that face us.

Another complexity that faces us is the sonic boom. In the use of any supersonic transport, or any supersonic airplane, it is followed by what we refer to as a "boom." This is really not a boom; it is not sound—it is just a quick and rapid change of pressure, and it is transmitted in the form of sound. You think it is sound. Your eardrum moves. But it really is not sound. It is just a quick order change of pressure.

We are convinced that the public's interest would not be served if we disregarded the supersonic boom effect as the transport moves across land masses. So we are very actively engaging in a sincere research program to measure more accurately, and determine more accurately, the effects of the supersonic boom, and learn more about it than we now know.

Even today we are conducting supersonic flights over instrumented ranges to accumulate data in this area.

The Noise Factor

Another factor that is very important to us is the noise prob-

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1 Herbert Kahn, Chairman of Aviation Securities Committee. See Report on page 47.—Editor.

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lem. Airports, as is well known, have to be reasonably closely located to dense areas of population, otherwise they will have no customers. When you are located in dense areas of population, it is obvious that the public is somewhat annoyed by the noise that we create, and with certain justifications, and there is an accompanying technical point with supersonic flight, and that is you have to have a great deal of energy. So, therefore, if you have a great deal of energy, at certain percentages energy is going to be bled off in noise. Noise really is energy, and a certain percentage of energy goes into noise, and as you increase the energy, you increase the noise.

It is incumbent upon us to do something about this. We just cannot permit the industry to move forward uninhibited without regard to the noise nuisance to the public, and we are doing something about this.

In terms of runway lengths and things like that, which is a tremendous expense, this problem seems to solve itself, because as the requirements of thrust in supersonic flight go up, you have the energy for take-off, so, therefore, your ability to take off, although you are taking off with a very much heavier airplane, you can still operate within the limits and the limitations of our existing large air terminals.

Government Entitled to Remuneration

Now, I am afraid there is a difference of philosophy between what the Aviation Securities Committee chairman said, and my own, on one point. I would anticipate that the Federal government, outside of the B-70 program, will spend a large sum of money in encouraging the development of a supersonic transport. If and when it does, it is my opinion that the government should get back in some way or another, such as a royalty, some percentage of the money that they advanced to develop the airplane. The objective is to avoid the heavy hand of government taking over and controlling the development of something so profound.

If the government is going to pay all, or a major portion of the cost, I think it follows that the government will demand and get a predominant role of management, and the predominant role of development. If it assumes the cost, it should assume the responsibility. If it can assist, rather than assume, in the development of the transport, with some reasonable return of some reasonable portion of its money, we should then have grounds for keeping the heavy hand of government out of the enterprise.

Personally, I think this is very, very essential, and I hope that I might have an opportunity to discuss this with you to the extent that it is necessary to change Mr. Kahn's mind.

Other Matters Affecting Aviation Industry

I would like to comment on a few other things that we are attempting to do that will have an effect on the industry that IBA members are obviously interested in.

We are developing an all-cargo airplane, and I am glad that reference to it is made in the Report of the Aviation Securities Committee.

Now, it might interest you to know that in all the American flag carriers put together, there is not a single airplane that was built to become a cargo airplane. Not a single airplane in the entire American fleet was designed from scratch to serve as a freighter.

There are a lot of airplanes that are being used as freighters, but none were designed to be that. We are convinced, and our studies prove that if we could sit down and design an airplane, and start from scratch, from the first day that pen goes to a drawing board, and give consideration to the requirements of an air freighter, and that alone, we would develop an airplane that could provide a ton-mile rate materially lower than is now available to the industry; significantly lower, and this we know we are able to do. We are also convinced that we would then be creating a very fast and new industry: The air cargo industry.

I would liken this situation to one which most of us are all familiar with, namely the trucking industry. We wouldn't have a trucking industry today if it were built around a modified bus. That is exactly what we have got in the aviation industry. Every single cargo airplane that is in service today is, in effect, a modified bus, and this is why we have a very poor air freight service.

If we can eliminate these added costs, and get the costs down, we would be penetrating other markets that would be so significant that we would have a very, very large air freight industry, and hence the public would support it. I won't pursue this any longer at this time.

The Weather Hazard

Another point that passes the attention of most of you is the cost of non-service. When service between two cities, say Los Angeles and New York, is interrupted by weather it is a very, very costly thing to the airlines, and inconvenience to the public. We have made studies that are, I think, and hope, very, very accurate. We have gone back over history, and in minute detail tried to determine how many flights were cancelled because of weather; then translate this back into an economic factor, and disregarding the factor of convenience but considering only the economic factor, the effect is astronomical. It amounts to many, many billions of dollars in lost revenue to the airlines.

If you can reduce the cost to the airlines, you could then reduce the cost to the passengers, so, therefore, it affects the passenger.

As you reduce the cost to the passenger you get more people flying, and you get a healthier service.

As you get a healthier service, you get a healthier company. So all this dates back to the interest that you have as investment bankers.

Now, with this background, and having measured with reasonable accuracy, the cost of service failures due to weather, which amount to something like 60 million dollars a year—which, incidentally, is not a small item—we have seen fit to embark on a program designed to give us an all-weather landing system that would eliminate, for all practical purposes, these costly factors to which I have just referred: The cancellation of flights.

I am confident that in the not too distant future we are going to have, in response to this program, and in response to this need—we are going to have a blind landing system.

Now, there has been a lot of glib and casual and uninformed talk about a blind landing system, the I. L. S., the G. C. I., but they are not blind landing systems. All they do is get you into the threshold of the runway and, from that moment on, or from then on, the pilot must make his landing, and roll out from sight, from vision. If we could eliminate the necessity of pilot-sight, and permit the aircraft to come into the threshold, go onto the runway, and terminate his roll by the application of techniques that are available to us, we can eliminate this one costly item, which I assure you is plaguing the industry: The inability to get down on the runway when the visibility is zero. We are co-operating with the British in this, and I might say that the British are ahead of us — they are quite a bit ahead of us.

We are co-operating with the British, and we will, in the not too distant future have a blind landing system. I have flown it myself, and I have flown out of it. I might just add on the first occasion when I flew it—and pilots are not very inclined to trust anything other than themselves—the airplane landed without any tendency on my part to remove my hands from my lap. I had no urge whatsoever to take my hands off of my lap and grab the wheel. And the British system was even better, which I have also flown. So, as investment bankers, this should be an encouragement to you.

The C. A. B. and Over-Competition

Now, I am very aware, as are others, of the plight that is befalling the airlines, the trunk carriers, particularly, from over-competition, and I share the view of the Aviation Securities Committee and hope that the regulatory body that is responsible in this area will be able to reduce the unessential and unnecessary competition over specific groups.

There is one thing that you must remind yourselves of when you are critical of the C. A. B., and that is that the C. A. B. has never given a route to a company that did not apply for it. So if there is over-competition, it is in response to applications of the very people who are now complaining about it. But, nevertheless, it is the duty of C. A. B. to resist these pressures and serve the public. So this is a double-edged sword that we must be mindful of, and when we are critical of the C. A. B. we must also remember that every route that was granted was applied for.

But, nevertheless, it is incumbent upon the C. A. B., as it is upon myself, in my area of responsibility, to resist pressure.

Now, we get to the pressure, and this is the second subject to which I referred, and that is one that is unpleasant. The development of a blind landing system, and semi-automatic traffic control systems, and the development of a supersonic transport has a great deal of romance. I think that is what an investment banker refers to it, and rightly so. It just couldn't be more fun. It is exciting, and interesting and a very pleasant duty, and when Jan. 21 comes along, I am going to miss it terribly.

Nevertheless, there are tasks that we perform that are very, very grubby. They are sometimes unpleasant, and they are sometimes accompanied by great controversy, and this is just an occupational hazard of a bureaucrat, which I am for the time being.

"Grubby Side" of Regulation

I am referring to the duty of regulating. The regulating of a vast industry has a grubby side. First, I am sure you will understand that the regulated is always attempting to become the regulator. This is not unexpected. They apply the pressure to the regulator, and they would like the regulator to become the regulated.

Well, we resist this, and we resist it very strongly, and we will continue to, and I hope we will continue to be as successful in the future as we have in the past. We have just refused to permit the regulated to become the regulator, and this attracts unfavorable comment, if I may put it in the mildest form.

We have our differences, if I may say so, with the Pilots Union. We have our differences from time to time with the various airlines. We penalize them, and sometimes they are severe penalties. They squawk, or, at least, some of them squawk to high heaven when we just do that.

That was the case when we just made them put weather radar in all of their airplanes. They didn't like this; it was costly; we know it is costly. We hope we have done it fairly, and given them adequate time to install this expensive equipment. But, nevertheless, the pressure is there.

Here in Florida I do not think there is anybody who is not aware of the complexities and troubles we have had with the Airline Pilots Union. They have their views. They are, by definition, objective. Their views are to serve the members of the union, of which there are approximately 17,000. Our views are to serve the objectives of the flying public, of which there are something like 65 million. And when they are in conflict, I can assure you of one thing: We are going to serve the public, and we do, and they do not like it.

But this is a hazard that we must endure, and I hope we do it with reasonable grace, and judging from the manner in which they have squawked, I must assume that we have done it with reasonable force. But we have to do these things. We have to do for the public what it can't do for itself, and this is one of our grubby tasks.

Now, one of our grubby tasks was during the complexities that accompanied the injection of the Electra into service. I have been asked to comment on this and describe, without too much detail, why we did what we did. I will say before I start that this was the most difficult task I had over the past three years. It was not an easy task.

The "Electra" Story

As you know, the Electra had two catastrophic accidents in which it shed a wing. It has been a party to three other accidents, two of which were catastrophic because the casualty rate was high; and the other one, there were no casualties, which was extremely good fortune.

Setting aside for the moment the three accidents that were not involved in the catastrophic failure of the wing, let me describe them quickly; two of them were clear pilot errors, and have been so described. One just hit a dike that was as clear to him as that camera right in the room is to me. The other just landed about a thousand feet short of the runway, and when he did so he landed in the water. The third one was, I suppose you might say, an act of God, in which the airplane, at a very critical moment, flew through a flock of starlings that may have numbered between 10 and 20,000, and injected a very large number of birds into the engine which caused one to fail certainly, and the others possibly to have intermittently failed, and created a condition in which the airplane was probably incapable of flight. There is every indication that the airplane was noncontrollable. This was the third accident.

Now, we will set them aside, and confine ourselves now to the two catastrophic accidents in which a wing was lost. One can't be unmindful of such an event. On the first occasion, I will tell you very frankly, we had no idea what caused it. On the second occasion, which followed not too long after the first, it was clear that they were similar. Likewise, it must be clear to others, as it was to be, that if they were similar, we had to do something, forthwith, and we did.

What we did was to reduce the operating speed of the aircraft by about 100 knots.

Now, we did not know what was wrong with that airplane at the time, I will tell you very frankly, but we did know, and with assurance, that if you would take the top hundred knots off the airplane you are then removing the dynamic load from it to a degree that the probability of that kind of catastrophic accident occurring again is practically eliminated, as much as you can eliminate such a possibility.

And we know this. We could have retreated to a position of grounding the airplane. This would have been the safest thing to have done, the safest to myself. Nobody could have criticized me at all. We have been subjected to a great deal of criticism from a few for not having grounded it.

Now, grounding this airplane, as I have said before, would have been the easiest thing for us to have done, and I would then have been defending myself in every eventuality.

I am not sure that this is the right thing for a person such as myself to do, one who is vested with such power. As a matter of fact, I think it would have been the wrong thing.

Now, let us turn this coin over. Let us suppose I had not grounded it when it should have been grounded. This would have been the wrong thing, too. So I am not proven right yet. I know it. Although we were never influenced by any economic implications—there was never at any time any economic implication or influence on this very difficult decision—but let us translate it now into economic implications. To have grounded it would have been a tremendous economic penalty to a very, very large industry. There are several hundred millions of dollars already invested in this airplane, but I repeat again, this has nothing to do with it. It would have been a tremendous penalty.

But, likewise, had it been right to have grounded it and wrong to have permitted it to fly, and facts had proven this to be the case, this would have been an economic penalty also. The damage to the industry would have been terrific; the loss of public confidence would have been very damaging to all who are in one way or another, remote or direct, interested in the air transportation industry.

So again, the question I am attempting to establish is that the duties of a bureaucrat, which I am temporarily, are often trying, and the necessity of being fair, and doing what you think to be right is great, because you can be harmful in whatever you do—you can be extremely harmful. We could have been harmful on either side of the Electra coin.

Lockheed's Co-operation

What have we done to see that the public interests are served? Obviously we cannot leave this airplane with its present limitation. We have required the Lockheed company to engage in a 3-pronged program, which they have done most willingly, and have done with a great deal of skill.

The first part of this program was to take an existing, and one of the early Electras and put it through a flight test program with the aircraft highly instrumented, with the most sophisticated instrumentation that we could put together. The various aircraft companies participated in this. They all helped each other. The N. A. S. A., which has skills which we do not possess, also assisted. The Lockheed company took this airplane, that was highly instrumented, and put fins out on the wing that would make the airplane shake at will, and subjected it to a flight test program, the severity of which has never, never been approached.

We would take it up into the Sierra Nevadas, where there is a great deal of turmoil in the atmosphere, and do the fastest high speed air passes across the high mountains. We subjected the airplane to the severest of dynamic loads by the manipulation of the fins on the wing. We made the wings vibrate and shake, and do all the other things that wings are inclined to do. And as a result of all this, we got a very accurate measurement of every movement that takes place within the airplane under every conceivable condition that we could reproduce.

The second program was to take a full-scale model and subject it to wind-tunnel tests. Now, wind-tunnel tests are very, very revealing in a full-scale model, because you can create and measure accurately any condition you want, and then you can fail certain parts, fault them, we call it, and then measure and determine what the results of the conditions that we have created are.

This was a very expensive program and very revealing.

Other Tests

Another part of this wind-scale model program was to employ a technique that is highly developed, particularly on the part of the N. A. S. A., the National Aeronautics and Space Agency, and that is model-testing. It is possible and very productive to take scale models and put them in tunnels, and create for yourself the varying conditions that you can imagine. And then you can change them rapidly, and you can just create one condition after another, and measure it, and record it with great accuracy.

This was a very, very extensive program.

The third part of this program was the reassessment of all the theoretical data that went into this design.

Now, as a result of this three-part program, we were able to eventually eliminate all probable causes for this phenomenon to have occurred, and eventually eliminated all causes but one, and that was the manner in which the engine was mounted. And of this we are sure—as sure as you can be in the framework of the present state of the art.

It seems that this condition could occur, to which I have referred, which we call a "whirl-mode," which starts the engine cell rotating in a manner such as this under certain conditions that I will refer to, and this, in turn, drives the wing and causes it to oscillate back and forth, and eventually fly off. When I say "eventually" I mean in about two seconds. Two seconds, under

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these conditions, is a very long time to us, because in the conditions to which I have been referring, we measure what takes place in a hundredth of a second, and a second hundredth. So I didn't mean to be humorous or glib when I referred to "two seconds." This is long to us.

So we were able to focus this down and determine, with as much accuracy as the state of the art will permit, the cause of this condition, and this condition can only occur, even at the higher speeds at which the Electra was flying, if there was a failed part within the structure. Some part of the structure had to have failed before this condition was permitted to start.

Then what do we do? We created, by the application of computer techniques, a combination of every failure, every faulted part that we could create within the structure; and when we did that, at the reduced speed, we could never create the whirl-mode.

So, with this background we were satisfied that the airplane, at the reduced speed of 225 knots rather than 324, is the safest airplane in service from the point of view of structure, and the airplane will not go back into service until all of these faults are eliminated.

Conclusion

Now, I will conclude by saying that the Lockheed company has already started a very, very extensive production line of modifying all the airplanes that are in service. It is an extensive program. It eliminates, as far as the state of the art will permit, the possibility of the whirl-mode ever occurring again. It is a fantastically complex retropath program. The wings are for all practical purposes rebuilt; the engine cell is a new one, and there are other factors, too. There are certain modifications in the engine.

We have three airplanes through this production line, more than three now, but the first three that we put through we have subjected to a test even more severe than the one to which I have previously referred.

I never knew of any flight test program that was as severe in its character as the flight test program that we are now putting these three airplanes through, and if and when they stand up, we will return the speed to 324 knots, and I hope the public will be served.

***Transcript of an extemporaneous address by Gen. Quesada before the Investment Bankers Association of America, 49th Annual Convention, Hollywood, Fla., December 1, 1960.**

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Interstate Securities Corporation, Charlotte

ADLER, LEE
Varnedoe, Chisholm & Co., Savannah

AGEE, RUCKER*
Sterne, Agee & Leach, Birmingham

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The Parker Corporation, Boston

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***Denotes Mr. and Mrs.**

Some Aspects of the Decline In Canadian-U. S. Relations

By N. D. Young,* *Vice-President, Dominion Securities Corp. Limited; Chairman of Canadian Committee of the Investment Bankers Association of America*

Canadian investment banker candidly explains why his countrymen are more than a little concerned over the way our economic participation to the north of us jeopardizes Canada's independence. Charging no nefarious plot, or lack of economic benefit, or any attack upon Canada's political independence and cultural identity, Mr. Young refers to parent company practices, cites figures on capital trade and control of industry, and our governmental policies which are regarded ominously by Canadians. Reviewed are some of the past warnings by prominent Canadians and clearly indicated is the need for a prompt and deeper understanding as to how our policies harmfully affect Canada.

Because of what I consider to be noticeable deterioration of Canadian-U. S. relations, I have decided to use this occasion to make certain observations which will, I hope, contribute in some small way to a broader and deeper understanding of the problems which confront us. If these problems are to be resolved, and they can be, serious thought and action is essential now.

N. D. Young

During these troublesome times it would be of great mutual advantage were we to recognize that it is the province of knowledge to speak—the privilege of wisdom to listen. The trouble with most of us is that we would rather be ruined by praise than saved by criticism.

For many years visiting Canadians have spoken to their American hosts about our wonderful 3,000 miles of undefended border. For many years visiting Americans have spoken to their Canadian hosts about the boundless friendship which features relations between the two countries. Such speeches have always left a warm glow of self-satisfaction in their wake.

Unfortunately self-satisfaction frequently leads to self-deception, and I fear that it has done so in the area of relations between our countries. The theme of the "undefended border" has become something of a cliche which now hides much more than it reveals.

From my observations I have been forced to conclude that not for many years has there been a wider gulf between the views of prominent Americans and Canadians relating to the state of United States-Canada relations, than the one which exists at present.

Since this conclusion may surprise some of you may I cite an experience which illustrates in personal terms one aspect of the situation.

Some Concrete Examples

Two or three years ago we undertook to raise 25 million dollars for an expansion program for one of our universities which at the time had an enrollment of approximately 16,000 students. I became involved in the industrial section of the drive, and one of the firms on which I called was a Canadian subsidiary of an American plant which had been in Canada for over 40 years and employed over 1,000 people including graduate engineers, chemists, etc. While the President of the Canadian company was sympathetic to the financial requirements of our university he nevertheless had to refer the request to the Head Office in the U. S. Finally the reply came back that the Head Office of the company supported the financial drives of American universities and could not see their way clear to contribute towards the needs of Canadian universities. Fortunately this is not the attitude of all American subsidiaries in our country, it is nevertheless not at all uncommon.

I would like to further illustrate my point with another specific and recent example.

One week prior to your Presidential election a reporter of one of our national financial publications, put this question to both of the candidates. "What would you do to improve Canadian-U. S. relations once in the White House?" There was no answer from either. Finally one of them remarked, "I wouldn't know what to say, we are friends."

Just several weeks before that conversation, the Governor of our Central Bank made a speech—one of a series, all of which have received wide publicity in Canada—in which he said:

"The process of the growth of foreign domination in Canada has gone on for so long that perhaps we have become blind to it; we either take it for granted or we fail to realize what proportions it has assumed. No other country would, in relation to its own affairs, have regarded such economic dependence as desirable. And whatever benefits it may have conferred in the past, the danger now exists that it may produce stagnation and a falling back in the parade of modern progress for Canada and for the people of Canada."

The Governor went on to say that ". . . no one enjoys having even the most likable of guests—as in certain fields of corporate enterprise—come in such numbers as to swamp the family, assume charge of the household, take a lion's share of the income, and remain indefinitely, decade after decade."

In addition, he feels that the present degree of foreign ownership is undesirable on non-economic grounds. These views have naturally prompted speculation over the probability of controls being imposed on foreign participation in the Canadian economy. Any such controls would, of course, have to emanate from the government of Canada.

We feel that Americans must realize that Canada's international position is a unique one (I will explain this unique position further on) and if the Canadian government takes action to encourage Canadian ownership of industry and to reduce the trade deficit this should not be construed or regarded as being anti-American. Such action was hint-

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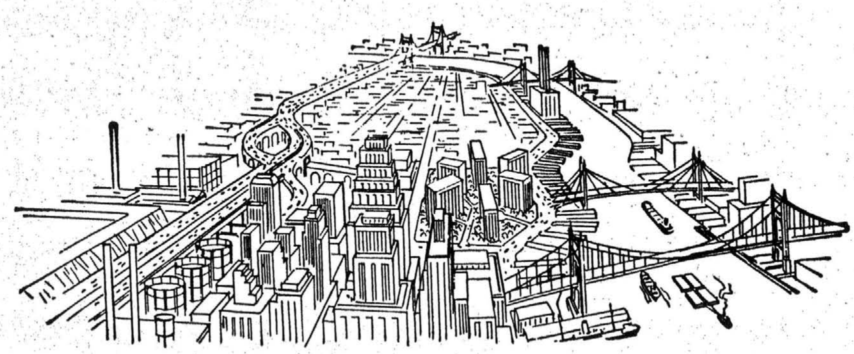

Some Aspects of the Decline In Canadian-U. S. Relations

Continued from page 29

ed in the speech from the Throne delivered by the Governor General at the opening of the Special Session of Canadian Parliament, Nov. 17. Canada must act to insure her international position.

There is little doubt that at present many Canadians are more than a little concerned over the implications of U. S. economic participation in Canada for the survival of Canada as a truly independent nation.

Foreign Ownership of Resources

Permit me to indicate some of the reasons for this concern. Over 50% of the Canadian manufacturing industry is owned and controlled by non-residents, and there are many parts of that industry where foreign ownership is virtually complete. Similar control exists in mining, smelting and petroleum exploration and development. Much of this foreign ownership is, in fact, ownership by Americans. Residents of the United States own 76% of all foreign investment in Canada, and control from 80% to 90% by value of all foreign-controlled companies in Canada.

It is tempting to speculate how Americans would regard a similar situation in relation to their own country, that is to say, what their feelings would be if the United States had a foreign debt of the order of $250 billion, with the bulk of their most valuable natural resources owned or controlled by foreigners and more than half of their manufacturing industry likewise owned or controlled from outside their own country.

Our trade, too, is directed dominantly toward the United States. In the first six months of this year our exports to the United States accounted for 59% of all our exports, and our imports from the United States were 69% of the total. We ran a very large trade deficit with your country during that period, amounting to *$793 million*—equal to over 50% of our exports to your country. We may ask ourselves, what would Americans think of their situation? If they had a balance-of-payments deficit on current account alone which was equal in one year to the whole of the United States gold reserve, and if, beyond that, they had a continuing annual deficit of this size year after year? Yet in proportion to gross national product, the Canadian balance-of-payments deficit at an annual rate of from $1,131 million to $1,455 million in each of the past five years, 1956 to 1960, is equivalent to a United States deficit, averaged over those years, of more than $18 billion per year.

We have been financing our deficits by borrowing from you in large amounts. In 1959 about 38% of the bond issues of our local governments were sold in your country payable in your currency.

These figures of capital trade and control of industry are regarded by many Canadians as ominous. A feeling of disquietude is also prompted by past experience which suggests that Canada cannot stand isolated from even the minor forces which influence your financial markets and certainly cannot enjoy prosperity when prosperity is not present in your economy.

Let me hasten to say that I do not regard these developments as being the result of a nefarious plot perpetrated by a powerful United States of America on an unsuspecting and much smaller Canada.

Not at all. Foreign ownership of Canadian business is in part the result of Commonwealth tariff preference and in part because Canada imposes few restrictions on imports of capital. Canadian tax legislation may also be a factor. You may well say that Canada has brought it on herself.

Mutual Benefits

Nor do I wish to suggest that Canada has not benefited from its close relationship with the United States. I believe that we have benefited greatly and in many ways from much of your capital. The factories are there. The oil wells are there. The iron ore is being mined. We will undoubtedly benefit from that capital in future as well, and when such is not the case, it will be within our area of responsibility and within our ability to ensure that no damage is done.

I also must express my personal view that I do not yet see Canada's economic dependence on the United States as a serious threat to her political independence and cultural identity as do many Canadians.

My reason for holding this view is simple enough. We do not, except for a few airplanes and military stores, trade with the "United States." We trade with individual Americans.

We do not borrow capital from the United States Government. We borrow it from individual Americans through financial institutions. It is not state trading and it is not foreign aid we are getting. Nor do we need to feel humble about receiving American capital. It would not come if a profitable and competitive rate of return on it was not expected.

I see no virtue or defect in the fact that we sell a carload of newsprint to a Canadian or American publisher. Canada's national identity will not suffer one way or another, in my view.

I am rather of a mind that increased trade, profitably developed will increase our economic strength and so will enable Canada to foster those endeavors which will develop her national character and culture.

I have said that our economic relations are beneficial to Canada and, in my view, pose no immediate threat to Canada's independence. I must now emphasize my further view that such relations can remain healthy only if you and your government recognize **your** responsibilities in that relationship. Again I will be specific. Because we have only one-tenth of your population; because our trade with you is so large; and because your companies control much of our industry — because of these hard realities any unthinking change in your government or corporation policy towards Canada may appear relatively unimportant to you, but it may deluge us with the force of a tidal wave.

Canada Must Protect Herself

Were this to happen, not even I could reject the view that our economic integration with the U. S. has inherent dangers which are best avoided even at the risk of some cost in terms of economic growth in the short run.

In a speech delivered in Toronto as recently as last Monday, Max Freedman, Washington Correspondent for the *Manchester Guardian*, who had accompanied your President-elect on eight campaign trips urged that Canada put its views personally to Mr. Kennedy and his Secretary of the Treasury. He urged that the Canadian Prime Minister and his Minister of Finance should go to Washington soon after Mr. Kennedy is installed and make sure that these two understand the extent of U. S. investment in Canada and the problems it has caused. "They will," Mr. Freedman said, "understand for the first time." This I believe is a regrettable but true observation.

Countless Canadians in all parts of our country believe that Americans generally have little knowledge of Canada's economic position vis a vis the United States, or of our history or of our culture, or of our political processes.

They therefore feel that your policies, policies shaped by honorable men, but in ignorance or disregard of our position, may have the harmful effects on Canada of which I have spoken. Pointing for example to quotas placed on some of our mineral exports or to the failure of some U. S. subsidiary companies to participate fully in Canadian public ventures and industrial research, some are inclined to argue that such effects are already being felt in Canada. We must realize that our economic relationship is in every sense of the word unique, and that it imposes special responsibilities of behavior on institutions, individuals and governments in both countries.

In the final analysis government can only be the objectification of the thinking of their peoples—even as individual homes express individual thinking. Each citizen helps to raise the level of national thinking or to pull it down according to the concept of government he entertains. In a representative democracy, the work of making and enforcing the laws is left to others, nevertheless citizens cannot escape the direct responsibility of what is done, they have at least two duties—to think rightly and act wisely.

It is vitally important that the great friendship which exists between our two countries be based in the future on a deeper understanding of our mutual problems and of our individual aspirations. Without this, it will not survive in its present form.

I hope that my few remarks have contributed in some small way to such an understanding.

*A talk by Mr. Young before the 49th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 30, 1960.

Van Alstyne, Noel Branch

PASSAIC, N. J.—Van Alstyne, Noel & Co. has opened a branch office at 20 Howe Avenue under the management of Reuben R. Kern.

Merrill Lynch Office

CHICAGO, Ill. — Merrill Lynch, Pierce, Fenner & Smith Inc., has opened a new Chicago branch at 10 South La Salle Street under the direction of John A. Orb, Vice President of the firm.

Joins Witter Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Ivan E. Reeve has joined the staff of Dean Witter & Co., 632 South Spring Street. He was formerly with Lester, Ryons & Co.

Business Community Must Shoulder Its Responsibility

By H. Bruce Palmer, President, The Mutual Benefit Life Insurance Co., Newark, New Jersey*

A businessman's philosophy on the principal problems confronting us is concerned with the need to train people to do those things which they can do themselves and to encourage businessmen to enter political life even at the grass roots level. Describing himself as a thorough fundamentalist, Mr. Palmer stresses the need for fundamental approaches in American social, economic and governmental affairs and urges creative political motivation to maintain sound long-range fiscal policies. Citing the government as the single most influential corporate director in American business, Mr. Palmer explains how inflation is responsible for our high taxes, and affects the problems of the aged, economic growth and balance of payments. Inflation is compared to the deadliness of communism, and cases are furnished as to how easily political participation can be effectuated.

I would like to discuss two basic problems because I believe they are a threat not only to the investment banking industry, but to that greatest of all enterprises: America, in which we all have a very deep and abiding interest.

H. Bruce Palmer

If I were to identify myself I would say that probably I am a Fundamentalist. I am a Fundamentalist because I happen to believe that there are many fundamental problems in this world of ours and in our country, and in our communities to which we do not give the amount of attention we should give, and they are basic problems.

I feel that many of us spend our time in a lot of these things I am referring to, and, of course, they are important, but if we would just get down to some of the fundamental problems; if we would give our time and our attention and our money to the solution of those problems, then I think we might have a better world in which to live.

I have been called an Idealist, and I am sure that after I finish my paper some will believe that I am an Idealist. I do not consider this to be a term of reproach. On the other hand, I believe it is a term of honor, because all great things have started with a basic idea.

I like to think of ideas; ideas that might solve some of the fundamental problems I've referred to.

As we live together, of course, we create many social problems, and we have, I think, been magnificent in our leadership that we have given to the solution of those problems. And as we live together, because it behooves us as individuals to create a livelihood for ourselves and our families, we have our little free enterprise units in the great free enterprise system of our Nation, and as we work together, and as we exchange goods and services, of course we have business problems — and again the leadership of American business has been magnificent in its attention to those problems.

Then there is a third fundamental problem area and that one results because it seems that as we live together, and as we do business together, on occasions it becomes necessary to regulate human behavior. And as we regulate human behavior we have, of course, this thing called Government, in all of its units. And we have governmental problems.

Doing What We Can for Ourselves

If I were to try to identify the real basic problems in those three fundamental problem areas, I would think, in the first place, as far as our social problems are concerned, more attention should be given to the training of our people to do those things which they can do for themselves. But I am not going to talk about this except to say that I spent a lot of my business life, and a lot of my extra-curricular activities, in that particular area.

In the economic area, I would say basically probably the most important thing we have to do is to teach a better understanding of what is our business system, and to gain a greater appreciation of the free enterprise system that we have in this nation.

I am heartened by the fact that the IBA has an Education Committee. I hope that this Committee will give attention to some of these fundamental educational problems that we have in our nation today, and particularly as they refer to our fundamental economic problem.

In the field of government, I might only make one comment, or give one word, which I think is fundamental to that problem area, and that is the word: "Participation." But I am going to comment more about that particular problem because it is one of my special interest, one to which I am dedicated, and again one in which I spend a great deal of my time.

Need for Ego and Individual Creativeness

Now, my time is devoted to those things which are fundamental. It is my belief that all problems can be solved by people who are motivated to use their creative activity, and there is not enough creative activity that is being used in our nation today. If there is an urge to giving leadership to these particular fundamental problems, I think that we might agree that that urge is a stimulation of people, so that they might be creative in their activities. We don't want, I believe, in this nation of ours to see the withering of the common ego that we have seen develop in other countries of the world: The withering of the individual's contribution to the solution of some of our problems.

To me, everything starts with the educational process. All human motivation starts with education.

And I would like to mention two stories of how such a start can be made and what can be the results. I hope that they might challenge us all to be more active in two particular areas.

In the first place, I refer to government, the last of the three fundamental areas to which I referred. When we regulate human behavior, either we will be a part of that regulation procedure, or if we withdraw our ego, ourselves, from that particular area, I think that many would agree with me that we invite government to step in and say: "I am the power; I am the ego; I could even be totalitarian in the philosophies of regulating human behavior."

Big Government

We businessmen sorely criticize our government at all times. We criticize what we have called "creeping Socialism," and if we don't think we have Socialism in this country today, I don't believe that we have carefully analyzed the trends that have been with us for the past several decades.

We criticize this thing that we call, "Welfarism."

We criticize, of course, the onerous tax burdens that all of us attempt to bear: A threat to our enterprise.

I would like to relate this story about our particular company. We are supposedly, as a mutual life insurance company, a non-profit organization, and yet in 1960 the total taxes paid by a non-profit organization will be approximately \$12,900,000. Now, our controllable expenses in our company actually amount to about \$14½ million. In other words, this uncontrollable expense that we have, or something that we consider to be an uncontrollable expense, of paying the costs of government today in our non-profit organization, almost equals the total of those controllable expenses. Those are not all of our expenses, but those are the expenses to which we give our constant attention in management, because we feel that that is an obligation that we have to the policyholders of our particular company. I have deducted from our total expenses the monies that we pay to investment bankers, and to others in the mortgage field so that we might acquire the investments that we have in our portfolio. I have excluded the acquisition costs be-

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Report of IBA Governmental Securities Committee

Dwight W. Chapman of the Wells Fargo Bank American Trust Company, San Francisco, Calif., reported to the Convention these findings of the Governmental Securities Committee of which he was Chairman:

The background for progress in Treasury operations and debt management has been considerably better in 1960 than in either of the two previous years.

Dwight W. Chapman

The failure of the boom to materialize in the early spring resulted in the disappearance of the inflation psychology which had previously been an important factor in business and financial decisions. There was a reduction in the total demand for credit, primarily by the Federal Government, whose budget changed from the largest peacetime deficit in 1959 to a surplus of over a billion dollars in fiscal 1960.

The monetary policy of the Federal Reserve shifted from one of restraint at the beginning of the year to one of neutrality in the early spring, followed by ease in the summer and active ease in the fall. Initially, reserves were supplied to the banking system by open market operations and this was followed by two reductions in the discount rate. In addition, reserve requirements were reduced both by direct action and the use of till cash as a part of the required reserve.

These moves have been made in spite of the fact that we have been losing gold as a result of the higher rates in foreign countries which have naturally attracted short-term funds. This condition has made it necessary for the Federal Reserve to deviate from its "Bills only" policy in its open market operations in order to remove some of the pressure from the Bill market. In fact, our unfavorable balance of payments has added a brand new problem to over-all debt management and monetary policy.

Treasury Personnel Lauded

We have been most fortunate in having in the Treasury, Secretary Anderson, Under-Secretary Baird, and their associates. In the words of Allan Sproul, "they have provided us with the most imaginative management of the public debt that we have seen for a very long period of years."

They have taken numerous constructive steps commencing in 1958 in an effort to improve the techniques of debt management. These innovations commenced with the pricing of marketable securities other than at par. This was followed by the introduction of six-months and one-year Bills. Then the rate on Savings Bonds was increased from 3¼% to 3¾%, which added materially to their attractiveness.

In March of this year the Treasury announced that under certain circumstances cash refunding would be used rather than pre-emptive rights. This gives them complete freedom of action and could enable them to curb excess speculation of the type which occurred in June, 1958.

Advanced Refunding Operations

Probably the most important event in many years was the development of the advance refunding procedure. This was made possible by legislation introduced at the request of the Treasury in 1959, which permits postponement of the tax consequences of any capital gain or loss resulting from the exchange. The "junior leap frog" operation in June moved over four billion from the short-term area principally to a four-year maturity, with a small amount exchanging for an eight-year Bond. This not only resulted in debt extension but also reduced to more manageable proportions the $11.2 billion 2½s of Nov. 15, 1961. The final step was the "senior leap frog" operation, which was undertaken in September. This resulted in the exchange of almost $4 billion publicly held "tap" 2½s maturing in 1967-68-69 for 3½s maturing in 1980-90-98. In addition, Government investment accounts exchanged about $600 million. The debt extension was achieved with a minimum of market impact and no appreciable effect on the market for long-term Government, corporate or municipal Bonds. The amount may seem insignificant when compared to our total debt but takes on more importance in view of the fact that total sales of over 15-year Bonds in the entire post-war period have only amounted to $9.2 billion.

All of this has been accomplished despite the failure of Congress to remove or modify the rate ceiling on bond financing. Your Committee wishes again to go on record as favoring the elimination of the interest rate ceiling because we believe that in the long run this action will reduce the cost of servicing the public debt.

Debt Problems Remain

Despite the accomplishments to date and the momentum we now have underway, as well as the investing public's interest in the Government market, the new Treasury team will face many problems. Not the least of these will be the continued reconstruction of the debt.

The within one-year debt continues to be large but is not a major problem since it seems to be about in line with the liquidity requirements of our economy.

The one-to-five year area is overcrowded and presents the real problem, which can best be corrected by "junior leap frog" operations. If this is not done, these issues will rapidly move into the one-year area with very serious results.

The long-term area of 15 years or more is now on the way to becoming a significant segment of the Government market but needs additional supply. This can best be provided through "senior leap frog" operations, although cash offerings should also be made at proper times.

It has been a great privilege to work closely with Secretary Anderson and his associates in the Treasury and he is kind enough to say that we have been of some assistance.

Respectfully submitted,
GOVERNMENTAL SECURITIES COMMITTEE

Dwight W. Chapman, Chairman
Wells Fargo Bank
American Trust Company
San Francisco, Calif.

Robert B. Blyth
The National City Bank
Cleveland, Ohio

Milton S. Bosley
National Bank of Detroit
Detroit, Mich.

E. Arthur Carter
The Chase Manhattan Bank
New York, N. Y.

F. Newell Childs
C. F. Childs and Company, Inc.
Chicago, Ill.

James A. Cranford
The Atlantic National Bank of Jacksonville, Jacksonville, Fla.

Stewart A. Dunn
C. J. Devine & Co.
New York, N. Y.

W. Wayne Glover
California Bank
Los Angeles, Calif.

H. Lyman Greer
The Fifth Third Union Trust Co.
Cincinnati, Ohio

Alfred H. Hauser
Chemical Bank New York Trust Company, New York, N.Y.

Hardin H. Hawes
Harris Trust and Savings Bank
Chicago, Ill.

Russell A. Kent
Bank of America, N.T. & S.A.
San Francisco, Calif.

George B. Kneass
The Philadelphia National Bank
Philadelphia, Pa.

Frederick G. Larkin, Jr.
Security First National Bank
Los Angeles, Calif.

Ralph F. Leach
Morgan Guaranty Trust Company, New York, N. Y.

Pat G. Morris
The Northern Trust Company
Chicago, Ill.

Robert C. Morris
Bankers Trust Company
New York, N. Y.

Emil J. Pattberg, Jr.
The First Boston Corporation
New York, N. Y.

John H. Perkins
Continental Illinois National Bank and Trust Company
Chicago, Ill.

Delmont K. Pfeffer
The First National City Bank
New York, N. Y.

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

Herbert N. Repp
Discount Corporation of New York, New York, N. Y.

Lockett Shelton
Republic National Bank
Dallas, Tex.

Rudolph Smutny
R. W. Pressprich & Co.
New York, N. Y.

Girard L. Spencer
Salomon Bros. & Hutzler
New York, N. Y.

William J. Wallace
Mellon National Bank & Trust Company, Pittsburgh, Pa.

William R. Statts To Admit Two

LOS ANGELES, Calif.—On Jan. 1, William F. Kellermeyer and Robert W. Gale will be admitted to partnership in William R. Staats & Co., 640 South Spring Street, members of the New York and Pacific Coast Stock Exchanges.

Kidder, Peabody To Admit Partner

On Jan. 1 Ehrhardt Groothoff will be admitted to partnership in Kidder, Peabody & Co., 17 Wall Street, New York City, members of the New York Stock Exchange.

Lazard Freres To Admit Partners

Lazard Freres & Co., 44 Wall St., New York City, members of the New York Stock Exchange, on Jan. 1 will admit Michel David-Weill, Fred W. Wilson and Edward T. Shean to partnership.

David A. Noyes To Admit Johnson

CHICAGO, Ill.—David A. Noyes & Co., 208 South La Salle Street, members of the New York and Midwest Stock Exchanges, on Jan. 1 will admit Wallace D. Johnson to partnership.

With Schirmer, Atherton

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Maine — James A. Boyd has become connected with Schirmer, Atherton & Co., 634 Congress Street. He was formerly with First Maine Corporation.

Report of IBA Municipal Securities Committee

Alan K. Browne, Vice-President of the Bank of America, N.T. & S.A., San Francisco, and Chairman of the Municipal Securities Committee, presented to the Convention the Committee's Report, which follows:

The sales of new issues of municipal bonds continued at a high level during the first 10 months of 1960, aggregating over $6,220,000,000. Sales of new issues in 1959 set a new record for annual volume, aggregating over $7,600,000,000 in 12 months.

Alan K. Browne

The amount of proposed bond issues on ballot for approval at the recent elections set a November new record, aggregating over $4,200,000,000. This included the largest single state or municipal bond authorization ever approved, the $1,750,000,000 California water program. Bond election results available for $3,057,000,000 of the proposals show approval of more than $2,778,000,000—about 91% by dollar value.

The volume of sales of municipal bonds demonstrates that state and local governments are financing successfully the construction of record amounts of public facilities, including schools, water and sewer works and streets and roads. The high percentage of bond election approvals shows that there is no local apathy in approving financing for local public facilities.

Local "Crisis" a Myth

Every year there are proposals for new or expanded programs of Federal financial assistance to local governments, usually based on claims that (a) some "crisis" exists in a particular type of public facility and the public welfare of our country demands that the Federal government provide the financial assistance to remedy the situation or (b) that local governments are unable to obtain funds in the general market at reasonable rates to construct local public facilities. Contentions that a "crisis" exists in the need for local public facilities in the United States is disproved by the fact that the standard of living and the public facilities (including educational facilities) are better in this country than in any other country in the world. The contention that local governments cannot obtain financing at reasonable rates is disproved when the rates paid by local governments for their financing are compared with rates paid by the Federal government for comparable maturities at the same time.

Proponents of Federal financial assistance to local governments for the construction of public facilities would be well advised to compare carefully the current financial positions of the Federal government and local governments. Starting from practically the same level in 1932 when the aggregate debt of state and local governments was about $19,200,000,000 and the national debt of the United States was about $19,487,000,000, by 1959 the aggregate state and local debt had increased about **three times** to about $64,100,000,000 while the Federal debt had increased more than **fourteen times** to more than $284,000,000,000.

State and local governments generally can finance needed public facilities without Federal financial assistance. Some local governments need expert advice in working out sound financing programs. The mechanics of investment banking should be simplified to the greatest extent possible to facilitate such financing. The market for municipal bonds should be broadened to attract many new investors for municipal bonds. Much of the work of this committee and its subcommittee is directed toward these ends.

I
Reports of Subcommittees

Several new subcommittees were established this year so that problems or suggestions could be referred promptly for consideration or recommendations. Much of the work this year has been done by these subcommittees and will be reflected in the separate reports of the subcommittees. The special committees and subcommittees and their chairmen are as follows:

Special Committee for Public Education on Municipal Securities: Walter H. Steel (Drexel & Co., New York City), Chairman.

Financial Advisers Subcommittee: William C. Jackson, Jr. (First Southwest Co., Dallas, Texas), Chairman.

Liaison and Bond Sale Procedures Subcommittee: Walter W. Craigie (F. W. Craigie & Co., Richmond, Va.), Chairman.

Liaison Subcommittee to American Bridge, Tunnel & Turnpike Association: William F. Morgan (Blyth & Co., Inc., New York City), Chairman.

Metropolitan Area Subcommittee: Orlando S. Brewer (Phelps, Fenn & Co., New York City), Chairman.

Syndicate Operations Subcommittee: John W. de Milhau (Chase Manhattan Bank, New York City), Chairman.

Trading and Cashiering Procedures Subcommittee: Lloyd B. Hatcher (White, Weld & Co., New York City), Chairman.

II
Federal Legislation Affecting Municipals

(a) **Tax Exemption for Municipals.** No bills were introduced in Congress proposing elimination of the tax exemption for municipal bonds.

(b) **Federal Aid for Classroom Construction Not Adopted.** The House passed (by a vote of 206 to 189) H. R. 10128 (with amendments) to authorize $325,000,000 in each of four years (a total of $1,300,000,000) for Federal grants for construction of elementary and secondary school facilities. The Federal funds would have to be matched during the first and second years on a state and local basis and during the third and fourth years on a state basis. An amendment required that school facilities constructed with Federal assistance be available to all students on a non-segregated basis.

The Senate previously passed S. 8 to authorize $880,000,000 in each of two years for Federal grants for classroom construction or teachers' salaries.

The House Rules Committee refused to send these bills to conference, where the differences between the bills passed by the Senate and the House could be compromised, so neither bill passed.

The IBA, the U. S. Chamber of Commerce and the American Farm Bureau Federation (among others) have opposed proposals for Federal aid for elementary and secondary school construction on the grounds (among others) that there is no need for Federal assistance because (1) in the five-year period from 1954 to 1959 the estimated number of needed classrooms was cut from 370,000 to 132,400 (66,400 to accommodate excess enrollment and 66,000 to replace unsatisfactory facilities) and estimates of the number of classrooms needed may have been exaggerated to create an apparent need for Federal aid; (2) school bonds sold from 1957 through 1959 by states and local educational agencies to finance construction of public elementary and secondary schools aggregated over $6,500,000,000; and (3) the rate of growth in public school enrollments at the elementary school level is decreasing, so that the peak period of need for additional elementary and secondary school classroom capacity is behind us.

The great success of state and local governments in providing financing for needed elementary and secondary school classrooms is further demonstrated by the fact that the sale of school bonds for such purposes during the first nine months of 1960 aggregated over $1,726,000,000, which is about 19% in excess of the amount of such bonds sold during the corresponding period in 1959. This fact, along with the rising trend in the percentage of school bond issues approved at bond elections, refutes the claims by advocates of Federal aid that school bond sales and school bond election approvals are decreasing.

(c) **Proposed Program of Federal Loans for Public Facilities Not Adopted.** S. 1955 in the Senate would have authorized $1,000,000,000 in Federal loans to states and municipalities to finance construction of any public facilities. The Federal loans with maturities up to 50 years would be made at a low interest rate determined

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Report of IBA Subcommittee On the Problems of Our Metropolitan Areas

The Subcommittee on the Problems of Our Metropolitan Areas, Chaired by Orlando S. Brewer, Partner of Phelps, Fenn & Co., New York City, provided this Report to the Convention:

A metropolitan area, spreading beyond the political boundaries of the city which forms its base, is often confronted with a situation where certain public facilities or services, such as transportation, water, sewer, or schools, could be provided more efficiently or economically through long-range planning on an area-wide basis. This complex faced by almost every area adjacent to a city of medium or large population, both in the United States and Canada, has led in recent years to a large number of studies to determine solutions and in some cases to programs that are now in effect. Three questions that must invariably be considered are: (1) the appropriate governmental unit to furnish the facility or service (2) the division of political authority amon gthe various governmental units within the area; (3) the means of financing the facilities or services.


Orlando S. Brewer

There have been four general approaches for determining the appropriate unit to provide area-wide services:

(1) A special authority or district to deal, on a regional basis, with a single or limited function such as rapid transit or water supply (for example, the Port of New York Authority and the Metropolitan Water District of California).

(2) A metropolitan federation organized on a regional basis as a new governmental entity, to which the various local government units within the area surrender their authority to deal with specified functions (for example, the Winnipeg Metropolitan Corporation).

(3) A shift of specified functions to a governmental entity which encompasses the entire area. This differs from a metropolitan federation principally in utilizing an existing governmental entity instead of creating a new entity. This is basically the approach in Dade County, Florida and it is the general approach recommended for the Pittsburgh-Allegheny County Metropolitan Area and for the Cleveland-Cuyahoga County Metropolitan Area. This approach has limitations because there are some areas which should properly be included that are not within a single county or even a single state.

(4) Annexation or consolidation of units is frequently used where there are only a few governmental entities involved.

This report is not an attempt to cover all of the developments regarding metropolitan area problems. It includes, rather, a summary of some of the principal developments which illustrate some of the problems involved.

Cleveland-Cuyahoga County

The Cleveland Metropolitan Services Commission, known as Metro, completed its research project on metropolitan problems in Cleveland. Approximately 30 reports were published and $500,000 spent over a three-year period, making this one of the most extensive studies of its kind in recent years.

Last year, the Cuyahoga County Charter Commission submitted recommendations, based upon the Metro report, for a new metropolitan government for the major portion of the Cleveland-Metropolitan Area. The proposal was defeated at the election on Nov. 3, 1959, causing a setback in solving Cleveland's metropolitan area problems. Since then, however, steps have been taken to approach anew governmental problems facing Greater Cleveland:

(1) The defeated proposal provided for a mayor-council form of government and gave the county authority over such important powers as water supply, sewers, transportation, airports and seaport. The proposal had the support of both political parties, all three newspapers, the Chamber of Commerce, labor, the League of Women Voters, the Citizens League and 20 other major civic groups. The County Mayors' Association was the only organized area-wide group in opposition. The opposition argued that the charter for the county gave it too much power to control the assets and powers of the municipalities. The opposition wanted reasonable assurances that the municipalities would be protected against arbitrary county action. The County Mayors Association, therefore, although opposed to the charter for these reasons, has now teamed up with the civic organizations to prepare a compromise charter. There is movement to get it on the ballot in 1961 or 1962.

(2) A committee is preparing a program of legislation for the forthcoming session of the General Assembly.

(3) Several committees are working to solve specific problems in the meanwhile. For example two of the suburbs, Moreland Hills and Bentleyville, are considering merger; the fire chiefs of the 35 fire departments in the county have adopted an inter-departmental fire radio communications plan.

(4) Business leaders in the Cleveland area, impressed with the previous work of the Metro Research project, have increased the staff of the Cleveland Bureau of Governmental Research, giving it the responsibility for keeping the Metro reports up to date and doing additional research as needed. This provides background continuity as new approaches to the problems are brought up for discussion and vote.

Winnipeg, Canada

Last year the Greater Winnipeg Investigating Commission recommended that there be formed by legislation, without the approval of the residents by referendum, a "Municipality of Greater Winnipeg." It was proposed that the 14 municipalities and cities now existing in the area be consolidated to form eight new corporations.

In 1960 the Manitoba Legislative Assembly authorized the creation of a multi-purpose government for the Winnipeg Metropolitan area. The enabling legislation adopted late in March set up a new structure of administration and government for an area which comprises about one-half the people of the Province and affects nearly a score of existing municipal governments.

The Metropolitan Government created by the Provincial Act differs in some respects from the recommendations of the Greater Winnipeg Investigating Commission which reported in 1959. For example, the Act provides for retention of all existing municipal boundaries, whereas the Commission originally recommended the consolidation of existing units to form new municipalities which would also serve as metropolitan electoral districts. The Commission had also originally recommended that all business and commercial taxes be levied directly by the Metropolitan Council rather than by the present municipalities. Finally, the Commission had also recommended that a wider range of duties be performed by the Metropolitan Government, including schools. However, in the case of schools the Legislative Assembly decided to defer action while awaiting a report from the Royal Commission devoted to this problem.

A major function of the new government is its responsibility for central planning of the total urban area. This includes long-term planning for major roads and bridges, traffic control, sewer and water control, establishment of major parks, and garbage disposal.

The Metropolitan Council will direct the new government as it gradually assumes responsibility for operational functions including the following: assessment; planning; arterial roads including bridges and the regulation of traffic; transit; water, excluding local distribution; sewage disposal, excluding local sewers; garbage disposal but not collection; major parks; river control; mosquito abatement; and a few other minor functions. There are legislative provisions providing that these functions shall be taken over by the metropolitan authority only if it is ready and able to do so.

It is worth noting how the transfer of certain of these functions to the Metropolitan Government has been planned. For example, the Metropolitan Government will assume responsibility for outstanding debts on particular assets. Employees are also protected insofar as rights and privileges are concerned. This protection does not extend, however, to municipal officers who may have been appointed as commissioners or members of various boards currently responsible for administration.

The new government corporation will meet its operating expenses from three major sources: direct fees and charges for services supplied and facilities made available; commercial, industrial and business tax revenues secured from levies on member municipalities; and direct levies on each municipality in the proportion that the assets of that municipality bear to the assessment of the total metropolitan area. The Metropolitan Corporation may also collect fees, charges and rates from individual consumers to cover the cost of transit services; and in the case of water, sewage disposal and garbage collection, rates may be charged against the member municipalities.

The central governing unit of the new corporation, the Metropolitan Council, will be made up of 10 members elected directly by the people from each of 10 electoral districts. One-half of the districts will have a majority of the residents from the present city of Winnipeg; the other one-half will be made up of the majority of the voters from outside the city. The executive affairs of the metropolitan corporation will be in the hands of an executive director appointed by the Council.

The Metropolitan Government will, at the start, have five major departments: Finance, Assessments, Planning, Streets & Transit, Water Supply and Sewage Disposal. Later, additional departments may also be created by the Council.

After nearly 10 years of study and analysis, the metropolitan area of Winnipeg has brought to successful fruition the Winnipeg Metropolitan Corporation. Although the final definition of the approved corporation differs in some respects from the recommendations of the Investigating Commission which reported in 1959, underlying principles of good metropolitan area government have been preserved.

Washington, D. C.

The National Capital Transportation Act of 1960 has been signed by President Eisenhower. The Act

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Report of IBA Public Utility Securities Committee

Carl C. Brown, a Partner in Dean Witter & Co., New York City, and Chairman of the Public Utilities Securities Committee, submitted the following Committee Report to the Convention:

The purpose of this report is to bring members of the Association up-to-date on the important developments which have occurred during 1960—the favorable as well as the unfavorable. In our interim report at White Sulphur in May of this year, we mentioned that we were particularly concerned with the huge and rapid development of public power; TVA, the

Carl C. Brown

Public Power Authorities in the Northwest, the REA's and other government projects, which we characterized as being subsidized public power developments at the expense of the American taxpayer, since such operations pay no Federal taxes and little, if any, state or local taxes. Furthermore, they give special advantages to sectional areas of the country at the expense of taxpayers far removed from the project, benefiting completely their own locale. Unfortunately these projects are still before us and might well become accentuated in the immediate future. It will be our duty to watch these developments and concern ourselves with the possible impact upon the continued strength of the private utility industry.

The TVA and REA

The Tennessee Valley Authority has recently completed an offering of $50 million of revenue bonds which is the first of a series of substantial amounts to be financed in connection with the development of its electric system. Under the amended statute of 1959, TVA is permitted to issue up to $750 million of such bonds. It is generally believed that the growth in the territory will absorb the electric output which will result from the proposed expansion facilities. As permitted under the amended bill, several communities served by one of the private companies voted in November to align themselves with power from the TVA. Unless the TVA bill is further amended, expansion of the Authority is definitely defined and limited.

The Rural Electrification Authority, upon application by rural electrification associations scattered throughout the nation, offers loans for full construction costs of telephone and electric cooperatives at a 2% interest rate. This is not only an unfair subsidization of this type of expansion, but also represents a threat to private utility companies from their expansion activities from strictly rural areas into the suburban areas of urban communities. We have heretofore suggested that since the TVA was going to pay the going rate of interest, that a similar pattern for all governmental lending policies should be adopted and we again urge resolutions be adopted to force compliance upon other governmental agencies for this purpose.

Federal and State Regulatory Activities

Of particular interest at this time are the developments centered about Federal and local regulation of the electric, gas and telephone companies. This year three major basic trends have developed in regulatory procedures.

The most unique and surprising result occurred at the Federal level where the Federal Power Commission has apparently adopted a new procedure of granting rates of return based on return on common equity, rather than an over-all rate of return on a rate base. The second major development has been a general acceptance at both the national and local level of granting rates of return in excess of the historical 6%. Lastly, there has been the trend of state regulatory agencies to embrace the "flow-through" principle of accounting for tax deferrals due to rapid depreciation usage.

While it is comforting to see the trend among regulatory agencies of liberalizing the rate of return in view of the higher costs of operating expenses and capital, the action of the Federal Commission of regulating the return on common stock equity is quite disturbing. Up to the present year the Federal Power Commission has regulated natural gas companies on the historical method of allowing a rate of return based on investment in property and while it has taken into account the cost of capital, the decisions made resulted in a rate of return predicated on rate base. Such a return up to this year has generally followed in the area of approximately 6%.

A decision of the Commission, the first major one in connection with the Manufacturer's Light & Heat Company in February of this year, was predicated on a return necessary to produce a 10% yield on equity. At first it was not readily apparent that the Commission had departed from the standard practice of establishing rates of return. However, in July the Federal Power Commission issued a decision in the Southern Natural Gas Company case and again in August in connection with the Tennessee Gas Transmission Company. It has now become obvious that this is the approach which the Commission intends to use in the regulation of natural gas companies.

Rate of Return Concept Is Dangerous

The method of reducing regulation to a bare bones concept of limiting a company's operations to earnings which will produce approximately 10% on common stock equity, is both unfair and inadequate and might well destroy the future favorable outlook for the natural gas industry and its attractiveness to investors. It is unfair since it penalizes the company that has a thinner common stock equity ratio as against the company that has a more substantial one. It is obvious that a company that is capitalized completely with common stock equity theoretically would be entitled to receive a 10% rate on its overall operations, whereas the company that has a low equity ratio would be limited to a much smaller rate of return and under existing market conditions the level would be approximately 6%.

As a matter of fact, the way the figures came out in the cases mentioned above. Southern Natural Gas Company, with an equity ratio of 40% was given an overall rate of return of 6½% and Tennessee Gas with an equity ratio of 28%, received a rate of return of only 6⅛%. Obviously this overall rate of return is small compensation to a natural gas company which in the past under more favorable conditions in the money market, and under more favorable operating conditions, was able to receive a 6% rate of return which resulted in a return of 13 to 16% on common stock equity. To limit a natural gas company, which is involved in a wasting asset industry, and appeals to a limited number of investors, is a severe handicap. Results of electric utility companies, which are in a far more sustained business, showed them earnings from 9% to 15% on common stock equity in 1959.

Furthermore, it is obvious that the company which is really entitled to a higher rate of return should be the company with the smaller equity since only through the ability to earn adequately would it be in a position to put fat on its bones and build up its common stock position. As we see it, the very company that should be helped from a regulatory standpoint is the company that would be hurt by this newly adopted concept. We believe that this new regulatory procedure will discourage natural gas managements from an aggressive policy of building up their systems and cause them to divert their attentions to non-regulatory aspects of their business, which obviously would be against the public interest. There are large pent-up demands for natural gas in many regions of the country and we believe this restrictive regulatory procedure will tend to deny to these people an adequate future gas supply.

Mixed Attitude of State Commissions

At the local level, we are encouraged to see that a number of states have liberalized their thinking on the rate of return above the historical 6% level. In those cases where less than 6% was allowed, the Commissions used a more generous rate base, utilizing either the reproduction cost principle or fair value, or allowing year-end rate bases when a decision was made in the early part of the year.

As specific examples, we know that the Texas Railroad Common allowed the Lone Star Gas Co. a 6½% return on fair value rate base which on the standard original gas rate base would be well over 7%. Similarly, in Arizona the Commission allowed a 5.8% return on fair value rate base and permitted other provisions which in fact would amplify the rate of return to the area of 7%. In Ohio, the Commission permitted the Columbus & Southern Ohio Electric Company a 5.8% return on reproduction cost new rate base, which also would result in a rate of return of 7% or higher.

As against these favorable trends, several of the state Commissions, irrespective of the higher cost of doing business, hold doggedly to the historical 6% rate of return. In Washington the Commission ruled in the case of Pacific Power & Light Company that a 6.02% on original cost rate base was adequate. In the case of Washington Water Company, the Commission allowed a rate increase which improved earnings to a point where the rate of return was only 5.9% on an original rate base. In Wisconsin the Commission ordered reduction of rates

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Report of IBA Oil, Natural Gas Securities Committee

L. Emery Katzenbach, II, Partner of White, Weld & Co., New York City, and Chairman of the Oil and Natural Gas Securities Committee, delivered the following Committee Report to the Convention:

Preface and Summary

As in the past years, the Oil and Natural Gas Securities Committee of the Investment Bankers Association presents a review of the position and outlook of the major segments of the domestic and foreign oil and gas industry. We have also included a discussion of the oil industry's activities in the petrochemical industry, a field in which the major oil companies have been taking an increasing interest.

Last year your committee took note of the declining investment interest in oil securities. On this occasion we can take a certain amount of comfort in the fact that during recent months oil securities have turned in a relatively better market performance than many other segments of the market. We can also point with satisfaction to the relatively favorable earnings performance which the industry has turned in thus far this year and is in prospect for the year as a whole. While results vary considerably between companies, it appears that on balance earnings for 1960 will show an improvement over 1959. The industry's financial condition is exceptionally strong and while oversupply, particularly in the foreign area, remains a serious problem, there are signs of renewed investor interest. In fact, the group as a whole has made an excellent recovery from its 1960 lows — something of the order of about 20% on the average. The group includes many companies which provide generous dividend returns amply protected by earnings and cash flow. While there is an excess of refining capacity in this country, the industry this year has been able to avoid ruinous price competition and profit margin squeezes. There is expected to be no increase in refining capacity this year, nor is any measurable amount anticipated in the next few years. Consequently, it is possible to look forward to an amelioration in the problem of overcapacity in refining facilities. At the same time, drilling activity has been declining and seems likely to remain at a relatively low level as we look ahead to next year. The rate of finding new reserves has been declining in recent years. Thus it is possible to conclude, so far as our domestic industry is concerned, that we may have seen the worst of the picture so far as overcapacity in refining and oversupply in production is concerned, and it is not hard to see why, against the backdrop of the industry's earnings performance in 1960, the industry has shown signs of regaining a degree of the favor which had been lost in the last couple of years.

On the foreign front, it is more difficult to visualize a trend for the better in the relation between demand and production capacity. Substantial additional reserves in North Africa tend to complicate the industry's problem. While foreign consumption is growing at a higher rate than domestic consumption (about 7% per annum as compared with 3% per annum), the major established international oil companies, in the aggregate, are unlikely to see their foreign business grow at a rate commensurate with the increase in foreign consumption, due to the expectation that they will have to make room for newcomers, including government - sponsored enterprises. Accordingly, the better record of growth shown by the international companies in the past is unlikely to be matched in the present decade.

In general, the oil and gas securities are selling well below their appraised values and it should be remembered that even though the growth of the petroleum industry's earnings may not be as rapid in the future as it was up to three years ago, many companies will outperform the industry's averages. In analyzing and comparing particular companies with one another, the investor should pay attention to the very useful yardstick known as cash earnings. Actually cash earnings can be more significant than reported net income. Cash earnings may be defined as cash flow available for the payment of dividends *and* reinvestment in the business for growth and expansion. Cash earnings are derived by adding net income as reported, non-cash chargeoffs and charges against income for expenditures to expand and develop oil and gas reserves. In general, then, cash earnings represent the sum of net income, depreciation, depletion and amortization, intangible development expenses, surrendered leases and dry hole expenses. The use of cash earnings figures helps to iron out differences in accounting procedures among oil and gas companies, such as the treatment of intangible drilling costs.

Analysis of cash earnings will demonstrate how amply protected are the dividend rates of most major oil companies.

The natural gas segment of the industry is not plagued with oversupply and overcapacity. In fact, it faces a bright future in terms of a rising trend of gas consumption; estimates put out by the American Gas Association show consumption rising at a rate of about 6% per annum over the next decade. At the same time the gas industry continues to have troublesome problems on the regulatory front. During the year the Federal Power Commission came out with an important decision in the Phillips Petroleum case, in connection with which an area price plan was adopted in an effort to remove the completely hopeless task of trying to regulate producers on a utility rate base method. The principle is certainly welcome but the adequacy of the price levels set are not, in many cases, considered sufficient. Litigation will certainly ensue and confusion will remain. In the natural gas transmission field, it is the same old story of the industry's fighting an uphill battle to obtain adequate increases in the overall rate of return to compensate for the higher cost of senior capital. Pipeline equities have lagged well behind the electric stocks and in many cases now afford relatively generous yields. The natural gas industry deserves whatever help can be afforded by members of our industry in the effort to obtain an adequate and fair rate of return.

Financial Trends in the Petroleum Industry

The various problems of the oil industry are well known to investors. In this paper we will investigate the effect of these problems upon composite income statements and balance sheets of the major oil companies whose securities are publicly owned and are readily available to investors. We have used the excellent annual summaries prepared by The Chase Manhattan Bank as our source material. Although the number of companies used in the annual compilation vary between 30 and 35, the effect is not significant for our purposes since the changes generally represent companies deleted due to acquisition by a company already tabulated or addition of companies not large enough to affect the total.

A comparison of the profitability of the oil industry relative to industry generally is a good starting point before studying trends within the oil industry. (Table I.)

It is apparent that deterioration in oil industry earnings and return on net assets occurred largely subsequent to 1956-57 although rate of return after 1954 fell below general industry. The less favorable recent trend of the oils is revealed by a *decline* in 1956-59 earnings and a 3.8 percentage point decline in return on net assets. Industrial earnings in this same period *increased* although return on net assets *declined* 2.3 percentage points. In no year since 1954 has the oil industry yielded as high a return as industry, whereas in the five year period 1950-54, the return earned by the oil industry exceeded industry in four years.

Within this general framework of declining profitability, the oil industry has done a remarkable feat of maintaining a high rate of capital investment and a strong balance sheet.

We will analyse capital spending first.

Capital spending increased each year, as shown in Table II, from 1950 through 1957, increasing in relation to total funds disposed from 57% in 1950 to a high of 73% in 1957. Spending thereafter declined in amount and also as a percentage of total funds. The peak coincided with the top in earning power and also with the granting of expensive concessions in Venezuela.

The post 1957 decline in capital expenditures occurred in all major sectors. Table III.) Lower production expenditures reflect a reduction in well completions from 58,000 in 1956 to 50,000 in 1959. We believe completions in 1960 will drop further to about 45,000 and in 1961 may average slightly less in response to the uncomfortable fact that the domestic industry is producing at approximately 72% of capacity. No substantial increase in the operating rate is anticipated in the next few years. Consequently, no important increase in drilling activity is expected in the foreseeable future.

Refining/Chemical expenditures in earlier years were chiefly additions to refining capacity. Petrochemical investment since 1957 has accounted for an increasing portion of this category amounting to $175 million in 1959. There will be virtually no increase in total refining capacity this year, nor is any measurable amount anticipated in the next few years, reflecting the fact that domestic refiners are operating at only 82% of capacity. Inasmuch as several years are necessary to plan and build new capacity, and almost none is under construction or planned at this time, we can safely predict little, if any, increase in refining capacity in the next few years. Therefore, assuming reasonable growth in consumption, refiners should be operating at about 90% of capacity by the mid-1960's. Immediately prior to this point the industry may embark upon a more extensive refinery construction program than has been seen in the past two-three years.

The remaining domestic expenditures include transportation,

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Report of IBA Nuclear Industry Committee

The IBA Nuclear Industry Committee, the Chairman of which is Dr. Paul F. Genachte, Vice-President, Atomic Energy of the Chase Manhattan Bank, New York City, offered the following findings to the Convention:

The atom continues to move ahead steadily, and we are pleased to inform you that the views and trends outlined in last year's report still hold true today.

Dr. Paul F. Genachte

The Committee in 1959 stressed the important technological developments that should lead us along the fastest route to competitive atomic energy. It was indicated that the technological emphasis had shifted towards the development of an organic-moderated reactor and of a closed-cycle gas-cooled reactor concept. This work progresses satisfactorily. In 1959, the Atomic Energy Commission also initiated a long-range program to evolve thermal breeder reactors which would make full use of the latent energy in thorium. Particular emphasis also began to be placed during that year on nuclear superheat in order to increase the efficiency of reactors. These programs continue to be developed jointly by the AEC and private industry, but the results can be assessed only after a period of several years. In the meantime, the entire program is being pressed forward vigorously.

Status of the Uranium Purchase Program

The proven reserves of uranium oxide described in our previous report are still substantially the same today. The amount of ore mined this year has almost been offset by the establishment of additional reserves.

On Nov. 24, 1958, the AEC, in order to avoid a serious future oversupply of uranium, decided to limit future uranium purchases to the ore reserves developed as of the date of the announcement. The Division of Raw Materials of the AEC is still faced with the huge task of checking claims on ore reserves as of Nov. 24, 1958 on over 2,500 properties involving thousands of mining claims.

Nearly two-thirds of the domestic mill contracts now extend through December, 1966, or, at any rate, well into 1962-66. Consideration will be given to extending the remaining contracts as long as the ores that supply the mills are eligible, consistent with the above-mentioned restrictions. In the current fiscal year, the domestic production will reach about 18,000 tons of U_3O_8 with a total cost of over $300 million to the AEC.

As stated in our previous report, the AEC on Nov. 6, 1959 announced that it would not exercise its options, but agreed to stretch-out arrangements with Canada to purchase uranium concentrates in the post '62 period through Dec. 31, 1966. At the same time, the United Kingdom agreed to a stretch-out of the deliveries remaining under its contracts for Canadian uranium. The stretch-out is being carried out, as anticipated in our previous report, by agreements between some mills to close some of the mines and calling for the delivery of the contractual amounts of uranium oxide by the remaining mills. Because of these circumstances, the annual Canadian production of about 15,000 tons of uranium oxide in the present fiscal year will probably decrease to about 9,000 tons by 1962 and to about 4,000 tons by 1964-65.

The three main producers in Canada are: Rio Algom Mines, Ltd.; Gunnar Mines, Ltd.; and Consolidated Denison Mines Ltd. The latter two companies will probably have satisfied their supply contracts by 1963 and, therefore the remaining important uranium producer in Canada in 1964 will be Rio Algom Mines, Ltd. This company was formed on June 30, 1960 through the merger into a single operating company of Pronto Uranium Mines, Ltd., Northspan Uranium Mines, Ltd., Algom Uranium Mines, Ltd., and Milliken Lake Uranium Mines, Ltd. The new company, Rio Algom, has devised ways to maximize the benefits resulting from the stretch-out program. The income tax liability played an important part in the considerations which led to the merger, and it is likely that Northspan's tax offsets will result in the new company paying no income taxes until 1966.

It is impossible at this time to determine with certainty what will happen to the world uranium mining and milling industry six years from now when the contracts will expire in this country and in Canada. Until then, however, this industry has an assured life under sound economic and financial conditions.

The future of the uranium industry will depend on the success of the joint efforts of the Government and private industry to develop competitive atomic energy. At present, the bulk of the uranium production goes into military purposes.

With competitive atomic energy, the use of uranium would soon become substantial and our comments in this respect, as presented in last year's report, are still valid.

The threshold at which atomic energy begins to become competitive in the high cost fuel areas of the United States is 8 mills per kilowatthour. Even a very large 300,000 kilowatt nuclear power plant built today under our present day technology would produce energy at a cost still somewhat above that threshold.

Gas Centrifuge versus Gas Diffusion

Although the mining and milling of uranium ores is now in the hands of private industry, the various feed material plants that exist in the United States are owned by the Atomic Energy Commission. These plants are operated by private companies. There is also the important feed material plant owned by Allied Chemical and Dye Corporation, which is converting each year 5,000 tons of uranium oxide into uranium hexafluoride.

These feed material plants supply the raw material to the Government-owned gaseous diffusion plants at Oak Ridge, Tennessee, Paducah, Kentucky, and Portsmouth, Ohio. For security reasons, since these are the plants in which the two isotopes of natural uranium are separated, ownership of these plants is vested in the AEC, although they are operated by private companies such as Union Carbide and Goodyear. These plants were built during the War with Government funds and have been the source of the valuable fissionable uranium-235 in the various degrees of enrichment needed both for weapons and peacetime purposes. In the Committee's report of 1957, it was stated that these plants consumed about 10% of the electricity output in the nation. This is substantially true today. The Electric Energy, Inc., and the Ohio Valley Electric Corporation, both of which are made up of a number of private utility companies, are supplying a very substantial amount of the energy consumed in these diffusion plants under long-term contracts. We need not discuss here the ill-fated Dixon-Yates project which would have supplied additional power to these plants.

At the time these gaseous diffusion plants were built in the early part of World War II, the Manhattan District discarded other methods of separation of the isotopes of uranium such as electromagnetic, thermal diffusion and gas centrifuge separation. In the last few years, however, West Germany, through the use of high tensile strength materials not available 15 years ago started to develop high-speed centrifuges which offer the real possibility of producing fissionable material at reasonable costs. The implications of this development are evident. Not only is there a prospect of competition with the gaseous diffusion plants looming on the horizon, but the enrichment capability may spread to West Germany and other nations. In fact, an American company, Thor-Westcliffe Research, Inc. has obtained a license to import such centrifuges from West Germany. So far, the machines have not been imported, nor has the AEC approved an application to set up the centrifuges.

Our State Department, faced with the immediate impossibility of international controls, has suggested that centrifugal technology be classified in order to prevent the spreading of nuclear weapons capability among additional nations. In fact, strict secrecy has been applied this year in this field, in which, strangely enough, the U. S. for years had been declassifying centrifuge technology. The German Degussa company which is particularly involved in this centrifuge effort, has voluntarily agreed to secrecy controls. Also acceding to the U. S. request, the Bonn Government has agreed to classify further work. However, in view of West Germany's membership in the European Atomic Energy Community, this entire problem is fraught with all kinds of legal difficulties. This is all that can be said at this time about this new important development.

Nuclear Power Plants in Operation and Under Construction

The Progress Chart[1] prepared by the Atomic Industrial Forum, Inc., 3 East 54th Street, New York 22, New York, gives an excellent condensed description of the various power reactor projects in the United States. This chart points to the reactors already in operation, under construction or planned and gives their essential features such as ownership, location, type, fuel characteristics, power level, completion date, and the names of the constructors, etc. The Dresden nuclear power plant of the Commonwealth Edison Company was inaugurated on Oct. 12, 1960. This plant, with a 180,000 kilowatt capacity, is the largest in the world. It also is the first full-scale, privately financed nuclear power station. It involved no direct Government financial assistance. Part of the cost of the plant was put up by a group of seven other utilities.

Among the plants announced, we would like to call your attention to Southern California Edison, to which reference was made in last year's report, regarding the planned construction of the largest plant so far, with a capacity in excess of 300,000 kilowatts. This same chart also indicates the U. S. Power Projects Abroad, among which is the project presently under contract negotiation by Societe d'Energie Nucleaire

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[1] Partially reproduced in this issue.

Report of IBA Foreign Investment Committee

The following Report was delivered to the Convention by Arthur L. Wadsworth, Vice-President of Dillon, Read & Co., Inc., New York City, and Chairman of the Foreign Investment Committee:

Introduction

The Foreign Investment Committee was created several years ago for the purpose of providing within our Association a group dedicated to the objective of broadening the use of private United States capital in the field of foreign investment.

A. L. Wadsworth

At the very outset, because of the widespread current public interest and concern over our balance of payments situation, our loss of gold, and the steps which must be taken to meet this situation, we should like to state that the Committee fully supports those fiscal, monetary, wage, price and international policies (including export promotion and greater sharing of our defense and aid burdens) which are essential to provide a sound balance of payments relationship between the United States and the other nations of the world. We firmly believe, however, in private foreign investments and we believe there are many steps which can and should be taken to correct our balance of payments position without discouraging private foreign investment for sound economic development.

Then . . . and Now

Before discussing the current activities of the Committee, we should take a brief look at the past in order better to understand the problems of the present. During the period commencing with the 1930s through the late 1940s there was very little private foreign investment by either individual or institutional investors in the United States as a result of the disturbed international situation created by the world-wide depression in the 1930s and by World War II in the 1940's. As a result, an entire generation of investment bankers and investors in the United States had risen to responsible positions in the financial community with very little opportunity to gain practical experience in foreign investment.

During the period since the end of World War II and more particularly during the decade of the 1950s, a great deal has been done to improve confidence in the economic and political climate in Western Europe and more recently in Japan and certain other parts of the Free World. As confidence improved, foreign investment began to develop.

American industrial corporations were the first to expand their direct investments outside the United States. Our leading commercial banks followed by reactivating their foreign branches and by expanding their international banking services including short-term credits to foreign clients. During this same period such national and international agencies as the Export-Import Bank and the World Bank began extending credit to foreign borrowers on a longer term basis. Investment bankers and their clients played little part in these developments. Then in 1947 the World Bank sold its first issue of bonds and investors in the United States, as well as in Europe, bought the bonds primarily because of the United States participation in the World Bank.

In 1946, the first post-war public sale of a new issue of foreign securities (excluding Canadian securities) was consummated in our markets when Australia sold $20,000,000 of its government bonds. During the later 1950s there was a substantial growth in the volume of foreign securities sold in our financial markets. Tables I and II show the dollars amounts of such transactions from 1946 to date, including Canadian securities.

This revival of interest in private foreign investment activities by investment bankers (as contrasted with direct investments by industry) has divided itself broadly into three forms of activity.

Foreign Issues Underwritten in U. S.

First, we have had the public sale of new issues of foreign securities, principally dollar bonds of foreign governments, sponsored by U. S. investment banking groups. Tables III, IV and V shows selected information with respect to these issues in the post-war period. It is recognized that a substantial portion of these securities, other than World Bank issues, were actually purchased by foreign investors in Europe, and elsewhere, but the offerings were managed, underwritten and offered by members of our Association.

Second, we have seen a growing interest on the part of U. S. investors in the purchase of outstanding common stocks of foreign companies. The development of investment in European securities by U. S. investment bankers and their clients is well covered in Table VI and requires no amplification here, except to point out that the United States interest in stocks of Western European companies described therein is now spreading to Japanese securities.

Finally, we have in recent years seen the beginning of the "private placement" of foreign securities with U. S. institutional investors. It is difficult to get accurate information on these activities. The first such "private placements were relatively short-term credits arranged for foreign borrowers by U. S. investment bankers in the form of term notes sold to banks. More recently a number of substantial bond issues have been placed privately.

The 1950s, therefore, marked a decade of reviving interest in the field of private foreign investment. Yet it would be unrealistic to say that this phase of our domestic investment banking business has as yet achieved either a broad base or a firm foundation. There are still only a limited number of firms in our Association who are active in the field; there are still only a limited number of people who understand or are interested in foreign portfolio investment, and there is still only limited participation by our large institutional investors in the foreign securities which have been offered in our financial markets.

At the same time there is widespread recognition, both in government and private banking circles, that this nation must take an aggressive position in broadening the use of private capital in financing the economic development of friendly foreign nations. Furthermore, it is our belief that, just as American industrial corporations have discovered the advantages and profit in a well diversified expansion of their respective activities in countries outside the United States, American investors will to an increasing extent in the future diversify their investment portfolios by adding foreign securities in order to obtain the higher yields and the greater growth potential which are frequently available outside the United States.

Summary of Committee's Activities in 1960

An important meeting of the Committee was held in New York on June 7, 1960. After a full discussion of the objectives and functions of the Committee it was concluded that:

(1) The Committee was needed and should be maintained as an informed group of investment bankers available for discussion with the agencies in our government and the committees in Congress interested in foreign private investment, irrespective of whether the Committee initiated any activities of its own.

(2) A special subcommittee, hereinafter called the "Washington Subcommittee," should be created to work with the various national and international agencies in Washington which are concerned with international investment, and that this subcommittee should, by regular visits to Washington, establish a closer working relationship between our private investment banking industry and such public agencies in order to develop greater use of private capital in the field of foreign investment. This subcommittee was appointed; it has met with the Washington agencies and its report is attached as Appendix A.

(3) A special sub-committee, hereafter called the "Information Sub-committee," should be created to collect information for the benefit of the IBA membership including statistical data, current developments and other matters related to foreign investment. This sub-committee was also appointed; it has worked earnestly and effectively on its assignment, and its report is attached as Appendix B.

The full Committee has discussed other problems which require further effort in the future. Among these should be mentioned the problem of broadening the statutory authority of our institutional investors to invest their funds in foreign securities. We understand that some of the important New York insurance companies have already purchased foreign securities which aggregate over one-half of their present authority to invest not more than 1% of their respective funds in such securities. Another problem is how we can help to broaden the interest of representatives of our financial community in foreign investment by such means as trips to foreign nations similar to the trip to the European Coal and Steel Community in 1957, the trip sponsored by the New York Security Analysts to Europe in 1959, and the trip sponsored by Japanese groups to Japan in 1960.

Conclusion

(1) The work of the sub-committees should be continued and expanded in the future. As one example of an area where more work should be done, we are convinced that there will be increasing opportunities for joint participation between our private capital markets and the national and international lending agencies involved in financing the economic development of friendly Free World nations.

(2) This Committee should render regular reports to the Association in order to broaden the knowedge and the interest of our membership in the field of foreign investment.

(3) We recognize that foreign investment is peculiarly subject to forces beyond our control. For example, the recent disturbances in Africa, Latin America and other parts of the Free World, the new evidences of increasing

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Report of IBA Industrial Securities Committee

The Industrial Securities Committee, headed by H. Virgil Sherrill, a Partner of Shields & Company, New York City, furnished the following Committee Report to the Convention:

The principal purpose of this Report is to study the effect of cash equity offerings upon the market price of the issuer's outstanding common stock. In past years several studies have been prepared showing the market effect of rights offerings and the behavior of stock prices during the rights period, and certainly these earlier studies were most constructive and instrumental in obtaining the adoption by investment bankers and the SEC of the "layoff" plan. This report is not aimed at a comparison of the merits of a cash offering versus a rights offering but simply an analysis supported by statistical information, of the market behavior of stocks prior to the cash offerings for the period 1958-1960.

H. Virgil Sherrill

The data herein includes a listing of cash offerings of industrial and utility common stocks and likewise a listing of industrial and utility convertible debentures and preferreds. It is of importance to the issuer to have some appraisal of the potential market action of his stock, as related to whatever class of security he may elect to sell to meet his capital requirements.

An analysis of figures seems to contradict certain assumptions and theories held by some investment bankers and corporate executives.

Corporate Public Financing 1952-1960

Before defining the method of presentation or attempting to analyze the offerings included in our study, a brief summary of the amount and types of public financing beginning in 1952 and continuing through June 30, 1960, may be of interest.

Exhibits I and II give a breakdown of the amount of each class of security sold, whether debt, preferred or common, and also include a division by type of issuer, such as industrial or utility, as well as showing the number of individual offerings in each of these years.

Financing Trends, 1958-1960

Beginning in 1958 and continuing through 1959, the broad rise in the stock market was accompanied by an unprecedented number of common stock offerings although the total dollar amount of equity financing was slightly below the level of the two preceding years. This increase in offerings continued through the first half of 1960, even though there was a decline in the stock market with the Standard & Poor Industrial Stock Index dropping from the Jan. 4 high of 65.46 to a low of 56.65 during the six month period.

Exhibit III includes the Standard & Poor Index of 425 industrial stocks and the Index of 50 utility stocks during the period 1952-1960 (June 30). It is of interest to note that the number and volume of equity offerings, as expressed in Exhibits I and II, can be correlated rather closely with the rise and fall of the Standard & Poor Index through 1958. However, in the rising stock market during 1959, and continuing into 1960, the number of equity issues followed this trend but the dollar volume actually varied little from the 1956-1957 level.

With the total dollar volume of industrial common stock financing actually at a lower level in 1959 than in 1956 (but slightly higher than in 1957) and with a much greater number of equity offerings in 1959, it is obvious that the large common stock offerings of 1956 and 1957 were replaced by more and smaller offerings in 1959 and 1960. For instance, the dollar volume in 1956 was greater than in 1959 with only 67% of the number of offerings; and in 1957 the dollar volume was only slightly less with 40% of the number of offerings.

Another outstanding feature of the 1959-1960 market was the reduction in the dollar amount of debt securities offered as compared to the period 1956-57-58. The higher level of interest rates that prevailed during most of 1959 was perhaps the principal factor contributing to the reduced volume of debt offerings, but certainly the booming stock market provided many companies with an opportunity to substitute equity financing for debt.

As mentioned above, in addition to the higher cost of money in 1959 and early 1960, the smaller volume of bonds and the large number of equity offerings indicate that many issuers elected to take advantage of the relatively high stock market to obtain permanent capital at a propitious time. Previous studies have indicated that the volume of equity financing follows closely the ups and downs of the stock market.

Methods of Raising Capital

There are several methods of raising capital available to corporate financial managers and naturally under certain circumstances each can be more advantageous than the others. For some companies with a favorable debt ratio and during a period of low interest rates, it might be prudent to sell bonds, whereas under different money-market conditions and with a relatively high stock market, the same company might elect to sell additional shares of its common stock. Preferred stock offerings have declined in number due to the disadvantage to the issuer in the tax treatment of preferred dividends; but, nevertheless, in some cases (especially utilities) preferreds still provide a practical means of raising capital.

Convertible securities, both debentures and preferred stocks, offer the corporate manager an opportunity to sell a security with equity characteristics in a market that perhaps would not be receptive to a straight common stock offering. The typical convertible offers the investor an opportunity to purchase a security with a yield, a preference over the common stock, and at the same time a chance to participate in the future growth of the company on a basis nearly comparable to the common.

Both common stock and convertible issues are offered by the issuer either (1) to stockholders through a rights offering or (2) to the general public through a cash offering. Where pre-emptive rights exist the issuer who elects to sell common stock or a convertible security is forced to offer the new shares pro rata to existing stockholders with a "rights" offering, and in certain other cases the issuer may voluntarily decide to offer the new shares by this same method. This course may be followed, even in the absence of legal pre-emptive rights, when the size of the offering is such that the large dollar amount involved necessitates an offering to stockholders, and also in cases where the management arbitrarily determines to offer stockholders the right to maintain their proportionate ownership in the company.

However, in many cases where pre-emptive rights are not a consideration, instead of offering the issue first to its own stockholders the company makes the original offer to the public in the form of a cash offering. Normally a cash offering gives the issuer a higher price per share and certainly it is less complicated than a rights offering. In the cash offering the issuing company utilizes an investment banking group to handle the sale of the securities to the general public, and naturally both issuer and underwriter are vitally interested in the effect of the offering on the existing market. It is to that end that this study is primarily directed.

Pricing a Cash Offering

When shares are offered to the public for cash, the current market price of the outstanding shares is the determining factor in establishing the offering price. It is normally expected that the market price on the date of offering has fully discounted any adverse effect of the new shares to be sold, and consequently the offering price usually is set somewhere in line with the market close to the day before or the last sale in the event the shares are offered during trading hours. Naturally this may vary depending on circumstances. For instance, if a stock has experienced a run-up immediately prior to the offering date it is not unusual to offer the new shares at the bid side of the market or even at a slight discount if the underwriters consider such a discount necessary to a successful offering.

These methods of pricing an issue present no serious problem when applied to non-registered secondaries; however, since this study deals primarily with cash offerings by an issuing company, such offerings necessarily involve registration of the new securities with the Securities and Exchange Commission, and consequently in pricing such offerings the underwriter often is faced with one mechanical problem that necessitates a deviation from the normal procedure. This arises from the fact that final clearance from the SEC to offer the new shares may come late in the day but during New York Stock Exchange and American Stock Exchange trading hours. Consequently, if the price that is filed with the SEC the morning of the proposed offering is a fixed dollars and cents amount, it may be out of line with the market existing at the time of offering. The underwriter can overcome this problem by stabilizing during the period between the time of the filing of the final price amendment and the time of the actual offering, but this solution should be avoided if possible. A less complicated method is for the issuer to file the final price amendment based on a formula as opposed to a fixed dollar price. A typical formula would read as follows:

"The initial public offering price of the shares of capital stock offered hereby will be a fixed price to be determined by agreement between the Company and the Representative of the Underwriters and to be not higher than the last reported sale price (regular way) of capital stock of the Company on the New York Stock

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Report of IBA Railroad Securities Committee

The Convention received the following Railroad Securities Committee Report from Alfred J. Ross, Chairman of that Committee. He is a Partner in Dick & Merle-Smith, New York City.

The Railroad Securities Committee desires to present at this time its customary report and review of various factors reflecting principally on the credit status of the railroad industry.

Alfred J. Ross

It is anticipated that the physical volume of railroad traffic in the current calendar year will show relatively little change from the preceding year. Recently, it was estimated the revenue ton-miles to be handled by all Class I railways would aggregate 579 billion for the year 1960, as contrasted with 575 billion ton-miles for the year 1959. Passenger miles are expected to approximate 21.4 billion in 1960 which would compare with 22.0 billion in 1959.

Combined operating revenues for all Class I railways should total roughly $9.7 billion for the current year, which compares with revenues of $9.825 billion for the year 1959. Net income for 1960 has been estimated $443 million, a reduction of $134 million from the previous year. If allowance be made for recently requested increases in rates and charges, granted for the most part by the Interstate Commerce Commission to offset increased costs, revenues on an annual basis would have approximated $9.856 billion and net income would have been in excess of $500 million.

Net Earnings Remain Unsatisfactory

Notwithstanding relatively good traffic volume, railroad net earnings continue to be unsatisfactory in relation to the investment in transportation facilities. For the year 1960 the industry will earn at the rate of only about 2.50% on its investment, even after allowing for recent rate increases. This rate of return ratio is an average figure for all regions and districts. The comparable figures for the several areas are given below:

Indicated Rate of Return Based On Estimated 1960 Traffic Volume

Class I Railways	2.53%
Eastern District (Excluding Pocahontas Region)	1.18
Pocahontas Region	6.61
Southern Region	3.27
Western District	2.74

Except for the Pocahontas Region, the foregoing figures showing the relationship between railroad earnings and investment are not reassuring to investors. There is no way of foretelling exactly how this situation will be resolved or ameliorated at some future date. Probably one of the most important factors will be a compelling desire to consolidate as a matter of necessity to avoid financial embarrassment.

Upward pressures on railroad costs continue unabated while average receipts per unit of freight traffic handled in 1960 were less than those received in 1952 or 1953. Based on the years 1947-1949 as being equal to 100, it is interesting to compare relatively the index numbers of wage rates and material prices combined with the index numbers of average revenue per ton-mile.

Year	Index of Wage Rates and Materials Prices Combined (Column I)	Index of Aver. Rev. Per Ton-Mile (Column II)	Ratio of Col. I to Col. II
1955	142.8	112.1	1.274-1
1956	153.9	113.3	1.358-1
1957	164.9	118,2	1.395-1
1958	174.0	119.7	1.454-1
1959	180.1	118.2	1.524-1
1960	184.1	115.7	1.591-1

This widening of the gap between railroad costs and service charges is truly alarming and can be counteracted only by increased traffic, operating economies, rate adjustments, realistic taxation of railroad facilities or some combination of the above factors.

The effect of the foregoing on net railway operating income (before deducting Federal income taxes), a measure of earnings from direct railroad operations, may be seen from the following table:

ALL CLASS I RAILWAYS
Net Railway Operating Income (Before deducting Federal Income Taxes)

Year	Amount
1955	$1,545,000,000
1956	1,462,000,000
1957	1,244,000,000
1958	1,004,000,000
1959	1,015,000,000
1960 (Partially esti.)	884,700,000

Bright Spot

One of the brighter spots in the railroad picture from a traffic standpoint is the phenomenal growth that has taken place in piggyback traffic. To date, in 1960 (October 22nd), piggyback traffic aggregated 457,016 cars and it is indicated the total for the year will approximate 560,000 cars. The latter figure compares with similar data for recent years as shown in the table below:

Piggyback Traffic
(Number of Carloads)

Year	No. of Cars
1955	168,150
1956	207,783
1957	249,065
1958	276,767
1959	415,156
1960 (Partially esti.)	560,000

It is anticipated there will be further substantial gains scored in this type of transportation. As a matter of fact, the above figures in recent years understate the gains made because most of the new cars placed in this service are 85 feet in length and designed to accommodate two trailers, whereas, in the earlier years, most of the cars would take only a single trailer.

If railroads are to obtain their fair share of the total traffic potential, and the public is to enjoy a better transportation service at the lowest possible cost, the railroads will require further assistance from the Congress and the Interstate Commerce Commission, particularly with respect to legislation and regulation, including the right to offer a fully integrated transportation service.

It is the opinion of your Committee that in Congressional circles as well as at the Interstate Commerce Commission there is evidence of an intent to legislate and regulate in such a fashion as to permit the railroads of the country to function competitively on the basis of economics with other modes of transportation. There have been a number of instances this year when the Commission permitted a reduction in rates so as to permit railroads to compete for traffic handled by Trucks. Such movement was enjoyed by truckers only because they enjoyed the shelter of the rate structure. Much more work remains to be done in this connection and, in the opinion of transportation experts, the traffic that might be retrieved or new traffic that could and should move on the railroads totals several billion dollars.

Slow Merger Rate

Although Congress and the Interstate Commerce Commission can render much needed assistance to the carriers it does not relieve them from doing all they can within their own spheres of influence to resolve their problems. For example, railroad mergers, a potential source of substantial economies, are progressing at a disappointingly slow pace. However, it is anticipated the tempo will be stepped up sharply from now on. Since our last report, a year ago, the Norfolk & Western-Virginian merger was effected followed by the absorption of the Charleston & Western Carolina by the Atlantic Coast Line, the merger of the Erie-Lackawanna, and the acquisition of the Minneapolis & St. Louis by the Chicago & North Western. Pending before the Interstate Commerce Commission or applications expected to be filed therewith at an early date include the following merger or stock acquisition proposals:

Minneapolis, St. Paul & S.S. Marie, Wisconsin Central, and Duluth, South Shore & Atlantic.

Status: Pending before Interstate Commerce Commission.

Atlantic Coast Line and Seaboard Air Line.

Status: Interstate Commerce Commission hearing at Richmond, Va., on November 28, 1960.

New York Central and Baltimore & Ohio.

Status: Merger studies in progress.

Baltimore & Ohio, Chesapeake & Ohio, and New York Central.

Status: Control of Baltimore & Ohio sought by both Chesapeake & Ohio and New York Central.

Great Northern, Northern Pacific, Chicago, Burlington & Quincy, and Spokane, Portland & Seattle.

Status: Merger application expected to be filed with the Interstate Commerce Commission early in 1961.

Western Pacific, Atchison, Topeka & Santa Fe, and Southern Pacific.

Status: Both Southern Pacific and Atchison, Topeka & Santa Fe have requested the Interstate Commerce Commission's permission to exchange their respective common shares for Western Pacific stock.

Central of Georgia and Southern Railway.

Status: Southern Railway has applied to the Interstate Commerce Commission to purchase Central of Georgia stock owned by the St. Louis-San Francisco Railway.

Louisville & Nashville, Illinois Central, and Southern Railway.

Status: Illinois Central and Southern Railway are asking Interstate Commerce Commission as a condition to approving Seaboard Air Line-Atlantic Coast Line merger, to compel Atlantic Coast Line to sell its Louisville & Nashville stock, on the one hand, to Illinois Central and on the other to Southern Railway.

Chicago, Rock Island & Pacific, and Chicago, Milwaukee, St. Paul & Pacific.

Status: Merger studies still in progress.

New York, Chicago & St. Louis (Nickel Plate) and Norfolk & Western.

Status: Merger terms approved by management now subject to stockholders' approval. Application to Interstate Commerce Commission to be filed shortly.

Threat of Merger Compulsion

It is recognized consolidation presents many obstacles including displacement of labor and possibly destroying or greatly weakening the position of other railroads. Labor, in connection with consolidations, has received a certain amount of protection. Railroads should also be given some degree of protection and consideration before a consolidation of competing lines has reduced or destroyed their capacity to earn. If railroad managements do not evidence a statesmen-like approach to resolve such problems, they may well face compulsory consolidation through legislation.

Gross expenditures for additions and betterments to the properties should exceed $900 million for the Class I railways in 1960. Roughly two-thirds of this sum will be invested in cars and locomotives and the remainder in roadway facilities.

Excepting for equipment expenditures, which have been financed largely through the sale of equipment obligations, railroad financing during the current year has been restricted to Interstate Commerce Commission guaranteed loans and borrowing from banks. Part V of the Interstate Commerce Act was enacted in August, 1958 by the 85th Congress. Under Part V of the Act, the Interstate Commerce Commission was empowered to guarantee loans to carriers, under certain conditions, in an amount up to $500 million. This power extends to applications filed up to March 31, 1961. Since its passage, nine roads applied for loans, one of which was denied a loan on the basis a proper finding concerning repayment couldn't be made. Recently the Southern Railway Company formally made plans to arrange for $150 million of future financing, about $33 million of which it was indicated might be availed of to acquire Central of Georgia stock owned by the St. Louis-San Francisco Railway Company and Central of Georgia minority stockholders.

Although the net working capital position of a number of roads continues to be strong, the trend recently in this respect for almost all roads has been one of declining tendencies. At the close of last July, all Class I railways combined reported current assets of $3.027 billion and current liabilities of $1.812 billion, an excess of assets of $1.215 billion. At the end of 1959 such excess amounted to $1.343 billion which compared with a figure of $1.600 billion at Dec. 31, 1955.

Market quotations for railroad stocks and bonds have pretty much kept pace with the fortunes of the individual carriers. At the present time, they would seem to be realistically related to the inherent risks of the industry and current business conditions. The potential on the upside is substantial, but pretty much directly related to the resolvement of the problems discussed above.

Respectfully submitted,

RAILROAD SECURITIES COMMITTEE

Alfred J. Ross, Chairman
Dick & Merle-Smith
New York, N. Y.

Charles L. Bergmann
R. W. Pressprich & Co.
New York, N. Y.

James H. Carson
Salomon Bros. & Hutzler
New York, N. Y.

Gustave L. Levy
Goldman, Sachs & Co.
New York, N. Y.

W. Wendell Reuss
W. E. Hutton & Co.
New York, N. Y.

James L. Sheehan
Dick & Merle-Smith
New York, N. Y.

Eugene Treuhold
L. F. Rothschild & Co.
New York, N. Y.

Murphey Favre Adds Three V.-Ps.

SPOKANE, Wash. — Three new vice-presidencies have been created by Murphey Favre, Inc., Spokane and Eastern Building, pioneer Pacific Northwest investment banking firm. Elected Vice-Presidents, to fill the new posts, are Leonard H. Aspinwall, Loyd A. Bury, and Edward E. George. All three men have been associated with the company some 15 years and are well known in Pacific Northwest financial and investment circles.

In addition to its general investment banking business, Murphey Favre sponsors Composite Fund and Composite Bond and Stock Fund, two open-end mutual investment funds.

Granbery, Marache To Admit Claiborne

Granbery, Marache & Co., 67 Wall Street, New York City will admit J. T. Claiborne, Jr. to partnership on Jan. 2.

Badgley, Zwiebel Hill, Darlington Partners

SEATTLE, Wash. — Edwin M. Badgley and Gordon A. Zwiebel have joined Stanton Frederick as resident partners of the Seattle office of Hill, Darlington & Grimm, 1118 Fourth Ave.

Mr. Badgley is manager of the Seattle trading department. Mr. Zwiebel is sales manager.

Inv. Management Corp.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Investment Management Corp., 818 Seventeenth St., is engaging in a securities business. Officers are Edward M. Mabey, President; Eugene A. Jones, Vice-President; Owen W. Bunker, Secretary, and Richard W. Haas, Treasurer.

Crowell, Weedon Adds

(Special to THE FINANCIAL CHRONICLE)

LAGUNA BEACH, Calif.—Eugene Tucker has become affiliated with Crowell, Weedon & Co., 209 Ocean Avenue. He was formerly with Gordon C. McCormick Inc. and prior thereto was local manager for Diversified Mutual Funds, Ltd.

Goodbody & Co. To Admit Reilly

On Jan. 1 James F. Reilly will be admitted to partnership in Goodbody & Co., 2 Broadway, New York City, members of the New York Stock Exchange. Mr. Reilly is manager of the firm's municipal department.

Gregory & Sons To Admit Partner

Gregory & Sons, 72 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1. will admit Robert H. Gregory to partnership.

Francis X. Coleman will retire from partnership in the firm Dec. 31.

Hayden, Stone Will Admit Partners

On. Jan. 1 Hayden, Stone & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit William J. Stoutenburgh, Jr., member of the Exchange, to general partnership, and Robert B. Wilson to limited partnership.

With Sutro Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Samuel E. Statler, Jr. is now with Sutro & Co., 460 Montgomery Street, members of the New York and Pacific Coast Stock Exchanges. He was previously with Pacific Coast Securities Company.

2 With Cruttenden, Podesta

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — John E. Hamilton-Selway and William K. Romero have joined the staff of Cruttenden, Podesta & Co., Russ Building. Mr. Hamilton-Selway was formerly with Shaw, Hooker & Co. Mr. Romero was with Dividend Security Company and York & Co.

Joins Eastman Dillon

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — William B. Keller has joined the staff of Eastman Dillon, Union Securities & Co., 3115 Wilshire Boulevard. He was formerly with Dean Witter & Co.

Now With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Floyd W. Stewart has become associated with Paine, Webber, Jackson & Curtis, 626 South Spring Street. In the past he was with Stephenson, Leydecker & Co. and Brown Bros. Harriman & Co., Inc.

Staats Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LODI, Calif. — Charles J. Briggs has become associated with William R. Staats & Co., Farmers & Merchants Bank Building. He was formerly Lodi representative for Mitchum, Jones & Templeton.

With Kidder, Peabody

(Special to THE FINANCIAL CHRONICLE)

SAN MATEO, Calif. — Edwin E. Hendrickson is now affiliated with Kidder, Peabody & Co., 420 South Ellsworth Avenue. He was formerly with Shuman, Agnew & Co. in charge of their local office.

Report of IBA Investment Companies Committee

Robert E. Clark, Executive Vice-President of Calvin Bullock, Ltd., New York City, Chaired the Investment Companies Committee, and presented the following Report to the Convention:

The Investment Company Act of 1940 became law on Nov. 1, 20 years ago. While no one sent birthday cards or fired 44-gun salutes, the anniversary should not pass unnoticed. For this Act still stands without substantial amendment after 20 eventful years, which constitutes convincing evidence of its basic soundness as legislation, of its adaptability under enlightened regulation, and of its flexibility to meet the needs of a rapidly growing industry.

Robert E. Clark

Present Size

Today, among institutions, investment companies represent one of the largest equity ownerships of American industry, in contrast to other institutions which, while materially larger in assets, are concerned primarily with creditor type securities. They own an estimated 3,500 security issues or some 2,000 corporations.

Assets of the 187 open-end and closed-end investment companies that are members of the National Association of Investment Companies are estimated to reach $18 billion at the end of this year. These companies have five million shareholder accounts representing investments by an estimated 2½ million individuals and an impressive group of institutional investors. More than one investor in six in the United States today has shares of investment companies in his or her financial plan.

1960 Tests

This has been a year of strain and test for investment companies as for so many other elements in our financial life. How these companies have met and will meet these tests is of great and direct concern to far more people than ever before. Investment companies have become important factors not only in the welfare of millions of investors, but in their impact on the entire securities field — underwriters, distributors and brokers. Of the 156 open-end member companies of the NAIC, 106 have their shares distributed through investment dealer channels. Closed-end companies not only are actively traded by member firms, but are among the most popular securities for periodic accumulation, under the Monthly Investment Plan.

It is proper that your Investment Companies Committee be representative of all facets of investment company operations. It is so constituted. Therefore, this report is a composite of facts and views of individuals representing a cross-section of your membership.

How were the tests of 1960 met by this industry? It is important to explore this in three sections —to expansion, as to management results, as to new developments.

Expansion

First as to investor acceptance. Investors during 1960 will have purchased $2.1 billion in new shares. This is slightly less than the record $2.3 billion of 1959, but not enough less to be considered anything but reassuring in view of the unsettled market conditions prevailing.

Redemptions during 1960 will have increased to an estimated $875 million from $786 million in 1959. What is more important, the ratio of redemptions to net assets of the industry is about the same as in 1959: namely, 5.4% of those total net assets. In this connection, one should make allowance for the fact that succeeding years should normally bring about higher dollar redemptions, as investors in greater number achieve their investment objectives.

On a net basis, therefore, $1.2 billion additional dollars will have been invested by the American public in American industry through the conduit of the investment company in 1960.

The number of shareholder accounts increased by more than 650,000. Here is an interesting fact. Some 300,000 of these purchases were made under new accumulation plan accounts. In other words, not only are the number of new shareholders increasing substantially, but almost one-half of them are planning further purchases in the months and years ahead.

Results

Second, as to results.

The scoresheet for 1960 has not, of course, been fully tabulated, but your Committee feels that the game is sufficiently far along to be able to report very satisfactory records for those who owned investment company shares. All such records must, of course, be predicated on the caveat that investment objectives and types of securities held vary greatly among investment companies. However, nine months results have been published — by, among others, Arthur Wiesenberger & Co. This study indicates that per share asset value of 63 common stock funds of "unrestricted policies" were down only 7% on the average. A group of 20 funds specializing in growth stocks declined only 3% on the average, and for 31 balanced funds, an average drop of only 1% was registered. These average figures, and again we call your attention to the great contrasts in individual performance, may be compared with the results of a general market indicator such as the Dow-Jones Industrial Average which declined in this nine-months period by 14.6%.

Dividend payments by these companies, on the whole, remain close to the level of 1959, and while there is likely to be some reduction in their distributions from capital gains, this is only to be expected in a period of declining common stock prices.

Portfolio Transactions

It is interesting to explore the portfolio activities in which the investment companies engaged in order to compile these results. I don't think there has been a year when there has been more attention given to the purchases and sales made for investment company portfolios and the effect of such transactions in the aggregate on the securities markets.

In 1960, investment company purchases for their portfolios are estimated to be $3.4 billion and sales at $2.4 billion. The value of common stocks alone was $2.9 billion of purchases and $2.0 billion of sales. This is scarcely evidence that investment companies were, by their portfolio transactions, exerting downward pressure on common stock prices generally. Quite the contrary.

A special study was made during the month of September when the Dow-Jones Industrial Average declined by 8%. In this period, transactions by 134 open-end investment companies, 98.4% of NAIC open-end members, show total purchases of $255 million and total sales of $199 million from the portfolio. For common stocks alone, the figures were $209 million of purchases and $144 million of sales.

This study conforms to the pattern which has appeared in every previous study of this kind. In the seven periods of decline in the marketplace since World War II —ranging in time from one week to six months—investment company managements purchased substantially more securities for portfolios than were sold.

This is important for several reasons, but from the standpoint of members of the IBA, it is perhaps especially important because it is estimated that investment companies as a group now own 4.4% of the outstanding New York Stock Exchange listed stocks, a slightly larger percentage than was the case a year ago. It should be underscored that these shares are held by nearly 200 individual investment companies with independent managements pursuing differing objectives in different ways.

Legislation and Regulation

Another reason for stressing this phase of the investment companies' business in 1960 is because the volume of their transactions is becoming a matter of considerable interest (I am not sure that is the most accurate word) to public regulatory bodies on the Federal and state levels where bigness, even spelled with a lower case 'b,' always invites inquiry. The investment companies have certainly been a prime object of interest inquiry and publicity in this area in 1960.

As previously reported by your Committee, the Securities and Exchange Commission has contracted with the Wharton School of the University of Pennsylvania to conduct a thorough study of all facets of the investment company industry, as authorized under an appropriate section of the 1940 Act dealing with size. It is a voluminous examination covering the whole investment company structure and methods of operation. The results of this study have not yet been made public but it is expected that much information of value to the public and the investment companies themselves, will result. Such has been the case in several previous studies of this kind.

There is under consideration a supplemental study by the same agencies relating primarily to operations of management companies.

The Commission on Money and Credit, which was established to study the entire financial structure in the United States, has asked for and will receive a monograph concerning the contribution of investment companies in this field. New proxy rules with respect to investment companies were promulgated early in 1960. Amendments to the 1940 Act have been proposed by the SEC, and while several appear to offer constructive additions, the industry, through its National Association, has opposed amendments which would appear to restrict the exercise of investment management functions and to circumscribe the areas from which directors of investment companies could be drawn. No legislation in this area was enacted in 1960.

Still on the Federal level, the investment companies have been cooperating with the Treasury Department in its effort to close the "gap" between dividends paid and dividends reported on tax returns by individual shareholders. It is pleasing to note that the educational effort by the securities industry generally has been helpful. The burden of a withholding tax on investment company dividends would be a heavy one, indeed, in view of the millions of shareholders involved and the relatively modest investment they have on the average.

It is gratifying to report that the Federal Stamp Tax on the issuance of shares of regulated investment companies was reduced to the level prevailing prior to 1958 and now is comparable to the rate of transfer tax payable by an investor purchasing individual corporate stocks directly instead of through an investment company.

On the state level, close liaison has been continued by investment companies with the North American Securities Administrators, an area where the IBA State Legislation Committee has been so effective. Regulations in various states directed to investment companies involve, among other things, disclosures in prospectuses with respect to cumulative voting rights in California, certain undertakings with respect to director activities in Illinois and, on the definitely

Continued on page 58

Report of IBA Insurance Securities Committee

Shelby Cullom Davis, whose firm in New York City bears his name, headed the Insurance Securities Committee which drew up the following Report for the Association:

I

New Capital Financing by Fire And Casualty Insurance Companies

The fire and casualty insurance business is dual in that it involves underwriting and investment functions. There are risks of loss from each of these activities. Thus, in order to be adequately capitalized, a fire and casualty company should have sufficient capital resources (policyholders' surplus) to withstand possible underwriting losses and possible securities market losses concurrently. The market risk arises chiefly from the fact that in measuring policyholders' surplus, common stocks are carried on the companies' financial statements at market prices.

Shelby Cullom Davis

By its nature, the fire and casualty insurance industry is one in which there is a substantial amount of reinvestment of earnings. The generally accepted practice of paying dividends out of net investment income to the extent of about 50% to 60% of the latter, and retaining in the business the balance of net investment income plus all underwriting profits makes most fire and casualty insurance companies, under normal conditions, self-financing. In other words, when the industry is experiencing average growth and reasonable underwriting profitability, there are likely to be few offerings of additional shares of fire and casualty insurance company stocks to raise new capital. However, when the rate of growth is especially rapid, particularly if the increase in the volume of business is accompanied by larger losses, either on investments or from underwriting operations, the need for new capital tends to increase sharply, and new offerings of fire and casualty insurance company stocks make their appearance.

Adequacy of Capital Funds

The question of the adequacy of capital funds of stock fire and casualty companies is an important one from several standpoints. Policyholders, stockholders and managements of these companies all have reasons for being concerned. Policyholders want to be certain that their insurers are sound and have sufficient margins of safety to meet all possible contingencies. Savings banks and financial institutions generally make frequent comparisons of the relative strength of the various companies with which they place insurance. Investors likewise are interested in the relationship of total capital resources to total liabilities as one indication of the relative investment strength and investment merit of the various insurance stocks. Officials of the insurance companies, in performing their function of stewardship of stockholders' funds, must be certain that capital funds are being maintained at safe levels in relation to liabilities.

Rapid increases in the volume of business placed on the books create capital problems for fire and casualty companies sooner than might be the case if these companies were not subject to the so-called "financing penalty." This penalty arises from the insurance companies' accounting practice which involves an immediate charge against surplus of the expenses and commissions incurred in placing new business on the books. It also arises from the method by which premiums earned are computed in the development of "statutory underwriting profit." Increases in premium written are immediately reflected in increased liabilities (unearned premium reserve) and enter earnings (premiums earned) only as the time for which the insurance contracts are written runs along. Thus in periods of rapidly increasing volume there may be sizable statutory underwriting losses even though the new business is destined to work out profitably.

While it is relatively easy to prove that fire and casualty companies should be adequately capitalized, it is difficult to establish precise tests which will prove conclusively that one company has enough capital and another is undercapitalized. Two different test ratios have been widely used in measuring the adequacy of the capital funds of fire companies and casualty companies. In the case of fire companies the generally accepted test ratio has been one dollar of policyholders' surplus for each dollar of unearned premium reserve, while for casualty companies the ratio used has been one-half dollar of policyholders' surplus for each dollar of premiums written. As a partial indication of the relative adequacy of the equity cushion of fire and casualty companies, these ratios undoubtedly have had value. However, in view of the trend toward multiple line insurance and toward greater use of consolidated financial statements, there seems to be a growing need for a single test ratio for both fire and casualty companies. Since the purpose of such a ratio is to provide an indication of the relationship between the stockholder capital and the actual or potential claims of policyholders and others, it is suggested that the ratio of policyholders' surplus to total liabilities be used as a test of the adequacy of capital funds of both fire and casualty companies.

Before looking into the merits and shortcomings of any single ratio as a test of the adequacy of the capital funds of fire and casualty companies, it may be of interest to study the trend of the ratio of policyholders' surplus to total liabilities for stock fire and casualty companies over the past 15 years. Industry aggregate figures as compiled by Alfred M. Best Company for this period are shown in Table I.

Surplus Ratio Trends

In 1945 a ratio of policyholders' surplus to total liabilities of 1.0 to 1 was average for fire and casualty insurance companies, and a 1.3 to 1 ratio of policyholders' surplus to net premiums written was representative. By the end of 1948 these ratios were down to 0.587 to 1 and 0.696 to 1, respectively. With a rising stock market and new capital additions they rose again to 0.803 to 1 and 1.0 to 1 in 1955, but by the end of 1959 the ratios had again declined to 0.755 to 1 and 0.945 to 1, respectively.

In effect, net premiums written, and total liabilities of the fire and casualty companies have increased over four times since 1945 while policyholders' surplus has risen less than three times. Actually liabilities would have increased more and policyholders' surplus less during these years if most fire and casualty insurance companies had not adopted a policy of accounting for term contracts on an installment basis rather than entering the entire unearned premium reserve as a liability on the books at the time the policy was written. If the latter policy were followed, the ratios of policyholders' surplus to total liabilities and to premiums written would have shown an even greater deterioration than is indicated by reported figures.

While it is unwise to draw definite conclusions with respect to the adequacy or inadequacy or the capital funds of an industry from composite figures such as those shown in the above table, the ratios of policyholders' surplus to total liabilities and to total premium volume for fire and casualty companies are lower than they have been in the past. In other words, the margins of equity in relation to liabilities and in relation to premium volume have grown smaller, and are now considerably less than they were 15 years ago. This has occurred in spite of a substantial appreciation in investment portfolios and approximately $572 million of new capital financing. Over $200 million of this total amount has been raised in the last five years, as shown in Table II.

It will be noted from the figures in the foregoing table that since the end of World War II, fire and casualty company financing has been in spurts. The $158 million of new capital raised in the 1946-1948 period came at a time when post-war inflationary pressures were at their height. Policyholders' surplus was under pressure both from the financing penalty attached to the large increase in premium writings after the war and from increased loss ratios arising from the inadequacy of rates under sharply increasing inflationary forces in the country's economy. The decline in the stock market in the last half of 1946 and into 1947 aggravated the capital squeeze on the fire and casualty companies.

Financing Record

Ideally, the time to do financing is when there is a strong demand for the type of securities proposed to be issued and when earnings and earning prospects are highest. However, for the various reasons which have been referred to, the fire and casualty companies tend to find their need for new capital greatest when their underwriting results are poorest and when declining equity markets are shrinking policyholders' surplus.

Another bulge in financing by the fire and casualty insurance companies came in the 1953-1955 period when a total of $139 million was raised by these companies. Here again the industry's unprofitable underwriting results in the inflationary period of the

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Report of IBA Subcommittee For Liaison And Bond Sale Procedures

In reporting on the use of supplemental coupons, in his capacity as Chairman of the Subcommittee for Liaison and Bond Sale Procedures, Walter W. Craigie, Partner, F. W. Craigie & Co., Richmond, Va., advised the Convention as follows:

Supplemental (or "B") coupons are simply additional coupons attached to municipal bonds covering the same interest periods as one or more of the regular coupons. The supplemental coupons are ordinarily detached by the dealer at the time of original delivery from the issuer, and are either held by the dealer until the payment date or sold by the dealer. The proceeds from the supplemental coupons usually provide the dealer's profit in the sale of the issue of bonds.

Walter W. Craigie

Supplemental coupons have been used principally in four situations:

(1) In some states there are mandatory requirements that issuers receive at least par for their bonds and that callable bonds be callable at par. Bonds callable at an early date at par must ordinarily be priced at a discount or at par because investors will not pay a premium for them. A dealer bidding on such bonds, requiring a bid of par or better but salable only at par or a discount, would have no margin of profit and would not bid without supplemental coupons, the proceeds from which provide the dealer's profit.

(2) In some states the law requires that bonds be sold at par or better and that the coupons be a specified rate. If the market interest rate for such bonds at the time of sale is higher than the statutory coupon rate, the bonds would have to be sold to investors at a discount. A dealer bidding on such bonds, requiring a bid of par or better and salable only at a discount, would have no margin of profit and would not bid without some device such as supplemental coupons. In such a case supplemental coupons can recover the discount and provide the profit for the bidder.

(3) In one state a statute authorizes reimbursement by the state for certain items to school districts which have leased school buildings from a municipal authority. Since many of the municipal authority bonds must be sold at a discount or at par to be marketable, it is necessary to purchase them from the issuer at a discount. The amounts paid by a school district as discount on a bond issue are not considered reimbursable items. However, the amounts paid for supplemental coupons are treated as reimbursable items on the theory that they represent the interest rather than a financing fee. Accordingly, supplemental coupons have been widely used in the bond issues of municipal authorities in that state because the school district may receive reimbursement for payment of the supplemental coupons.

(4) In competitive bidding on municipal bond issues the usual basis for determining the winning bid is the lowest net interest cost per annum to the issuer (such cost to be determined by deducting the total amount of permium bid, if any, from the aggregate amount of interest upon all of the bonds until their respective maturities, dividing the net interest cost in dollars by the total bond years, and dividing the resulting net interest cost per bond per year by 10 to get the net interest cost rate per annum). Under this formula for determining net interest cost, the use of supplemental coupons on the early maturities and low coupons on the long maturities (like an offering scale with high coupons on the short maturities and low coupons on the long maturities) provides a bid with a lower net interest cost to the issuer than a bid based on a normal coupon arrangement. While the use of supplemental coupons may provide a lower net interest cost as computed by this formula, it is questionable whether they provide any real saving in interest because the formula does not take into account the "present value" of the large interest payments at early maturities.

Since the total of the regular coupon and the supplemental coupon for any interest period usually must not exceed prescribed interest rate limits, it is often necessary to attach supplemental coupons for several interest periods to obtain the desired amount from such supplemental coupons. To obtain the proceeds from supplemental coupons a dealer either (a) holds them to payment date or (b) sells them. If the dealer sells the supplemental coupons, they are usually discounted from 5% to 7% below their face value to allow that margin of profit to the purchaser of the coupons. This discount reduces the amount that the dealer obtains from the supplemental coupons and must be taken into account in determining the amount of profit to be obtained from such coupons.

The proceeds received by dealers from supplemental coupons do not constitute tax-exempt income, but constitute ordinary taxable income to the dealer, because they represent the dealer's profit and do not represent interest (Revenue Ruling 55-73, issued in 1955).

There are criticisms of supplemental coupons: (a) They complicate the mathematical computations in submitting bids and in determining the best bid. (b) They are confusing to investors who do not understand why supplemental interest coupons originally attached to the bonds are not on the bonds in the hands of the investor. (c) They permit the Bureau of Internal Revenue to tax as ordinary income amounts which are paid by the issuer as "interest" on a municipal bond. (d) They sometimes are used in a bid in an issue where the notice of sale or bid form does not make it clear whether such coupons would be permitted, and the bidder using supplemental coupons in such situations bids on an entirely different basis with an advantage over those who bid without supplemental coupons.

Since supplemental coupons on municipal bonds are subject to the criticisms indicated above and are used principally either (a) to avoid impractical statutory or bidding requirements or (b) to gain an advantage in bidding at public sale, we recommend that:

(1) Impractical statutory provisions or bidding requirements, which necessitate the use of supplemental coupons, be changed where possible so that bids can be submitted on a regular basis without the necessity for using supplemental coupons.

(2) There be included in notices of sale or bid forms a specific statement whether supplemental coupons will be permitted, so that all bidders will be bidding on the same basis.

Respectfully submitted,

SUBCOMMITTEE FOR LIAISON AND BOND SALE PROCEDURE

Walter W. Craigie, Chairman
F. W. Craigie & Co.,
Richmond, Va.

Alan K. Browne
Bank of America N.T. & S.A.
San Francisco, Calif.

Lloyd B. Hatcher
White, Weld & Co.
New York, N. Y.

Cushman McGee
R. W. Pressprich & Co.
New York, N. Y.

Richard Morey
A. G. Edwards & Sons
St. Louis, Mo.

Delmont K. Pfeffer
First National City Bank
Of New York, N. Y.

Walter H. Steel
Drexel & Co.
New York, N. Y.

George B. Wendt
First National Bank of
Chicago, Ill.

duPont Representatives

Francis I. duPont & Co., 1 Wall St., New York, nation-wide security and commodity brokerage firm, has graduated 27 Registered Representatives from its account executive career training program, one of the largest classes in the history of the firm's national formal classroom training program.

Among the registered representatives assigned to Francis I. duPont & Co.'s 78 offices throughout the country are four in the New York area. They are: McCall Richey, assigned to One Wall Street; Thomas J. Murphy, assigned to Brooklyn; Gerald E. Jackson, assigned to East 149th St., the Bronx; and Ezra Mintz, assigned to 72nd St. and Broadway office.

Two With R. E. Kohn

NEWARK, N. J.—Josef Karpinski and Theodore R. Wachsman have become associated with Richard E. Kohn & Co., 20 Clinton St., members of the New York Stock Exchange, as customers' representatives.

Mr. Wachsman was formerly with Walston & Co., Inc., in East Orange.

Mr. Karpinski has been associated with Cosgrove & Whitehead in New York City and Walston & Co., Inc. in East Orange.

Report of IBA Committee For Public Education on Municipal Securities

Walter H. Steel, Partner, Drexel & Co., New York City, as Chairman of the Special Committee for Public Education on Municipal Securities, reported to the Convention as follows:

For many years those of us in the securities business directly concerned with the underwriting and distribution of an increasing volume of State and Municipal bonds have recognized the need for a broadened understanding and appreciation of the many fine investment features of such securities. Further, we have attempted to do something about it. Studies extending over nearly three years were made by a Subcommittee headed by Fred Stone. The report of that Committee, made in 1959, was a splendid thesis on the business, its problems, and projected a possible program of intensive and extensive public education.


Walter H. Steel

As a result of that report and the ensuing discussion among the membership of the IBA, a course of action evolved which won the blessing of the Board of Governors. This program, less ambitious than that projected by the Stone Committee, is now getting under way.

The present concept of the Program involves a four-prong approach: First—education of personnel *within* the securities business. Second—encourage members to point advertising and promotional efforts towards education of present and prospective clientele on the investment advantages of municipal securities. Third—through all media, including advertising, planted articles, TV and radio, inform the general public of the great success with which local governments are financing tremendous programs of betterment, rehabilitation and construction; thus, offsetting to some degree the distorted picture often presented by advocates of various federal assistance programs. Finally—cooperate in furthering the excellent work already done by the IBA in improving the attractiveness of security issues by promotion of sound laws, practices and marketing procedures.

The more important steps taken thus far towards making this Program a working reality may be summarized as follows:

(1) The Special Committee formed early in 1960, and composed of some of the top personnel in both the municipal and corporate branches of the investment business, has been working diligently all year towards developing and implementing the Program authorized by the Board of Governors. Its initial meeting was at White Sulphur Springs last May and it has subsequently held no less than seven additional meetings. The fine cooperation and concentration of effort by all members of this Committee have been outstanding as attested by results to date.

At this point, it is very much in order to add to this the interest and attention given to the Committee's work by President Lee, and Chairman Browne of the Municipal Securities Committee, as well as by Bob Shepard of the Educational Committee and the assistance of Messrs. Hanson and Calvert.

(2) The addition of a new member to the IBA staff, Mr. Eugene M. Becker. Mr. Becker was the unanimous choice of the Special Committee and of Messrs. Hanson and Calvert, after sifting and interviewing some 30 candidates. His function will be to direct the Program in cooperation with other members of the staff, the Board of Governors and the Municipal Securities Committee.

(3) Appropriation by the Board of Governors of an amount each year for a three-year period towards estimated cost of the program. Thus, there is no plan for an assessment of any kind or an increase in dues to defray costs of the Program.

(4) Decision by the Special Committee, subject to approval of the Municipal Securities Committee and the Board of Governors, to initiate an annual contest among members of the Association to stimulate and improve advertising and sales promotion ideas. A subcommittee, composed of Fred Stone and Harold Sherburne, is working out details but, briefly, it is anticipated that the contest will be conducted on an annual basis from Sept. 16 to Sept. 15 of the following year, with awards to be presented at the Annual Convention of the IBA. The first contest would run from Sept. 16 of this year through Sept. 15 of 1961.

It is planned that separate awards, where appropriate, be made for:

a. The best advertisement in a newspaper or magazine (excluding new issue advertising).
b. The best direct mail promotion piece concerning municipal bonds.
c. The best new sales promotion idea or brochure or "give away" used or the best new issue ad format published to broaden the distribution of state and municipal bonds.

One award in each category would be presented for firms in IBA membership classes A or B and another award in each category would be presented for firms in IBA membership classes C, D or E.

Complete details regarding the contest will be mailed to each member firm.

(5) Research and studies by Gene Becker looking towards efforts in the direction of news articles, radio and television and preparation of promotional material helpful to the members, their staffs and clientele.

The scope of the Program is such that undoubtedly considerable effort must be expended before tangible results are evident. We are confident, however, that once our organizational pains are behind us and the program underway, members of the IBA will find this endeavor most helpful in the cultivation of new and broader fields in the sale of municipal securities.

Respectfully submitted,
SPECIAL COMMITTEE FOR PUBLIC EDUCATION ON MUNICIPAL SECURITIES

Walter H. Steel, Chairman
Drexel & Co.
New York, N. Y.

William M. Adams
Braun, Bosworth & Co., Inc.
Detroit, Mich.

Francis A. Cannon
The First Boston Corporation
New York, N. Y.

Robert C. Johnson
Kidder, Peabody & Co.
New York, N. Y.

William H. Morton
W. H. Morton & Co., Inc.
New York, N. Y.

Delmont K. Pfeffer
The First National City Bank
New York, N. Y.

Harold H. Sherburne
Bacon, Whipple & Co.
New York, N. Y.

Fred D. Stone, Jr.
The Marine Trust Company of Western New York
New York, N. Y.

With G. H. Walker

CLAYTON, Mo.—Roy W. Jordan, Resident Partner of G. H. Walker & Co., 8224 Forsyth Boulevard, has announced that Richard D. Woolley has become a Registered Representative with the firm.

H. O. Peet Branch

KANSAS CITY, Kan. —H. O. Peet & Co. has opened a branch office in the New Brotherhood Building under the management of George E. Winters, Jr.

Named Director

Harry A. McDonald, former Chairman of the Securities and Exchange Commission and former Administrator of the Reconstruction Finance Corp., has been elected a Director of Crystal Oil and Land Company of Shreveport, La., it has been announced by Harold C. Bishop, President.

One of the founders of the brokerage firm of McDonald-Moore & Co. of Detroit, Mich., Mr. McDonald served as senior partner of this firm until his appointment to the Securities and Exchange Commission in 1947. He was a member and Chairman of the Commission for five years, following which he was Administrator of the Reconstruction Finance Corporation from 1951 to 1953.

Now a resident of Washington, D. C., Mr. McDonald conducts a business as investment-counselor there. He was formerly a Director of Arkansas Fuel Oil Corp.

Chicago Analysts to Hear

CHICAGO, Ill.—Charles H. Percy, President, and William E. Roberts Executive Vice-President of Bell and Howell, and Philip S. Fogg, President and Peter G. Peterson, Executive Vice-President, of Consolidated Electrodynamics Corp., will be guest speakers at the luncheon meeting of the Investment Analysts Society of Chicago to be held Dec. 15 at the Midland Hotel.

In Investment Business

SPARTANBURG, S. C. — W. Bryan Smith is engaging in a securities business from offices at 163 East St. John Street.

Report of IBA Municipal Sub-Committee on Trading And Cashiering Procedures

In his capacity as Chairman of the Sub-Committee on Trading and Cashiering Procedures of the Municipal Securities Committee, Lloyd B. Hatcher, Partner, White, Weld & Co., N. Y. City, advised the Convention as follows:

It was suggested to your Committee by Mr. Gordon Reis, Jr., of Seasongood & Mayer that we investigate the advisability and acceptability of going back to the prewar practice of figuring municipal bond purchase and sales invoices to two or three decimal places, rather than the present custom of six decimal places.

Lloyd B. Hatcher

Preliminary sampling was made and the idea so well received, that we proceeded with a nationwide survey of insurance companies, banks and corporation treasurers active in the short-term market. Of the 73 insurance companies written, we received 48 replies; 37 voted in favor of changing the billing practice to three decimal places; nine voted for two decimal places, with only two voting to keep six places.

We wrote 89 banks and received 73 replies; 45 voted for three decimal places; 24 voted for two, and only three voted to keep the present practice. However, five of the largest banks who are particularly active in short-term paper qualified their votes, that on maturities of one year or shorter, we continue to use a six-decimal place. To date we have received five replies from the corporation treasurers, four in favor of three places, and one in favor of three places on maturities over five years.

Those few who voted for no change voiced no serious objections, while practically all of the votes in favor of cutting back, thought it a constructive idea, and in fact, were quite enthusiastic over the resulting benefits.

Based on these findings your Committee recommends that:

(1) Purchase and sales invoices for state and municipal bonds with maturities of over one year be figured to three decimal places.

(2) Purchase and sales invoices for state and municipal bonds with maturities of one year or shorter be figured to six decimal places.

(3) If a six-decimal place basis book is used, the third decimal be used as printed without adjustment to reflect the fraction on the fourth decimal.

(4) The above method of figuring invoices go into effect Jan. 1, 1961.

(5) The above recommendations do not apply to bids for new issues.

Respectfully submitted,

SUB-COMMITTEE ON TRADING AND CASHIERING PROCEDURES

Lloyd B. Hatcher, Chairman
White, Weld & Co.
New York, N. Y.

O. V. Cecil
Merrill Lynch, Pierce, Fenner, & Smith, Incorporated
New York, N. Y.

W. Neal Fulkerson, Jr.
Bankers Trust Company
New York, N. Y.

William G. Harding
Coffin & Burr Incorporated
Boston, Mass.

Joseph M. Luby
Commerce Trust Company
Kansas City, Mo.

David T. Miralia
Kuhn, Loeb & Co.
New York, N. Y.

William F. Morgan
Blyth & Co., Inc.
New York, N. Y.

William S. Morrison, Jr.
Harris Trust & Savings Bank
Chicago, Ill.

Thomas J. Pendergrast
Courts & Co., Atlanta, Ga.

Lewis W. Pollok
Eddleman, Pollok & Fosdick, Inc., Houston, Texas

Franklin Stockbridge
Security First National Bank
Los Angeles, Calif.

Cashiers' Div. to Study Stock Transfer Problems

The Cashiers' Division of the Association of Stock Exchange Firms has formed a subcommittee of its Office Procedure Committee to investigate the many stock transfer problems encountered by stock brokerage firms and transfer agents.

Charles H. Hyland, President of the Cashiers' Division and William A. De Marrais, Vice-President and Chairman of the Division's Office Procedure Committee, in announcing the formation of the subcommittee, described its members as representing banks, stock brokers, professional stock transfer agents and corporate stock transfer departments. This arrangement will enable the subcommittee to deal effectively with a wide range of transfer problems.

Members of the subcommittee are:

Joseph F. Morley, Estabrook & Co., Chairman; Farrell Crahan, De Coppet & Doremus; Harold Fried, Carlisle & Jacquelin; August Gunther, American Stock Clearing Corp.; Thomas P. Kingston, G. C. Haas & Co.; Raymond Meislohn, Merrill Lynch, Pierce, Fenner & Smith Inc.; John A. Nevins, Model, Roland & Stone; William J. Rieber, Chase Manhattan Bank; Leon Schoo, Walston & Co., Inc.; John G. Taylor, Toronto Dominion Bank; and Henry Van Dam, American Standard Co.

Join McRae Securities

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Edward C. Dorroh, Robert G. Danknich and Carl M. Sherr have joined the staff of McRae Securities Corp., 444 Seventeenth St. Mr. Danknich and Mr. Sherr were previously with J. R. Holt & Co.

With Cowen & Co.

Cowen & Co., 45 Wall St., New York City, have announced the association with them of Joel Price.

Report of IBA Syndicate Operations Sub-Committee Of Municipal Committee

The Syndicate Operations Sub-Committee of the Municipal Securities Committee, the Chairman of which is John W. De Milhau, Vice-President of the Chase Manhattan Bank, New York City, submitted the following interim Report to the Convention:

Our Sub-Committee is in effect a continuance of the Proxy Sub-Committee. Its scope has been enlarged to cover other matters important to those participating in municipal underwriting syndicates.

John W. De Milhau

This committee has been ready and willing to take up discussions of any matters within its field. However, it seems that practically all questions and comments were again confined to problems and criticisms of the so-called proxy system.

The members of this Committee represent a good cross-section of our industry. They include representatives from bank and dealer managing houses, out-of-town participating dealers, and from some of the firms frequently called upon to serve as proxy for out-of-town members.

Your Committee has met in New York and at White Sulphur Springs. We have asked for and received much correspondence on the many sides of this question. We have discussed many suggested improvements in our operations. Some were very practical, others were helpful only to a certain segment of our entire membership and unsuitable to many.

I think that the greatest value of this Committee will be to act as a forum to provoke broader participation in our efforts for greater understanding of each other's problems.

Each of us is most interested in any action which directly affects us, and naturally so. We are all concerned with the welfare of our very own firms in which we have not only a financial interest but, even more importantly, the investment of our lifetime of experience in this profession.

Rather than read at this time a long list of suggestions which have been submitted, I would like to urge an additional approach to help our underwriting groups to function more effectively. I think we should try to understand a little better how the other fellow operates. Whether manager, proxy, or out-of-towner, we can all benefit from a greater knowledge of the conditions each of us must face.

My travels around the country this last year have helped me acquire a better insight into the problems of an underwriter who does not represent himself at syndicate meetings. I think it would be mutually helpful if every out-of-town underwriter made it a point to come to New York at least once or twice a year and represent his firm in person at some appropriate meetings. His attendance will be most welcome.

We should take good advantage of this meeting at Hollywood which affords all of us a fine opportunity to discuss with each other the problems we all have. I think much good will come from it.

Respectfully submitted,

SYNDICATE OPERATIONS SUB-COMMITTEE OF THE MUNICIPAL SECURITIES COMMITTEE

John W. De Milhau, Chairman
Chase Manhattan Bank
New York, N. Y.

Dana F. Baxter
Hayden, Miller & Coe
Cleveland, Ohio

Richard H. Doke
First of Michigan Corp.
Detroit, Mich.

William H. Hammond
Braun, Bosworth & Co.
Chicago, Ill.

Henry L. Harris
Goldman, Sachs & Co.
New York, N. Y.

William S. Morrison, Jr.
Harris Trust & Savings Bank
Chicago, Ill.

Carr Payne
Cumberland Securities Corp.
Nashville, Tenn.

Peter V. N. Philip
W. H. Morton & Co., Inc.
New York, N. Y.

Thomas L. Ray
Mercantile Trust Co.
St. Louis, Mo.

Brainer H. Whitbeck
The First Boston Corp.
New York, N. Y.

Edward B. Wulbern
Pierce, Carrison, Wulbern, Inc.
Jacksonville, Fla.

Victor H. Zahner
Zahner & Co.
Kansas City, Mo.

To Be Sullivan-Ward

CLEVELAND, Ohio — The firm name of W. D. Sullivan & Co., Inc., Terminal Tower, will be changed to Sullivan-Ward & Co., Inc., effective Dec. 31. Officers of the firm which acts as dealer in U. S. Government and municipal securities are William D. Sullivan, President, and James A. Ward, Vice-President and Treasurer. Mr. Sullivan will direct the bond department of the firm, and Mr. Ward the industrial brokerage department.

Lenart, McHugh to Admit

Lenart, McHugh & Co., 115 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit A. David Schenker to limited partnership.

Newbold's Son to Admit

HAVERFORD, Pa. — On Jan. 1 George I. MacLeod, local manager for W. H. Newbold's Son & Co., No. 354 Lancaster Ave., will become a partner in the firm.

Report of IBA Aviation Securities Committee

The Aviation Securities Committee, headed by Herman H. Kahn, Partner of Lehman Brothers, New York City, delivered the following Report to the Convention:

FOREWORD

This report is being issued at a time when it is manifest that the aviation industry of the United States is within a period of crisis. At the moment the industry is doing its job with customary diligence but its financial vigor has been seriously impaired and problems confront it which, if not solved soon, may cause the entire aviation complex of the nation to falter. In a world where only the strong may feel secure, that would be a catastrophe.

Herman H. Kahn

A great many mistakes committed by corporate management, government and organized labor brought the aviation industry to its present predicament. A certain amount of review of those mistakes is necessary, if they are to be recognized as such and thus be avoided in the future. But exercises in fingerpointing are a luxury the nation and the industry can ill afford. In view of recent aviation history, effort expended will be worthwhile only if it leads first to understanding and then to constructive action. Hanging in the balance is not the industry's past, but its future.

Most members of the Investment Bankers Association underwrite aviation securities or have clients who own them. Each member of the Aviation Securities Committee, has participated directly in financing of the industry and is thus qualified to speak from professional experience. In this Report the Committee is speaking with a sense of urgency and asks all members of the Association who share its views to join it in this call for constructive action. NOTE: Figures in this Report are from sources believed reliable but are not guaranteed by the IBA or Aviation Securities Committee.

I

The Aviation Industry Its Importance and Its Problems

Every American citizen has a vital stake in the aviation industry. It is at once the most important industrial factor in the nation's military posture and the most dynamic element in its domestic and international transportation complex. It directly employs more than one million people and in 1960 its gross sales and revenues will exceed $13 billion. Current literature and conversation are filled with references to the "Ages" of Space, Missiles and Jets, all three of which depend for their practical existence largely upon the imagination, financial strength, equipment and skills of the aviation industry.

A person who confined the basis of his judgment to the foregoing facts would reasonably conclude that all was well with the aviation industry and that its future probably looked rosy. He would be wrong. The separate but entwined components of the aviation industry, the airlines and the aerospace manufacturers, are each desperately seeking solutions to their problems and are deeply troubled as they contemplate the hazards in attempting to meet and surmount the great challenges of the future while in a dangerously weak financial condition. The equipment of the industry is modern now and its skills and capacity for imagination are unimpaired. However, it would run counter to all business experience to assume that an industry earning meager profits, if any, and, for that reason, increasingly unable to attract capital from outside sources, can remain a sound private enterprise.

Both as citizens dedicated to the national welfare and as investment bankers who helped finance the growth of the aviation industry we present herewith comments and suggestions concerning the problems of the airlines and the aerospace manufacturers.

II

The Domestic Trunk Airline Industry

(1) General

In 1959 the nation's trunk airlines, operating under a rate structure altered only slightly since the 1940's, began carrying large numbers of passengers in jet aircraft over route patterns designed to increase competition among piston-equipped regional trunklines. This awkward blend of the new with the old has resulted in a situation probably not too dissimilar to that which might occur if a team of racehorses were hitched to a stagecoach: for a while the coach would go faster than ever before, but it would be just a question of time before the racehorses, bred and trained to speed, wore themselves out.

Although the trunkline industry is moving faster than ever before (revenues and passenger miles in 1959 were at all-time highs and all indications to date are that they will be higher still in 1960: it is, in making its remarkable showing, exhausting both its own capital and its ability to acquire capital from outside sources.

TABLE I

The Twelve Domestic Trunk Airlines*

(In Millions)

	Total Operating Revenues	Net Operating Income	Net Income	Revenue Passenger Miles	Load Factor
First Half—					
1960	$938	($5)	($7)	14,428	60%
1959	860	59	30	13,409	61
Year—					
1959	1,798	105	62	28,127	61
1958	1,513	95	45	24,435	60
1955	1,133	123	63	19,217	64
First Half vs. 1959	+ 9%	(—)	(—)	+ 8%	—2
Year 1959 vs. 1958	+19	+11	+38	+15	+2
Year 1959 vs. 1955	+59	—15	— 2	+46	—5

NOTES: *Based on CAB data. ( ) Denotes loss.

Even after allowance is made for the bad weather conditions and the tragic accidents which marred the first three months of the year, the industry's first half results were poor.

The recent rate increase will, it is hoped, help second half earnings results, but how much it will do so, and whether or not it is large enough to lend solid strength to the earnings picture will not be measurable for some time to come.

With approximately 160 turbojets due for delivery to domestic carriers during 1960 (more than 50% of the total anticipated turbo-jet fleet of the domestic industry) it is plain that those controllable factors which sap the industry's earning power should be eliminated or readjusted for the better as soon as possible. The greatest good can be achieved by resolving problems caused by too much competition.

(2) Competition

Many, but by no means all, of the problems of the trunklines stem from excessive competition over the highest density routes. In 1955, the CAB, with the announced purpose of strengthening regional trunklines, awarded many new routes over the most travelled runs. For example, more than 110 markets now are served by three or more airlines whereas before 1955 only 38 markets were so served. Also, there are at least 12 markets served by five or more airlines.

The reaction of the industry to the widespread rearrangement of its route structure in 1955 was largely dictated by two factors considered axiomatic (1) In a competitive market the airline with the most modern equipment gets the business and (2) An airline must compete resolutely over all its key routes if it hopes to maintain the interior logic of its traffic pattern.

When these business axioms were, in effect, combined with imposed market fractionalization the trunklines were compelled to adopt many uneconomic measures.

Continued on page 64

Report of IBA Federal Taxation Committee

The Federal Taxation Committee, headed by Walter Maynard, Partner in Shearson, Hammill & Co., New York City, presented the Committee's Report, which follows, to the Convention:

The advent of a new Administration means the start of a new round in the long struggle for tax reform. A factor which will strongly influence action in many areas, including that of taxes, is that its period of office opens under conditions of recession, and the lesson of recent economic history proved over and over again in various sectors of the world, is that tax reform, given a background of fiscal responsibility, is the most potent of all economic stimuli.

Walter Maynard

At this juncture it might be well to recall the recent tax history of Germany, which provides the most dramatic example of sound, sustained prosperity achieved in a relatively short time against what seemed nearly impossible odds. A major factor in German industrial progress has been the freedom which corporations have enjoyed to charge depreciation reserves to earnings as they saw fit. This has provided at one time both the incentive to build new and efficient plant and a large part of the means of financing it.

While no plans have been announced for action in the tax area in the next Congress, it seems not impossible that formulation of a tax bill with objectives more limited than the broad range of subjects for reform covered in the 1959 hearings may be attempted. Economic recession and its concomitant of dwindling Treasury revenues may well be a factor influencing the scope of action. Some of the subjects which may be considered are reviewed in succeeding paragraphs.

The issue of liberalized depreciation reserves is a likely candidate for action because President-elect Kennedy, in a recent statement issued in connection with the gold flurry, which carried London Prices up to $40 an ounce, mentioned liberalizing depreciation allowances as a means of stimulating business.

Double Taxation of Dividends

A tax bill liberalizing depreciation allowances might open the way to certain other proposals of interest to us. For example, certain "liberals," under the leadership of Sen. Eugene McCarthy of Minnesota, have been opposed to the provision of the 1954 Act which accords a small measure of relief from the double taxation of corporate profits through a 4% dividend tax credit. The position of our Association on this subject has consistently been that, in a community which needs a high rate of saving and growth, double taxation of corporate profits is both unfair and unwise. It is our belief that the dividend tax credit should be *increased* until it reaches not less than 20% (the Canadian level). This would have the effect of relieving taxpayers in the lowest bracket from double taxation. In this respect it is interesting to note that all other countries having personal tax rate structures comparable to ours provide at least partial relief from double taxation.

Possibly, this, too, is a good place at which to point out that since we are to an increasing extent engaged in worldwide economic competition, we cannot really afford to have in this country tax rate structures affecting any part of the economy which unduly penalize us in the competitive battle.

Withholding of Dividends

Another subject likely to come up is a withholding scheme for *dividends*. We have opposed this proposal on the ground that much could be done in the way of voluntary cooperation to correct under - reporting of dividends and avert the tremendous burden of expense which withholding would impose on corporations and many segments of the financial industry. Great progress has been made in the voluntary program, and it is hoped that the proposal to impose withholding can continue to be successfully resisted.

Keogh Bill

The *Keogh Bill* allowing self-employed persons to set aside trusteed pension funds for their own benefit appears to have a good chance of enactment. This would permit self-employed persons (including partners in financial firms) to set aside savings on a tax-deferred basis, thus equalizing the discrimination which now exists in favor of corporate employees. We should continue to favor this legislation.

Deductible Expenses

In the last session of Congress a number of proposals were made for dealing with alleged abuses in the matter of deductibility of certain types of expense accounts. Some of the more severe of these proposals provided that deductible expense accounts should be confined entirely to food and drink. While it is evident that there have been abuses in the expense account field, it would seem that they can better be dealt with by administrative action and careful examination of tax returns than by legislation.

The foregoing is a summary of the relatively limited action that might be possible on the tax front early in the new Congressional session. However, it would seem that during the course of the new administration a more comprehensive effort at changing tax legislation under the banner of reform will be made, and we should accordingly continue to present our views as forcefully as possible to Congress. It is interesting to note that the Republican membership in the House has increased by 22, and in the Senate by 2, and that, therefore, the informal conservative coalition which has been the most powerful influence in shaping legislation in recent years seems likely to be stronger than ever.

Capital Gains Taxes

With respect to capital gains taxation, our position is that the economics of this tax are such that a lowering of the rate would substantially increase revenues from it. We think it is possible to prove that cutting the rate in half would more than double revenues. It is to be hoped that the recently announced study of taxes backed by the Ford Foundation and the Brookings Institution will go into the matter of the basic economics of capital gains taxation, and the revenue-raising potential of lower rates in this area.

Progress in capital gains taxation can, however, be made in ways other than rate reduction. For example, a so-called *full reinvestment provision* could be enacted. This would accord to transactions in capital assets the same treatment now accorded to transactions in owner-occupied dwellings, where capital gains taxes are not payable if full reinvestment is made within a year.

A provision which would facilitate the passage of legislation of this kind would be *redefinition of capital assets*, excluding, for example, growing timber, breeding cattle and mink and limiting capital gains treatment to securities and real property held for investment.

In addition, *averaging of capital gains* over a period of years and increasing deductibility of losses would be logical.

In concluding the discussion of capital gains taxation, it might be appropriate to repeat the statement made in the 1959 Tax Hearings before the House Ways and Means Committee by Dan Throop Smith, Professor of Finance at the Harvard Business School and formerly Special Assistant to the Secretary of the Treasury: "Any appreciably higher rate than the present one would so reduce the potential net increment from successful investment in growth situations as to seriously impair the country's economic expansion. There is probably no single change in the tax law which would do as much damage as an appreciable increase in the tax on true long-term gains. An increase would do incalculable harm."

Income Taxation

Our Association should continue to urge that as promptly as possible the maximum rate of personal income tax be brought down to non-punitive levels. A 50% maximum seems logical, because rates higher than this create a greater incentive for tax avoidance than for additional constructive effort. The cost of such a reduction would be small, initially not more than 2% of the total amount now being collected from personal income taxes. We also believe that *averaging* of income over a reasonable period should be allowed. Such a provision would be equitable, and helpful especially to small business.

Additional Taxation

At some point, possibly sooner than generally expected, a proposal seems sure to be made to increase the Treasury's taxing power by the addition of a tax less sensitive to business swings than income taxation, such as a basic manufacturers' excise tax, or even a turnover tax along European lines. Such a tax would have the effect of stabilizing the government's revenues through gearing them to a greater extent to gross national product and reducing present heavy reliance on the corporate income tax. It is a type of tax that is attractive to politicians because it is deeply buried, the apparent rates are low, and price-raising effects difficult for consumers to identify. Moreover, revenue potential is large. We should do our best to make sure that if such an extension of the Federal Government's taxing powers is enacted, it will only be done concurrently with reform of other taxes along the logical lines mentioned above.

Your Committee hopes that each member of our Association will make it his business to present our views on the foregoing subjects as forcefully as possible to his Congressional representatives.

Respectfully submitted,

FEDERAL TAXATION COMMITTEE

Walter Maynard, Chairman
Shearson, Hammill & Co.
New York, N. Y.

Emmons Bryant
Blair & Co. Incorporated
New York, N. Y.

Woodward Burgert
Harris Trust and Savings Bank
Chicago, Ill.

Walter W. Cooper
F. S. Smithers & Co.
New York, N. Y.

Albert O. Foster
Foster & Marshall
Seattle, Wash.

Thomas Graham
Graham-Conway Co.
Louisville, Ky.

Benjamin H. Griswold, 3rd
Alex. Brown & Sons
Baltimore, Md.

James M. Hutton, Jr.
W. E. Hutton & Co.
Cincinnati, Ohio

Maitland T. Ijams
W. C. Langley & Co.
New York, N. Y.

Stewart R. Kirkpatrick
Kirkpatrick-Pettis Company
Omaha, Nebr.

John P. Labouisse
Howard, Weil, Labouisse, Friedrichs & Company, New Orleans, La.

James K. Miller
Dominick & Dominick
New York, N. Y.

Robert R. Miller
Hornblower & Weeks
Los Angeles, Calif.

Roderick D. Moore
Branch, Cabell & Co.
Richmond, Va.

Edward P. Prescott
Prescott, Shepard & Co., Inc.
Cleveland, Ohio

Ralph W. Simonds
Baker, Simonds & Co., Inc.
Detroit, Mich.

Jack T. Stephens
Stephens, Inc.
Little Rock, Ark.

Richard J. Stern
Stern Brothers & Co.
Kansas City, Mo.

Frederick W. Straus
Straus, Blosser & McDowell
Chicago, Ill.

Mark Sullivan, Jr.
Auchincloss, Parker & Redpath
Washington, D. C.

Frank C. Trubee, Jr.
Trubee, Collins & Co.
Buffalo, N. Y.

Borton With White Co.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif.—Earl C. Borton has become associated with C. N. White & Co., 436 Fourteenth Street. Mr. Borton was formerly with Dean Witter & Co. and prior thereto for many years with the American Trust Company.

R. E. Adair Opens

MERCER ISLAND, Wash.—Robt. E. Adair is conducting a securities business from offices at 9062 East Shorewood Drive under the firm name of Robert E. Adair & Company. He was formerly with John R. Lewis, Inc.

Associated Inv. Advisors

(Special to THE FINANCIAL CHRONICLE)

DIABLO, Calif.—John R. Kerr is engaging in a securities business under the firm name of Associated Investment Advisors. He was formerly with Skaife & Company.

Report of IBA State Legislation Committee

The Convention received the following State Legislation Committee Report from the Chairman, Robert A. Podesta, who is a Partner of Cruttenden, Podesta & Co., Chicago, Illinois.

A "Primer on State Securities Regulation" has been published by the Committee to provide a brief explanation of state securities regulation.* This Primer summarizes the importance and progress of efforts toward uniformity in state securities acts, the various types of regulation, administration of state securities acts and recommended procedures to obtain sound and more uniform state securities regulation. Copies are available from the IBA office in Washington, D. C.

Robert A. Podesta

I.
Amendments to State Securities Acts

In Kentucky the Modified Uniform State Securities Act was adopted to be effective Jan. 1, 1961. The adoption of this new act was the result of work by Mr. Milton Trost (Louisville), Mr. Henning Hilliard (Louisville), members of this Committee, and Mr. Thomas Graham (Louisville) in co-operation with the Hon. John Breckinridge (Attorney General of Kentucky) and Miss Pearl Runyon (Director of Securities of Kentucky).

In New Jersey a complete new securities act was adopted to become effective Jan. 1, 1961. The new act includes the anti-fraud requirements and dealer and agent registration requirements of the Uniform State Securities Act (with some modification). Dealers and salesmen are not required to register under the present New Jersey Securities Act. The new act will require any person acting as a broker-dealer or agent in New Jersey to register under the act (with certain exceptions), but it will not require the registration of securities. The new act specifically excepts from the definition of "broker-dealer," and thereby exempts from the registration requirement, (a) banks or trust companies, (b) a person who effects transactions in the state exclusively in municicpal bonds, U. S. government bonds and bonds of Canada or any Canadian province, and (c) a person who effects transactions in the state exclusively with or through issuers of the securities involved in the transactions, other broker-dealers, banks, savings institutions, trust companies, insurance companies, investment companies, pension or profit-sharing trusts or other financial institutions.

Applications for registration of dealers and agents under the new act should be filed in advance to assure that registration will become effective by the effective date of the act, Jan. 1, 1961. Copies of the act and the necessary forms for registration under it are available from Mr. David F. Conroy, Chief, Bureau of Securities, Department of Law, 744 Broad St., Newark, N. J.

On Nov. 6 a television program in Newark, N. J., focused attention on the protection that is provided investors in New Jersey under the new act. Participants in the program were Governor Meyner of New Jersey, Mr. David Conroy (Chief of the New Jersey Bureau of Securities), Mr. W. Enos Wetzel (W. E. Wetzel & Co., Trenton) and the Assistant General Counsel of the IBA. Particular credit in the work on this bill is due Mr. Wetzel and Mr. John Curley (Paine, Webber, Jackson & Curtis, New York), a member of this committee.

In Virginia a bill introduced in the Legislature would have broadened the authority of the Commissioner to deny the registration of securities so that he could deny registration on the basis of the amount of commission or other compensation. This bill was vigorously opposed by the Virginia dealers on the ground that the Commissioner has adequate authority to deny registration of securities under present provisions in the securities act and that the proposed authority would be too broad and indefinite. The proposal was defeated. Credit for work in defeating this proposal is due the many Virginia dealers who co-operated on it and particular credit is due Mr. John Hagan, 3rd (Mason-Hagan, Inc., Richmond), Chairman of the IBA Virginia Committee.

In California hearings were held in Los Angeles on Jan. 20-21 on a bill to provide adoption of the Uniform State Securities Act (with several changes). California Corporation Commissioner Sobieski, representatives of the IBA and representatives of the California Bar Association testified in support of the bill. It is expected that the bill will be before the California Legislature at its session in 1961. Credit for the tremendous amount of work that has been done on this project is due Mr. William Hughes (Wagenseller & Durst, Inc., Los Angeles).

Appendix A of this report includes a summary of amendments to state securities acts this year in Arizona, Georgia, Kentucky, Michigan, New Jersey, New York and Virginia.

Drafts of complete new securities acts have been prepared in several states to be submitted to state legislatures in 1961.

State Advisory Committees

Three of the new state securities acts adopted during the last two years provide for appointment of a state advisory committee. The Washington Securities Act provides for appointment of a 7-member advisory committee, the duties of which include to "serve in an advisory capacity to the director on all matters pertaining to this act" and to "acquaint themselves fully with the operations of the director's office as to the administration of securities, broker-dealers, salesmen, and investment advisers, and periodically recommend to the director such changes in the rules and regulations of the department in connection therewith as they deem advisable." The Kentucky Securities Act (effective Jan. 1, 1961) creates a securities advisory

Continued on page 69

*The material for the Primer was compiled and condensed by Gordon L. Calvert, Municipal Director and Assistant General Counsel of the Investment Bankers Association of America, 425 Thirteenth St., N. W., Washington 4, D. C.

Report of IBA Canadian Securities Committee

The Chairman of the Canadian Securities Committee, N. Douglas Young, who is a Vice-President and a Director of the Dominion Securities Corpn., Ltd., Toronto, Canada, submitted the following Report to the Convention:

We begin this Report with a brief sketch of Canada's economic growth over the past decade. This section is followed by one in which we discuss in somewhat greater detail the performance of the Canadian economy during 1959 and 1960. We then outline the major developments in the security markets in Canada over the same period, and finally we discuss some important aspects of government monetary and fiscal policies and pronouncements.

N. D. Young

Canada's Growth—1950 to 1959

It cannot be denied that the decade of the fifties was good to Canada. The economy, measured by the expansion of Gross National Product in constant dollars, grew at an annual rate of about 4½% and was more than 50% greater in 1959 than it was in 1949. Industrial production increased by 65%. There were of course periodic interruptions in that expansion and it is of some significance to Canada that, coming in 1953-54 and 1957-58, these interruptions coincided with similar ones in the United States.

Two characteristics of the rapid economic expansion of the fifties were the relatively high proportion of capital spending to total spending, and the emergence of a large trade deficit—not unrelated developments. Capital expenditures on construction and on machinery and equipment averaged about 24% of Gross National Product, a ratio which increased steadily until 1957, since then it has levelled off. Such an expansion program required amounts of capital in excess of those generated internally, and by 1959 foreign capital financed a deficit on current account of $1,429 million.

Where this expansion has been centered is indicated by the extent of capital formation in the various sectors of the economy. The sector of greatest expansion has been Finance, Insurance and Real Estate in which capital formation grew by 663%, followed by Mining, Quarrying and Oil with 258%, and capital expenditures by the construction industry increased by well over 200%.

In 1949, Canada's population was 13.5 million. By 1959 it had increased to 17.4 million, with over 1 million or 26% of this increase arising from net migration. Toward the end of the decade, after the sudden increase in immigration from Hungary and the United Kingdom, there was some questioning as to whether the rate of immigration was excessive, but over the period as a whole it has been accompanied by a steady increase in the standard of living of the people in general. For example, per capita output in real ample, per capital output in real terms, increased by approximately 17%.

Canada's Gross National Expenditure
(Current dollars)
(Dollar Amounts in Millions)

	1949	1959	Percentage Increase 1949-59	Annual Rates Seasonally Adjusted —1959— 1st Q.	2nd Q.	3rd Q.	4th Q.	—1960— 1st Q.	2nd Q.
Personal Expenditure on Consumer Goods & Services:									
Durable Goods	1,146	2,658	132	2,708	2,664	2,584	2,676	2,668	2,616
Nondurable Goods	6,288	11,400	81	11,156	11,283	11,456	11,700	11,576	11,828
Services	3,489	8,203	135	8,072	8,072	8,264	8,404	8,432	8,608
Total Personal Expenditure	10,923	22,261	104	21,936	22,024	22,304	22,780	22,676	23,052
Government Expenditures:									
Current	---	4,837	---	---	---	---	---	---	---
Gross Fixed Capital Formation	---	1,600	---	---	---	---	---	---	---
Total Government Expenditures	2,127	6,437	203	6,336	6,612	6,444	6,356	6,584	6,564
Business Gross Fixed Capital Formation:									
New Residential Construction	794	1,743	120	1,756	1,748	1,720	1,748	1,708	1,396
New Nonresidential Construction	920	2,592	182	2,572	2,572	2,580	2,644	2,584	2,524
New Machinery and Equipment	1,318	2,626	99	2,400	2,628	2,772	2,704	2,620	2,484
Total Business Gross Fixed Capital Formation	3,032	6,961	130	6,728	6,948	7,072	7,096	6,912	6,404
Final Domestic Demand	16,082	35,659	122	35,000	35,594	35,820	36,232	36,172	36,020
Change in Inventories:									
Nonfarm	150	355	---	452	272	400	296	596	280
Farm	—101	—55	---	—120	24	12	—136	40	56
Total Change in Inventories	49	300	---	332	296	412	160	636	336
Exports of Goods & Services	4,021	6,657	66	6,364	6,640	6,648	6,976	7,224	6,680
Less: Imports of Goods & Services	—3,853	—8,062	109	—7,800	—7,976	—8,268	—8,204	—8,300	—8,104
Total	168	—1,405	---	—1,436	—1,336	—1,620	—1,228	—1,076	—1,424
Residual Error of Estimate	44	39	---	60	—16	4	108	—108	-116
Gross National Expenditure at Market Prices	16,343	34,593	112	33,956	34,528	34,616	35,272	35,624	35,048
Gross Natl. Expenditure in Constant (1949) Dollars	16,343	24,763	52						

SOURCE: Dominion Bureau of Statistics—National Accounts Income and Expenditure.

As in most countries in the world, price inflation was present, with consumer prices rising by 27% and wholesale prices by 16%. But it was also a period of increased determination to check inflation through monetary policy. In addition, the public debt declined steadily until 1957, after which it rose as a result of the government's attempts to combat the recession of that and the following year. Over the period as a whole Canada's public debt rose only from $15.8 billion to $17.1 billion and by comparison with numerous other countries remains a relatively small proportion of Gross National Product.

Statistics of course tell only part of the story of Canadian economic development during the fifties. The St. Lawrence Seaway; Kitimat—a whole town built entirely for the smelting of aluminum; the Canadian oil industry, expanding in known and new regions; the construction of pipelines, carrying oil and natural gas over thousands of miles — all these projects, and others which we like to believe were conceived with imagination and perhaps with a certain boldness, lie behind the statistics of economic growth.

An important feature of Canada's development over the past ten years has been the extent of foreign, and particularly United States participation. From 1949 to 1959 foreign investment in Canada increased from $7,960 million to $20,680 million, or by the very large amount of $12,720 million. Of this increase more than 75% represented investments by residents of the United States. As a result of this, the proportion of Canadian industry owned or controlled by individuals and companies of the United States rose steadily throughout the past decade.

It was also a decade in which Canadians again were reminded that the economies of the United States and Canada and the financial markets of those two countries move closely together, and indeed that without a prosperous United States, it is difficult for Canada to be very prosperous.

The Canadian Economy, 1959-1960

The year 1959 was, for Canada, one of continued recovery after the 1957-1958 recession. In that year the Gross National Product reached a new record, $34.6 billion, which was about 6% above the figure for 1958. Allowing for price increases, the volume of output in 1959 was some 4% above the previous year.

This increase was shared by most sectors of the Canadian economy. However, forestry with a 9% increase, mining with a 10% increase, and public utilities with a 14% increase—caused mainly by a very large increase in the distribution of gas — enjoyed particularly sharp rises. In the manufacturing sector, primarily iron and steel showed exceptional gains and the increase in the agricultural implements industry was unusually great. The results of this increased production were reflected in pre-tax corporation profits which, after dividends paid abroad, were up 14% from 1958. But it must also be noted that the accumulation in business inventories in 1959 accounted for approximately one-sixth of the rise in the 1959 Gross National Product.

In 1959, spending on residential and non-residential construction and on machinery and equipment combined was virtually unchanged from 1958. However, the completion of the St. Lawrence Seaway and various large electric power and natural gas pipeline projects resulted in a decline from the previous year in non-residential construction, and this was offset, almost exactly offset, by a corresponding increase of investment in machinery and equipment. Government expenditures during 1959 increased by about $2¾ million or 4.5% over 1958.

Overall, 1959 was a year characterized by a rising tempo of business activity with increasing total employment and a falling percentage of unemployed.

Corporate Profits Lower

In the first quarter of 1960, Canada's Gross National Product rose to an annual rate of $35.6 billion, an all time high. However, much of the impetus for this rise was given by substantial increases in exports and inventory accumulation. Consumer and capital expenditures actually declined so that while Gross National Product rose on balance, final domestic demand fell. This latter decline constituted concrete evidence that a levelling off of economic activity in general had begun. In the second quarter of 1960, while consumer expenditure in total recovered somewhat, exports and inventory accumulation declined and the previous decline in capital expenditures continued, so that for the first time since the 4th quarter of 1957, Gross National Product fell—by 1½%. A symptom of this declining demand was the behavior of corporation profits, for in the first half of 1960 they were approximately 2% below the comparable figure of 1959.

One mildly optimistic factor during the first half of 1960 was that personal expenditures on consumer goods and services were 4% higher than during the same period of 1959. However, this 4% increase in personal consumption was accompanied by a mere 3% increase in personal income; furthermore, personal disposable income, or after-tax income, only increased 1.8% over the first half of 1959. During the first half of this year, therefore, Canadians were spending a greater proportion of their disposable income than they were last year.

Merchandise exports in July and August of this year have shown encouraging increases from the declining levels of the second quarter, while imports have fallen from second quarter levels. Strong demand from Europe for Canadian primary products has

Net New Issues of Securities (i)
(Millions of dollars)

	Government of Canada and Guaranteed Bonds	Treasury Bills and Notes	Provincial Securities	Municipal Securities	Corporation and Other Bonds and Debentures	Finance Company Paper (ii)	Total Net New Issues: Bonds, Bills & Short-term Paper	Of Which Net New Issues Payable in Other Currencies
	—(Par Value in Millions of Canadian Dollars)—							
1958—								
1st Qtr.	204	—100	157	40	203	—26	478	130
2nd Qtr.	264	— 30	189	130	268	17	838	221
3rd Qtr.	307	---	105	38	111	—68	494	71
4th Qtr.	607	---	164	119	81	—33	937	25
1959—								
1st Qtr.	48	100	200	86	21	34	490	—33
2nd Qtr.	—129	360	84	32	24	90	460	12
3rd Qtr.	—185	69	125	92	24	— 9	117	152
4th Qtr.	405	53	147	103	54	20	783	101
1960—								
1st Qtr.	128	48	50	88	184	52	549	122
2nd Qtr.	24	—160	199	97	144	1	305	62

(i) Net New Issues defined as gross new issues less retirements.
(ii) Paper with an original term to maturity of one year or less. Notes with an original term of more than one year are included with Corporate bonds.
SOURCE: Bank of Canada Statistical Summary.

been an important element in the trend of our exports during the first eight months. Other forces unfortunately have been less favorable. Contracts awarded for housing and business and engineering construction have fallen. The seasonally adjusted industrial production index moved down to 164.4 in July, and although it rose slightly in August and September, it was still below the May level and much below the high of 173.5 in January. Shipments of manufacturers, although showing a year-to-year improvement in August, have been declining and are still low in relation to inventories. About 5.6% of the labor force was unemployed in 1959 and in 1960 that figure has risen to well over 6% on a seasonally adjusted basis.

This is not to say that 1960 will be a bad year for Canadian output. There is evidence that the Canadian newsprint industry and possibly the steel industry may experience record years. The gross national product for the full year should exceed the record 1959 level. However, the Canadian economy, as that of the United States, has experienced some slackening since the early part of this year, and the Canadian gross national product for 1960 will be smaller than that anticipated by the Minister of Finance when he presented his budget estimates in Parliament last April.

Security Markets in Canada

The year 1959 was notable for the very high interest rates which prevailed. The lingering after effect of the 1958 conversion of Victory Loan bond issues, the general business recovery, the increased demands for credit, the determination of Bank of Canada to hold the supply of money steady and the selling of government securities by the chartered banks in order to increase general loans, all contributed to a dramatic rise in interest rates. In the short term market, this rise culminated in the 90-day Treasury bill rate attaining an unprecedented 6.16% on Aug 12. After that, however, conditions became easier. The flow of new issues began to slacken, the demand for bank credit eased off, and the liquidation of government of Canada securities by the chartered banks finally came to an end.

The concern over the threat of inflation, so obvious in 1959, abated somewhat in 1960. In addition the Minister of Finance announced last April that the government intended to bring budgetary and non-budgetary revenue into better balance. Shortly thereafter it became generally known that earlier economic forecasts had been overly optimistic. All these factors contributed to a steady strengthening in the bond market.

The interest rate on 90-day Treasury bills reached a low of 1.68% on Sept. 21. Since that time, conditions in the market have become slightly tighter and interest rates in every segment of the bond market have risen moderately. As of Nov. 17, 1960, interest rate levels in Canada were as follows:

For 91-day bills, approximately 3.50%;

For long-term Government of Canada direct obligations, approximately 5.30-5.40%;

For high-grade, long-term corporation bonds, somewhere between 5.50 and 6.00%.

It is obvious that a wide margin still exists between Canadian interest rates and those of the United States. This in turn has a direct bearing on the rate of exchange for the Canadian dollar, for it encourages Canadian borrowers to obtain funds from sources in the United States.

It must be realized that the premium on the Canadian dollar has, to a considerable extent, resulted from heavy foreign investment in Canada. This investment has recently taken the form of rather large sales of new Canadian bond issues in the United States for reasons of interest rates already mentioned. Interest on the part of the United States and other countries in the development of Canadian resource and secondary industries also remains a factor. If Canadians should begin to borrow less in the United States and if foreign interest in Canadian economic development should decline, then the premium on the Canadian dollar would tend to disappear.

The Canadian stock market closely followed the trend of the United States stock market during 1959 and reached an apparent peak during the fall of that year. Since then the decline in stock prices has been relatively persistent, but lacking any sign of panic or distress. Generally speaking, stocks held on margin have been at a low level for some time and no danger seems apparent from this source.

Monetary and Fiscal Policies

The monetary policy of the Bank of Canada during 1959 and 1960 can only be understood after recollecting the nature of that policy in 1958. It will be remembered that in 1958 the Bank of Canada permitted the supply of money to expand by about 12%. This, it was officially admitted, was more than could be justified on purely economic grounds, and it resulted substantially from a need to finance a large Federal government budgetary and cash deficit, and from the central bank's decision to support the huge Conversion Loan of the Federal government.

The result was that Bank of Canada deemed it necessary to avoid any expansion in the supply of money during 1959 and throughout most of 1960. In the last several months, no doubt in response to softening economic conditions, there have been signs that Bank of Canada has relented from its policy of rigid stability in the supply of money. The Governor of Bank of Canada, however, recently emphasized that he hoped the expansion

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Canadian Capital Expenditures
(In Current dollars)

Industry	1949 Millions of Dollars	1959 Millions of Dollars	Percentage Increase 1949-1959
Agriculture and Fishing	443	555	25
Forestry	26	46	77
Mining Quarrying and Oil	96	344	258
Manufacturing	536	1,074	100
Utilities	689	1,848	168
Construction	55	183	233
Housing	822	1,759	114
Retail and Wholesale Trade	193	333	73
Finance Insurance & Real Estate	32	244	663
Commercial Services	68	182	168
Institutional Services	195	531	172
Government Departments	384	1,312	242
Total All Industries	3,539	8,411	138

Source: Department of Trade and Commerce—Private and Public Investment in Canada.

Seasonally Adjusted Indices of Canadian Production
(1949=100)

		Mining	Manufacturing	Electricity and Gas Utilities	Total Index Industrial Production
1959	January	237.1	144.6	258.3	159.6
	February	245.3	146.4	258.0	162.0
	March	246.0	146.0	258.1	161.8
	April	250.5	150.2	264.6	166.2
	May	247.6	149.9	262.0	165.4
	June	249.9	150.0	268.2	163.1
	July	250.8	148.8	260.9	164.8
	August	245.8	148.1	270.6	164.2
	September	264.1	150.1	280.7	168.3
	October	261.3	154.8	278.1	171.9
	November	260.7	148.4	285.3	166.7
	December	260.9	151.7	284.9	169.5
1960	January	257.5	156.7	287.5	173.5
	February	257.6	152.6	288.9	170.1
	March	264.0	153.3	299.6	171.9
	April	251.0*	149.1	290.4	166.6
	May	261.6†	149.1	293.9	167.9
	June	254.8†	149.2	300.1	167.5
	July	252.4†	145.6	296.6	164.1

*Revised. †Preliminary. **Source:** Bank of Canada Statistical Summary.

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of the money supply would continue to be modest.

We would be remiss in our duty if we did not report on the numerous public speeches which the Governor of Bank of Canada, Mr. James E. Coyne, has made in recent months. In those speeches the Governor expressed his views on some basic economic problems which Canada faces, not the least of which is the increase in the number of unemployed workers —an increase which is at present attracting considerable attention.

The Governor appears to believe that much of our unemployment is of the structural variety, and that structural maladjustments in our economic growth occurred in the past decade. He emphasizes one maladjustment in particular—the growth of a substantial excess of imports over exports. He sees a need to build up our secondary industries so that imports can be reduced and employment increased. It is for these reasons that he said as recently as Oct. 5 that ". . . our present unemployment cannot be cured by the blunderbuss methods of over-all large-scale monetary expansion and deficit finance."

Borrowing Too Much

The Governor has emphasized that in his view Canada is borrowing too much capital from other countries and that we should live rather more within the limits of our own means. In addition, he feels that the present degree of foreign ownership is undesirable on non-economic grounds. These views have naturally prompted speculation over the probability of controls being imposed on foreign participation in the Canadian economy. Any such controls would, of course, have to emanate from the government of Canada.

For this reason the statements made by the Minister of Finance, Mr. Donald Fleming, regarding flows of capital into Canada, are of particular interest. In his budget speech of last spring, the Minister said, "As to ownership and control, this government's position is clear. We welcome capital into Canada, if, when here, it is willing to act as if it were Canadian and not as if it were foreign. During the past two years there has been increasing evidence, in many quarters, that foreign capital in this country is becoming increasingly conscious of its Canadian responsibilities." The Minister further stated that restraints on capital inflow or outflow, "In peace and prosperity, in a free society . . . are not warranted. Government controls, by interfering with freedom, cause confidence to falter, initiative to freeze, and capital to take flight."

At present the broad outline of the fiscal policy of the Federal government suggests that efforts will be made to stimulate business and local government spending without a massive move by the Federal government into deficit spending. An early session of Parliament has already begun, and it was called with a view, no doubt, to considering what specific steps the government might take to meet the problem of unemployment. One official step was taken a few months ago. Beginning Dec. 1 the official valuation of imported cars for duty purposes will increase by 10% which to some extent will encourage domestic production. Besides this, the Minister of Trade and Commerce has called his foreign Trade Commissioners to Ottawa to meet businessmen and to discuss ways for increasing Canada's exports. The government has already consulted with businessmen and leaders of other groups to hear ideas on combatting current unemployment, and a Productivity Council has been established to work toward greater efficiency in all areas of production.

There is also reason to hope that we will soon know more about the character of our unemployment than we do now, for the Canadian Senate has engaged competent economists to study that problem in depth. With this additional information it should be rather easier to devise appropriate policies for countering the problem of unemployment than has been the case in the past.

Conclusions

The prosperity of the Fifties seems to have left Canada with certain economic problems. This is clearly recognized by Canadians. It is encouraging that conscious efforts are now being made to define in detail the character of those problems. When this is done, appropriate policies will no doubt follow, and indications are that solutions adopted will be ones which are in broad harmony with the concepts and requirements of a free market economy.

Canada, we believe, remains a land of great opportunity for business. The quantity, location and quality of her natural resources, and the stability of her political administration presents a singularly attractive combination to investors in an age of widespread political unrest and interference with business. Her growing population and remarkably high and rising standard of living—second only to that of the United States—will provide new and profitable opportunities for secondary manufacturing. We be-

Interest Rates

Last Wednesday in the Month

		Day-to-Day Loan Rate (Closing Rate) Percent	91-Day Treasury Bill Rate Percent	Government of Canada 3¼% Oct. 1,'79 Percent
1958	Oct. 29	2½	2.83	4.27
	Nov. 26	1½	2.88	4.35
	Dec. 31	1¾	3.49	4.42
1959	Jan. 28	1¾	3.28	4.44
	Feb. 25	4	4.07	4.54
	Mar. 25	4¼	4.30	4.72
	Apr. 29	4½	4.76	4.75
	May 27	3¾	4.90	4.83
	Jun. 24	4	5.11	4.92
	July 29	5½	5.47	4.89
	Aug. 26	5	5.33	5.13
	Sep. 30	4½	5.50	5.30
	Oct. 28	4½	5.02	5.17
	Nov. 25	4	4.86	5.14
	Dec. 30	4	5.12	5.30
1960	Jan. 27	3	4.60	5.41
	Feb. 24	4¼	4.61	5.31
	Mar. 30	3	3.01	5.22
	Apr. 27	3½	3.26	5.22
	May 25	2½	3.01	5.06
	Jun. 29	3	3.07	4.85
	July 27	3¼	2.92	4.88
	Aug. 31	1¾	2.01	4.65
	Sep. 28	1	1.70	4.66
	Oct. 26	3	3.03	4.92

Source: Bank of Canada Statistical Summary.

Canadian Retail Trade

(Seasonally Adjusted)

		Motor Vehicle Dealers	All Other Stores (Millions of Dollars)	Total Retail Trade
1959	January	2,609	13,282	15,891
	February	2,718	13,407	16,125
	March	2,671	13,355	16,020
	April	2,652	13,441	16,093
	May	2,655	13,494	16,149
	June	2,626	13,394	16,020
	July	2,608	13,544	16,152
	August	2,571	13,484	16,055
	September	2,548	13,639	16,187
	October	2,685	13,697	16,382
	November	2,591	13,692	16,283
	December	2,395	13,656	16,051
1960	January	2,522	13,761	16,283
	February	2,635	13,300	15,935
	March	2,558	13,199	15,757
	April	2,575	13,679	16,254
	May	2,675	13,595	16,270
	June	2,623	13,674	16,297
	July	2,514	13,528	16,042

Source: Bank of Canada—Statistical Summary.

Canadian Price Indices

		1949=100 Consumer Price Index	'35-'39=100 Wholesale Price Index			1949=100 Consumer Price Index	'35-'39=100 Wholesale Price Index
1959	January	126.1	229.9	1960	January	127.5	230.5
	February	125.7	230.9		February	127.2	230.0
	March	125.5	230.6		March	126.9	229.6
	April	125.4	231.2		April	127.5	231.3
	May	125.6	231.2		May	127.4	231.3
	June	125.9	230.6		June	127.6	231.9
	July	125.9	231.1		July	127.5	232.2
	August	126.4	231.0		August	127.9	230.2
	September	127.1	230.9		September	128.4	230.4
	October	128.0	230.0		October	129.4	230.3
	November	128.3	230.2				
	December	127.9	229.7				

Source: Bank of Canada Statistical Summary.

lieve the quality of her people is such that these opportunities will not be missed.

Respectfully submitted,

CANADIAN COMMITTEE

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SEATTLE, Wash. — Business Brokers, Inc. is engaging in a securities business from offices at 7118 Beacon Avenue. Officers are Wilbert E. Hamilton, President; Frances M. Sannasardo, Vice-President and Treasurer; and Eleanor Edwards, Secretary.

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OAKLAND, Calif. — Felix G. Mehan and Eric Cochrane are engaging in a securities business from offices in the First Western Building, under the firm name of Cochrane, Mehan and Ayer.

Jules Zappulla Opens

(Special to THE FINANCIAL CHRONICLE)

NORTH MIAMI, Fla.—Jules Zappulla is conducting a securities business from offices at 901 Northeast 125th Street.

Statistical Appendix

		Supply of Money: Chartered Banks Canadian Deposits* Millions $	Notes and Coin Held by Public Millions $	Total
1958	October	11,555	1,792	13,347
	November	11,531	1,807	13,338
	December	11,466	1,781	13,247
1959	January	11,465	1,755	13,220
	February	11,381	1,771	13,152
	March	11,463	1,739	13,203
	April	11,436	1,764	13,200
	May	11,456	1,815	13,271
	June	11,519	1,799	13,318
	July	11,490	1,848	13,438
	August	11,482	1,803	13,284
	September	11,353	1,785	13,138
	October	11,388	1,842	13,230
	November	11,408	1,801	13,209
	December	11,360	1,832	13,193
1960	January	11,297	1,778	13,075
	February	11,300	1,753	13,054
	March	11,273	1,772	13,045
	April	11,282	1,836	13,118
	May	11,467	1,786	13,253
	June	11,388	1,894	13,283
	July	11,414	1,882	13,296
	August	11,416	1,819	13,235
	September	11,561†	1,767	13,329
	October	11,825†	1,760	13,586

*Less total float.
†Last Wednesday in month.
SOURCE: Bank of Canada Statistical Summary.

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marketing and miscellaneous. Capital needs in this catch-all category appear rather constant.

Foreign Investments Lower

Foreign spending by American oil companies declined sharply following the outlay of several hundred million dollars to purchase Venezuelan concessions in 1957. Annual investment in Venezuela has declined sharply reflecting a 1958 increase in the corporate tax rate and an unfavorable competitive position for Venezuelan oil in world trade. Capital investment has moved elsewhere in the Free World, for example, to North Africa and Argentina. We believe foreign spending will continue for the next few years at about the 1959 rate.

Other interesting trends are evident. Dividend payments increased each year and in 1958-59 accounted for slightly over 20% of funds available, reflecting the declining need of funds for reinvestment. Much less was added to working capital in recent years compared to the 10-12% averaged in 1950-52. In 1957-59, additions amounted to 3-4% of funds available. Nevertheless, no significant deterioration in liquidity is evidenced by the reduced contribution to working capital: in 1950-52 working capital averaged $4.37 billion and the current ratio was 2.5:1; in 1957-59, the comparable figures were $6.87 billion and 2.4:1.

With respect to the sources of funds in this 10 year period tabulated in Table IV, a far smaller decline occurred in cash earnings from 1957 through 1959 ($0.44 billion) than in capital expenditures ($1.17 billion) as revealed in the earlier table on "Disposition of Funds." Reduced spending combined with rising money cost is thought responsible for the small volume of long term debt and preferred stock financing in 1959. The relatively poor demand for oil equities since 1957 held equity financing to a minimum. As a result, cash earnings comprised a larger percentage of funds available in 1959 than in any other year in the table.

Capital Outlays Static

The outlook for capital spending as outlined thus far indicates no material change from the 1959 level for several years. Figures compiled by the Department of Commerce and Securities and Exchange Commission forecast a declining trend in the latter half of 1960 which should carry over at least into the first half of 1961. Contrasted with the spending trend is a currently rising level of earnings. How long this favorable direction is maintained depends upon the general economic outlook. Barring a significant decline in economic activity in 1961, oil industry earnings have a better than even chance of increasing moderately over 1960. If business conditions continue to deteriorate well into 1961, then oil industry earnings must accordingly be revised downward. At the moment, the financial position of the major oil companies is an improving one: cash flow is increasing and capital spending is being maintained not far from the 1958 level, a year depressed by recession.

We believe that, as earnings improve importantly in the middle of this decade reflecting greater use of present capacity, the industry may initiate a greater rate of capital investment than can be internally financed. Recourse to public money markets would necessarily increase at that point. The form of financing would depend upon a variety of factors. If oil equities are then selling at depressed prices relative to asset value, earnings, and dividends as is currently evident, debt financing might prove more attractive. However, the point to be made is that a composite balance sheet of the major oil companies reveals a strong equity position and relatively little debt. Therefore, this group of companies should be able to finance in whatever manner is dictated by the condition of the money market at the time. (Table V)

This survey is general in nature and our conclusions for a group of companies cannot necessarily be applied to a single company even though the particular company may be included in these tabulations. Companies included in this study comprise only the larger corporations in the oil industry. The smallest company included had a net worth, according to the 1959 year-end balance sheet, of $43 million and an appraised value of $135 million. No attempt has been made herein to discuss the financial problems of the many smaller companies in this industry some of which face voluntary liquidation or ultimately involuntary liquidation. The unfavorable trend faced by many smaller companies was first brought to your attention in our 1958 report in a paper relating to the trend toward integration.

Our conclusions indicate that the financial strength of many large oil companies rivals that of the strongest American corporations in other industries, and the volume of oil company financing probably will not increase importantly until the mid-1960's.

Outlook for the International Oil Companies

The development of major new production capacity in North Africa and continued increases in produceability elsewhere indicates that the problem of surplus supply will persist in the free foreign oil industry for at least the next several years. The profit outlook for foreign oil operations during the first half of the 1960's no longer appears more promising

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than that of the domestic industry. Combined with the appearance of many new enterprises in the foreign sector of the oil industry, this suggests that the established international oil companies are unlikely to show volume and profit trends in their foreign operations as favorable as those experienced in the 1950's. This, at least, is the view which the investment market appears to be taking toward the situation.

Not many years ago the discovery of a great new oil province would have seen avid bidding for the shares of the companies participating in the discoveries. The generally depressed status of oil shares today, including those of the holders of the most promising acreage in Libya and Algeria, reflects the lower values now attributed to the additional foreign oil reserves. In the past year several important discoveries in North Africa have been extended by additional drilling and the existence of a major new oil source has been confirmed. Construction of export facilities has begun and shipments in volume are not far away. None of these recent developments has favorably affected stock prices for the companies involved. Oil demand growth seems to have adjusted to a lower level than experienced in the immediate postwar period, and at the same time the major producing areas of the world have substantially increased their ability to export oil. The Middle East, Venezuela and Canada are all producing less than they could and less than their governments consider satisfactory, and, in these areas, produceability could be easily expanded to significantly higher levels in a short period of time. It is widely accepted that there exists in the free world today developed capacity to produce from 6 to 8,000,000 B/D of crude in excess of 1959 consumption of 17,800,000 B/D, or a surplus capacity of one-third or more.

TABLE I

Net Income and Return on Investment

	*Oils (billions)	Return on Net Assets	Total U. S. Manufacturing† (billions)	Return on Net Assets
1959	$2.69	9.5%	$13.3	11.6%
1958	2.46	9.2	10.6	9.8
1957	3.10	12.5	12.9	12.8
1956	3.00	13.3	12.7	13.9
1955	2.67	13.1	12.4	15.0
1954	2.32	12.5	9.3	12.4
1953	2.29	13.6	8.8	12.5
1952	2.02	13.5	8.1	12.3
1951	2.09	15.2	8.7	14.4
1950	1.74	14.1	9.3	17.1

SOURCES—
*The Chase Manhattan Bank. †The First National City Bank

Many New Companies

The problems created by a greatly expanded supply in the face of a less vigorously increasing demand have been increased by the entry of many new companies into the international oil business. In addition to the numerous private companies and the semi-governmental companies, Russia has vigorously sought an enlarged market participation, and its rapidly increasing exports have added to the weight of supply. The existence of these new competitors creates more pressure on prices than was the case when eight companies, several of which had joint operating arrangements, accounted for virtually all oil entering the international markets. With so many companies now operating in the market it is no longer clear to each one that its interest is best served in all circumstances by refusing to reduce prices. The tendency toward price cutting is accentuated by the need of the newcomers to recover their exploration and development costs and the low marginal cost of a barrel of production, as well as by the political factors sometimes motivating the government enterprises.

The tanker surplus has also aggravated the price problem since very low tanker rates permit oil from any given area to compete in more distant markets. Elimination of the tanker surplus in less than four years appears unlikely.

An additional factor is the trend for major export markets to be closed to the world oil trade as local production is developed or protected. Import restrictions have severely limited the flow of foreign crude to the United States market, and from time to time Canadian producers ask similar protection to permit a higher producing rate in Western Canada. The pace of development suggests that in a few years the important Argentine market will be supplied from internal sources, and later the country may even be exporting oil. Further in the future other countries may well develop substantial oil production. In addition, in several important oil importing countries local companies have gone abroad to develop reserves to supply the home market, thus threatening to limit further the market available to the established international companies. Prominent examples of this development are seen in the activity of ENI, the Italian state oil company, in the Persian Gulf, Libya, and Tunisia; the Japanese ventures in the Persian Gulf and Indonesia; and the French efforts to assure a market for Algerian oil. An additional example of the new oil situation was seen not long ago in Standard of Indiana's proposal to the government of Thailand that the company be given exclusive rights on crude imports.

World Demand to Soar

A great deal of attention has been focused on the large annual increases expected in the world-wide oil demand. Growth in free world demand in the 1960's is forecast to average 4½% to 5½% per year, with free foreign demand growing about 7% yearly. One of the major international companies, for example, has forecast that in 1967 free world oil demand will amount to 27,500,000 B/D as compared with 17,800,000 B/D in 1959. This increase of 9,700,000 B/D over 1959 demand is greater than the highest estimates of present surplus produceability and would result in marked improvement in prices and profits were produceability to be restrained. On the other hand, produceability is also expected to increase at a very rapid rate. Indeed, it appears that by the late 1960s surplus produceability may be as great as it is today, though perhaps somewhat less in relation to production. All major oil areas are expected to continue increasing produceability, with the largest volume increases coming from the Middle East and North Africa and with the largest percentage increases appearing in the new producing areas—North Africa, Nigeria, Argentina, etc. In this situation the outlook for improvement in oil prices and profits in the foreign sector is not encouraging. North African oil will be coming into a world oil market which is already depressed. Supplies will be available to meet a demand much greater than appears likely to exist. In this situation some com-

TABLE II

Disposition of Funds

	*Capital Expenditures (billions)	%	†Dividends Paid (billions)	%	Long-Term Debt, Pfd. & Common Stocks Retired or Refunded (billions)	%	Increase in Working Capital (billions)	%	Total (billions)	%
1959	$4.47	69	$1.47	23	$0.33	5	$0.18	3	$6.45	100
1958	4.53	67	1.42	21	0.55	8	0.28	4	6.78	100
1957	5.64	73	1.41	18	0.47	6	0.23	3	7.75	100
1956	5.35	71	1.32	17	0.37	5	0.53	7	7.57	100
1955	4.08	68	1.16	20	0.34	6	0.37	6	5.95	100
1954	3.76	72	1.04	20	0.29	5	0.16	3	5.25	100
1953	3.48	68	1.02	20	0.30	6	0.31	6	5.11	100
1952	3.22	66	0.94	19	0.27	5	0.49	10	4.92	100
1951	2.62	63	0.88	21	0.17	4	0.49	12	4.16	100
1950	1.97	57	0.72	21	0.34	10	0.41	12	3.44	100

* Includes investments and advances to nonconsolidated subsidiaries.
† Includes payments to minority interests.
SOURCE: The Chase Manhattan Bank.

TABLE III

Capital Spending

(Millions of Dollars)

	1959	1958	1957	1956	1955
United States—					
Production	$2,113	$1,873	$2,294	$2,297	$2,029
Refining/Chemical	362	536	792	713	694
Other	562	564	690	614	514
Total U. S.	$3,037	$2,973	$3,776	$3,624	$3,237
Foreign	1,229	1,383	1,677	1,364	668
Total	$4,266	$4,356	$5,453	$4,988	$3,905

SOURCE: The Chase Manhattan Bank.

panies and countries will have to sacrifice something from their traditional share of sales volume if prices are not to fall further. For the established international companies volume sacrifice appears inevitable if severe price competition is to be avoided.

Growth comparable to the 7% rate of annual increase in free foreign demand generally expected is therefore not likely to be seen in the sales volume or profits of the established international oil companies. The international companies as a group seem likely to find themselves serving a decreasing share of the market as corporate newcomers to international oil, government-sponsored companies, and Russia enlarge their market participations. In 1959 free foreign production amounted to 9.6 MM B/D, of which the seven international companies accounted for 7.6 MM B/D and government companies and independents for 2.0 MM B/D. Analysis of the probable growth pattern over the next five years suggests that by 1965 the government and independent companies will have increased their production to 4.3 MM B/D out of the expected free foreign total of 13.8 MM B/D at that time. This implies growth in the free foreign production of the seven established international companies to 9.5 MM B/D, or an average annual increase of about 4%. Considering also the 3% growth rate expected in the United States, total production of the internationals, as a group, appears likely to increase about 3½% annually over the next five years, an almost negligibly higher rate of volume growth than that expected for the purely domestic oil companies. While volume growth may be somewhat greater, this advantage could be offset by the more difficult competitive conditions expected to continue in foreign markets. Results will vary widely within this group, however, and the best situated of the international companies, especially those well represented in the domestic industry, should nevertheless show relatively good profit growth over the next several years, though at a slower rate than the pre-1957 period and perhaps with more interruptions caused by competitive and political factors.

TABLE V

Sources of Employed Capital

(Dollar amounts in billions)

	Com. Stock & Surplus		Preferred —Stock—		—Total—		—Long-Term Debt— Insur. Cos.	Public	Banks & Others	—Total—	
	$	%	$	%	$	%	$	$	$	$	%
1959	28.84	85	0.20	1	4.71	14	1.33	2.31	1.07	33.75	100
1958	27.35	84	0.20	1	4.82	15	1.33	2.31	1.18	32.37	100
1957	25.49	85	0.21	1	4.46	14	1.31	1.80	1.35	30.16	100
1956	23.17	84	0.22	1	4.20	15	1.25	1.47	1.48	27.59	100
1955	20.87	85	0.21	1	3.39	14	1.20	1.32	0.87	24.47	100
1954	19.11	84	0.23	1	3.38	15	1.25	1.44	0.69	22.72	100
1953	17.22	83	0.18	1	3.28	16	1.24	1.33	0.71	20.68	100
1952	15.94	83	0.19	1	3.05	16	1.21	1.07	0.77	19.18	100
1951	14.22	84	0.15	1	2.47	15	1.00	0.74	0.73	16.84	100
1950	12.77	83	0.15	1	2.42	16	0.95	0.82	0.65	15.34	100

TABLE IV

Source of Funds

	*Cash —Earnings—		—Sale of Securities— Long-Term —Debt—		Pfd. & Com. —Stock—		Sale of Assets, etc.		—Total—	
	(billions)	%	(billions)	%	(billions)	%	(billions)	%	(billions)	%
1959	$5.88	92	$0.22	3	$0.03	‡	$0.32	5	$6.45	100
1958	5.53	82	0.91	13	0.06	1	0.28	4	6.78	100
1957	6.32	82	0.71	9	0.50	6	0.22	3	7.75	100
1956	5.86	78	1.16	15	0.06	1	0.49	6	7.57	100
1955	5.20	87	0.47	8	0.05	1	0.23	4	5.95	100
1954	4.59	88	0.34	7	0.01	‡	0.31	5	5.25	100
1953	4.38	86	0.51	10	0.01	‡	0.21	4	5.11	100
1952	3.90	79	0.70	14	0.13	3	0.19	4	4.92	100
1951	3.70	89	0.26	6	0.06	1	0.14	4	4.16	100
1950	3.07	90	0.15	4	0.01	‡	0.21	6	3.44	100

* Net income plus capital extinguishments and miscellaneous noncash charges.
‡ Less than 0.5%.

The prime beneficiaries from Libyan oil should be the newcomers to international oil, who will not find their sales from Libya offset by lower volume or lower prices in other foreign areas. These companies will be able to move very aggressively in selling whatever production they develop, and they need have little fear regarding the impact of their sales on the world oil market, at least so long as the United States is insulated from the world market by import controls and the government of Libya does not object. For these companies any sales above cost will represent net gains. Even these companies may not find the situation entirely to their liking, however. The experience of the new concession-holders in Venezuela does not suggest that one easily makes a place for himself in the world oil market. Most of the oil sold moves through the marketing systems of the international companies; the area of the market for crude oil that is open to all sellers —the government monopolies and independent refiners—is not large and is highly competitive. Expensive refining and marketing investments may be necessary to secure outlets for crude oil, as evidenced by Ohio's and Continental's recent moves in this direction.

World Prorationing Program Unlikely

An essential qualification to the conclusions above is necessary. If the various producing countries should succeed in establishing an international prorationing scheme the outlook for foreign oil profitability, particularly for the traditional international suppliers, might be materially improved. The many countries involved and the limited progress achieved to date seem to indicate the prospects for such a development are quite dim. It must also be borne in mind that prorationing could well redound to the injury of the oil companies. Certainly if the governments can cooperate to protect prices, they can also do so to increase their profit share. It is notable that Abdullah al-Tariki's statements have coupled international prorationing with the suggestion that the Saudi Arabian take from Aramco is too low and should be increased. It is probably this danger of the extension of the government's power that has led the international companies to discourage international prorationing.

Canadian Developments

The Canadian oil and natural gas scene in 1960 has been dominated by two developments. The first, is the failure of oil production to approach the levels regarded as desirable by the Borden Commission Report of July 1959 or indeed to approach the levels anticipated at the beginning of this year. The second has been the granting of export permits covering substantial amounts of gas and indicating the construction in the 1960-1961 period of major additions to Canada's gas pipe line facilities.

The second report of the Borden Royal Commission on Energy issued in July of 1959 indicated that the oil industry should take steps to increase the production of Canadian crude oil to 700,000 barrels per day by the end of 1960; failing this it suggested that the government should study the situation with a view to adopting measures designed to increase domestic oil output. The 700,000 barrels per day figure quoted by the Borden Commission was never regarded generally in the industry as a realistic objective.

At the beginning of 1960 it was thought that production in the course of the year might average 550,000 to 575,000 barrels per day and might approach 600,000 barrels per day by the end of the year. In actual fact, however, production in 1960 will likely average no more than 535,000 barrels per day of crude oil with year end production not running much in excess of this rate. Production at 535,000 barrels per day, however (excluding natural gas liquids) still represents an all time record high, comparing with only about 500,000 barrels per day in 1959. With production of natural gas liquids adding a further 27,000 barrels per day, total liquid hydro-carbon production will be about 560,000 barrels per day this year or an increase of some 8% over 1959. Contributing largely to this increase has been an increase in the export demand for Canadian crude oil of some 30,000 barrels per day, from 90,000 barrels last year to some 120,000 barrels per day in 1960.

Despite the 8% increase in production of liquid hydro-carbons, Canadian crude is now supplying only some 55% of Canadian domestic crude requirements compared with 58% in 1959. This does not represent any further encroachment of imported crude on existing markets for Canadian crude. On the other hand it reflects an increase in Canadian domestic consumption of some 4% over 1959, to approximately 860,000 barrels per day, together with the increasing utilization of imported crude in Quebec and the Atlantic provinces (to some ex-

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tent in substitution for previously imported products) and a reduction in refinery inventories, particularly in Ontario. Estimated producing capacity of the petroleum industry in Western Canada is in excess of 1,000,000 barrels per day, so that the industry in 1960 has been producing at only about 50% of capacity. This situation is the basic reason for complaint in some industry quarters.

A "National Oil Policy?"

The failure of actual crude oil production to live up to expectations has led to widespread discussion as to what steps may or should be taken by the government. The major oil companies in general are advocating a hands off policy, while many of the more vocal smaller independents advocate the adoption of some form of "National Oil Policy" involving the securing of the Montreal market (some 250,000 barrels per day) for Canadian crude oil through tariffs, quotas or some alternative government measure. It is known that the government has commissioned a full-scale study of the situation by the National Energy Board but the outcome of this study and what possible government action may result from it are still unknown. It is widely speculated, however, that the government may towards the end of 1960 take persuasive action leading to the backing out of products refined from foreign crude from the eastern Ontario area, thereby increasing the market for domestically produced crude oil. The extent of this increase would likely be limited by available refinery capacity to some 30,000 barrels per day in 1961.

Wellhead prices of Western Canadian crude oil remained stable throughout 1960. A reduction in the pipe line tariff charged by the Interprovincial pipe line to Eastern Canada effective Nov. 1, 1960 will assist Canadian crude oil in maintaining its competitive position in the Ontario market.

While controversy has raged as to whether or not the Canadian crude oil producing industry, after registering an 8% growth in 1960, can be considered to be in a depressed condition, there has been general agreement that the natural gas producing industry is entering a new period of unquestioned growth and prosperity.

Natural gas and natural gas by-products are already by far the fastest growing segment of the Canadian petroleum industry. It is probable that Western Canadian natural gas production during 1960 will total some 500,000 billion cubic feet of which about 80% or 440 billion cubic feet will be marketed, with the balance being used in the field, flared or lost. These figures compare with 1959 production of 477 billion cubic feet, of which 364 billion cubic feet were marketed, thus representing a 21% increase in marketed gas.

Export Markets Enlarged

However, the major development on the gas scene in 1960 was the granting of three important new export permits which give promise of vastly increased gas production in future years, most of it for export markets. Westcoast Transmission Co. Ltd. has received all the necessary Canadian and United States permits to enable it to export 152 million cubic feet of gas per day at Kingsgate, B. C. Alberta and Southern Gas Company (a subsidiary of Pacific Gas Transmission Company) has also received similar authority to export to the United States at the same point up to 458,750,000 cubic feet of gas per day, and has also arranged for the export near Cardston, Alberta of an additional 36 million cubic feet per day for the account of Canadian-Montana Pipe Line Company. Trans-Canada Pipe Lines Limited has received all permits necessary to enable it to export 204 million cubic feet per day at Emerson, Manitoba.

These projects, involving additional gas production of some 850 million cubic feet per day, will require the construction of major additional pipe line facilities both in Canada and the United States. The most important Canadian construction items are $95 million to be spent by The Alberta Gas Trunk Line Company Limited (a common carrier gathering system in the Province of Alberta), $36 million by Alberta Natural Gas Company (which will carry natural gas on behalf of Westcoast and Alberta and Southern from Coleman, Alberta to Kingsgate, B. C.), and $22 million by Trans-Canada Pipe Lines Limited for the extra facilities required to enable it to export gas at Emerson. Including the above amounts, together with the necessary expenditures on gas processing plants, gathering systems and the drilling of new gas wells in Western Canada, it has been estimated that the granting in 1960 of additional gas export permits will involve total capital expenditures in Western Canada over the next few years of some $500 million.

In addition to the gas export projects which were authorized in 1960, two further gas export proposals are still struggling to obtain the necessary permits. One of these is a proposal by Trans-Canada Pipe Lines Limited to export during certain months of the year 200 million cubic feet per day of interruptible gas at Niagara, Ontario. The other is a proposal by Consumers' Gas Company to export a small quantity of gas near Cornwall, Ontario, for the service of residential, commercial and industrial customers in a limited area of upper New York State. Both of these export projects have received all the necessary Canadian permits but still require authorization by the Federal Power Commission in the United States.

The Natural Gas Situation

Regulatory developments remain as the principal subject to fathom in attempting to appraise the position ad outlook for the natural gas industry.

During the year the long-awaited decision from the Federal Power Commission on the Phillips Petroleum case was issued. In this opinion the Federal Power Commission presented a very strong statement on the complete hopelessness of attempting to regulate producers of natural gas on the conventional utility rate base type of approach. The Commission's position on this subject made excellent reading. Concurrently the Commission adopted a broad program for regulating rates of independent natural gas producers on an area price basis instead of confining itself to the utility rate base method, which it found was not "workable." Nevertheless the FPC did analyze the Phillips case on the rate base approach on the basis that it had to do so because the evidence in this case was presented on a cost basis. In so doing the FPC allowed an 11% rate of return as "fair" for Phillips. After allowance for the cost of borrowed capital, the 11% rate of return on an overall basis resulted in an allowance of 12% for the common stock equity.

Actually, the Commission approached the overall rate of return by the basis of first determining what it considered to be a fair allowance on the common stock equity. Previously the examiner's decision had allowed an overall rate of return of 9¼%; Phillips had sought a return of 17% to 18%. It might appear at first throught that the Commission's findings on the subject of "fair rate of return" is rather academic if, henceforth, the Commission is to use an area price basis instead of a rate base approach; however, we probably have not seen an end to this troublesome problem.

The Commission's decision is certain to be contested in the courts. In fact, the FPC indicated that it expected its new plan to be contested on the ground that it is not lawful under a 1956 ruling by the U. S. Court of Appeals in the City of Detroit case. The FPC in that case permitted Panhandle Eastern Pipe Line to use a commodity value in pricing gas which it produced itself. The court, however, remanded the case, stating that the higher rates represented an increase above that which would result from the conventional rate base method which must be used "at least as a point of departure." In the Phillips decision the FPC attempted to cover this point by stating that the indications from numerous producer rate increase cases make it quite clear that regulation of producers on a company-by-company rate base method will, in all probability, result in higher consumer prices than we would otherwise have, and by concluding that since the cost rate base method seems almost always to produce higher rates, it appears that consumers, in most instances, will be thoroughly protected if the Commission places more reliance on existing prices than upon applicable economic principles.

Even if the FPC area price plan stands up in court, producers seeking rates higher than those embraced by the area price schedules will presumably have to prove their cases by the cost and rate base method.

Industry Reaction Mixed

Industry reaction to the FPC's area price plan for regulating producer rates has been mixed. In many quarters it is still felt that the only solution is a natural gas bill. Some observers feel that the chances for a bill are even less now that the FPC has adopted this policy because of the policy itself goes part way in accomplishing the objectives of legislation (hence the need for legislation is now less acute). In any event, confusion continues to reign and if the test for obtaining rates higher than those prescribed by the price formula is to be a 12% rate of return on common stock equity, the profit incentive for assuming the risks attendant upon the exploration for natural gas falls considerably short of that required to make this an attractive business.

In the natural gas transmission field several decisions were issued by the Federal Power Commission during the year and the results were most disappointing. The need for higher over-all rates of return to offset the increased cost of borrowed capital is acute but the Commission has not allowed compensating increases in the over-all rates of return, with a consequent squeeze on the common stockholder. The result is that the equities of pipelines most concerned with the need for higher over-all rates of return have behaved poorly in relation to public utility stocks in general.

So far as the economics of the gas industry are concerned, prospects are bright. The American Gas Association has recently issued its latest annual review and forecasts for the next several years. Summarizing from this excellent publication, the year 1959 was a year of many new records for the gas utility and pipeline industry. Sales of gas showed an increase in volume of 9.5% over the previous year and revenues from sales to ultimate consumers showed a gain of almost 11%. Proved recoverable reserves of natural gas at the end of last year aggregated some 262.2 trillion cubic feet, a new record. Looking ahead over the next decade, the AGA projects sales of gas to ultimate consumers at levels which work out to an annual growth factor of about 6% per annum. The corresponding figures for revenues from sales to ultimate consumers show an annual increase of a little over 8% per annum. These projections, in terms of both volume and revenues, are somewhat below the growth rates which have been experienced in the previous decade but they nevertheless present a highly constructive outlook.

Capital Outlays

It is currently anticipated that the gas utility and pipeline industry's construction program during the four-year period 1960-1963 will require about $8.4 billion as compared with about $6.7 billion during the preceding four years. Indications are that about 39% of these funds will be derived from internal sources, leaving $5.2 billion to be derived from the sale of new securities. Of the latter, it is estimated that about three-quarters can be expected to be obtained from debt issues and the remainder from new equity.

The Oil Industry in Petrochemicals

The petrochemical industry grew out of World War I research and achieved commercial status in 1920 as the Standard Oil Company of New Jersey undertook the production of isopropyl alcohol. During the same decade Cities Service began marketing methanol and formaldehyde synthesized from natural gas and Union Carbide developed routes to the important "building block" ethylene and its major derivatives.

A further diversification in petroleum-derived chemicals occurred in the 1930s as Shell Chemical began producing ammonia from natural gas and butyl alcohol, methyl ethyl ketone and other solvents from refinery-derived gases. It was during this period that extensive research work was begun on butadiene and the development of synthetic rubber.

The government program for the development and production of synthetic rubber during and after World War II involved a considerable number of petroleum companies which had not developed prior commercial production of petrochemicals, and this exposure undoubtedly had considerable effect in orienting many petroleum company managements toward the possibilities in petrochemical productions.

The growth of petrochemicals began accelerating very sharply around 1947 as process research findings, both in and outside of the petroleum industry, were translated to continuous large volume output of petrochemical "building blocks" (ethlyene, benzene, propylene, etc.) at very nominal costs. Other advances in chemical technology permitted conversion of these building blocks to existing major volume chemicals such as ethyl alcohol, glycerine and ethylene glycol, and to entirely new materials of commerce such as polyethylene.

The economics of petrochemicals have generally been very favorable to the rapid replacement of processes that produced the same chemical from other naturally-occurring materials. On the other hand, chemicals that could be synthesized into entirely new materials of commerce—for example, polyethylene—grew toward their ultimate potential volume more slowly, depending heavily on application research activities to pave the way.

Another major growth area for petrochemicals has come from the need to supplement the supply of chemical by-products of the steel industry — ammonia, benzene and now naphthalene.

As the output of petrochemicals grew so did the desire to share in this growth and more and more petroleum and non-petroleum companies have committed large amounts of capital to this field. The lure to the petroleum company has basically been the opportunity to upgrade petroleum to chemical products that often yield 10-15 times the revenue for a similar bulk of fuel products.

Industry Fundamentals

While it is not possible to characterize exactly the entire petrochemical field of today, certain fundamentals should be recognized: (1) the replacement of older chemical processes by petrochemicals is essentially complete; (2) the rate of creation of important new materials of commerce from petrochemicals has decreased sharply; (3) with few exceptions, petrochemical supplements to the steel industry's chemical by-products are more than adequate; (4) capacities to produce petrochemicals, both basic "building blocks" and upgraded materials are so extensive that the characteristics of a buyer's market are prevalent; (5) licensing of processes throughout the industry, in line with general petroleum practices, is becoming increasingly common and extends to many highly upgraded petrochemicals. Where such major materials as plastics once competed primarily with other materials such as steel, wood and leather, growing competition between different plastics for the same market is now becoming widespread.

The strongly entrenched producer of basic "building block" petrochemicals has apparently been able to maintain profitability by constructing increasingly larger units that can provide competitively-priced products. Other producers have found a profitable route in further upgrading of products, reaching ever closer to the ultimate consumer in a system of vertical integration that relies as heavily on marketing and merchandising ability for profit as on technical competence in processing.

Role of Specific Companies

The specific development of chemical activity by any individual oil company is obviously importantly due to factors outside of the technology of petrochemicals and includes such factors as geographical location, available capital and management orientation toward chemicals. Among the ten largest petroleum companies, a considerable range of industry position is readily apparent. (The following listing attempts only to highlight each company's operation.)

(1) *Standard Oil of New Jersey* —Produces building blocks such as ethylene, butadiene and the aromatics — upgraded products such as butyl rubber, polypropylene and various alcohols — recently began marketing passenger car tires based on butyl rubber.

(2) *Secony-Mobil Oil*—Started late in petrochemicals and is now building the world's largest ethylene plant—purely merchant output.

(3) *Gulf Oil*—A major producer of ethylene and through a joint venture with B. F. Goodrich, a major producer of SBR synthetic rubber, this joint venture operation is currently entering the polyethylene plastics business.

(4) *Texaco*—A major producer of SBR synthetic rubber through a joint venture with U. S. Rubber; through a joint venture with American Cyanamid, Texaco is a producer of upgraded chemicals based on ethylene.

(5) *Standard Oil (Ind.)* — Produces some solvents and, more recently, upgraded chemicals such as phthalic anhydride; however, this operation is limited in comparison with others.

(6) *Shell Oil* — Operations embrace an extremely wide range of basic building blocks, and upgraded chemicals importantly covering most major fields in petrochemicals: synthetic rubber, plastics, solvents, agricultural chemicals and fertilizers.

(7) *Standard Oil of California*—Produces detergent raw materials, agricultural chemicals (with consumer marketing), fertilizers and upgraded chemicals as raw materials for the plastics field.

(8) *Sinclair Oil*—Produces raw materials for polyester fibers and polypropylene; recently joined with Koppers Company to produce a raw material for other plastics.

(9) *Phillips Petroleum*—Extensive producer of basic building blocks and upgraded chemicals including polyethylene, SBR synthetic rubber, carbon black and ammonia and derivatives.

(10) *Cities Service* — This primary effort has been a joint venture with Continental Oil, in which basic building blocks are produced. The joint venture PCI (Petroleum Chemicals, Inc., now 55% owned by Cities Service) sells the building blocks and has also entered other joint-venture arrangements to produce further upgraded chemicals.

While the petrochemical operations of Standard Oil of N. J. are probably the largest *per se*, the chemical side of Shell, Standard of California, and Phillips weigh proportionately larger than in the other companies. On the other hand, Dow, Monsanto and Union Carbide each produces larger dollar amounts of petrochemicals than any petroleum company.

Seller's Market Over

The future outlook for petrochemicals definitely favors continuing rapid growth in physical output, perhaps on the order of 10-12% a year during the next five years. The outlook for profits, however, is by no means as

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Thomas, Williams & Lee

Thomas, Williams & Lee, Inc. is engaging in a securities business from offices at 80 Wall Street, New York City. Officers are Nicholas Marotta, President; William J. Garry, Treasurer; Andrew L. Aubry and Thomas F. Quinn, Vice-Presidents; and Alfred J. Gerrogari, Secretary.

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alluring as in the past "seller's" market.

In those areas where petroleum derived chemicals have eclipsed chemicals manufactured by older routes, sales will be subject to older cyclical influences, e. g. synthetic rubber and solvents. The major plastics are expected to experience further price declines before bottoming out about five years hence. Agricultural chemicals and fertilizer, although subject to the vagaries of weather, farm income and so on, are expected to be a relatively bright spot.

Vertical integration is likely to accelerate and considerably more joint ventures are expected as companies seek broader and more profitable markets.

Through new technology there should be opportunities to replace further older chemical processes (including petrochemical processes) and possibilities of creating entirely new materials of commerce of potentially large volume. Wherever such new technology can be closely held, good profits are likely to accrue. Widespread licensing of new process technology has consistently led to overcapacity and profit erosion.

Respectfully submitted,
OIL AND NATURAL GAS SECURITIES COMMITTEE

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Now Corporation

GRAND RAPIDS, Mich.—DeYoung & Company, McKay Tower, is now doing business as a corporation. Officers are Neil DeYoung, President; Robert N. DeYoung, Vice-President and Treasurer; and Carol Begerow, Secretary.

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FAYETTEVILLE, Ark. — Preferred Investments, Inc. is engaging in a securities business from offices at 30 East Mountain. Officers are W. M. Ritter, President; K. A. Ritter, Vice-President; J. W. Ritter, Secretary; and M. S. Blundell, Treasurer.

Form University Securities

STILLWATER, Okla.—University Securities, Inc. has been formed with offices at 121 West Seventh Street to engage in a securities business. Officers are Clifford Thomas, President; Paul Hieronymus, Vice-President; and Lawrence O. Hansen, Secretary-Treasurer.

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favorable side, a New York tax amendment so that in effect, in New York capital gains distributions by investment companies are now taxable as capital gains and not as income.

Industry Trends and Services

A report of 1960 would not be complete without mentioning certain other phases of investment company activities. The underwriters of shares in open-end investment companies have become identified over the years with a bewildering complex of management, sales and service organizations. Such services as plans for periodic accumulation of shares and for regular withdrawal of monies from shares held have become more widespread in 1960. There are, as you know, programs offering automatic dividend reinvestment. There has been expansion in direct selling of shares to the public through planning organizations or otherwise, stimulated, in part, by the development of the so-called contractual investment company plan.

Public participation in the stock of organizations managing and distributing investment company shares reached its peak late in 1959 and in the early months of 1960. There are now some sixteen organizations of this type whose shares are available, eight of them during the last two years.

Your Committee recommends that members of the IBA watch carefully these areas of change and expansion. To a large extent, the collective attitude of IBA members can and should have important bearing on future expansion along these lines.

During 1960 the concept of diversification and professional management, which is the foundation on which the investment company built its impressive growth, is being extended to other investment fields. The Real Estate Investment Company Act of 1960 applies the conduit principles of Subchapter M of the tax laws to Real Estate Investment Trusts. The recently passed Small Business Investment Company Act is stimulating the application of the management investment company principles to encourage the flow of venture capital to smaller and newer businesses.

An extension of the investment company concept to larger investors who are concerned under existing tax regulations with their tax liability upon the sale of individual securities is evident in the large number of recent or imminent offerings of funds which offer investors a tax-free exchange into the shares of a newly created investment company. Eight such companies are now in existence. More are on the way. And, of course, the variable annuity, which brings the insurance industry into the area of investment company operation, is now being offered in many areas. While their number and size is as yet modest, it is certainly a trend worthy of careful attention.

The investment company idea is going overseas, too. Argentina has recently passed an Investment Company Act. Most of the countries of western Europe now have or are forming investment companies. The Far East is represented by an important investment company segment in Japan and new companies are in operation or in formation in the Philippines, New Zealand and Australia.

Size and Costs

There is another area where investment companies have felt the weight of growth and size. Litigation now confronts several of the important organizations in the investment company field. The nature of these legal actions makes no claim on the assets of investment companies. They are, in large part, what is known as "derivative shareholder actions" usually questioning the reasonableness of the fees charged by investment managers and/or underwriters. These actions appear to overlook the importance of the investment results obtained for shareholders by investment companies and to focus attention upon the cost involved in obtaining these results.

What are these costs?

The 20 largest funds in 1959 show total operating costs — including management fees—on the average of 54 cents per $100 of net assets. For each $1,000 of net assets, therefore, the "cost" to shareholders in those companies was $5.40. One would presume that this would be a minimum expenditure for one seeking even only basic facts in handling one's own investments.

Education

Investment companies individually, and through their National Association, have participated in many educational projects on behalf of the investment industry generally. The Forum on Finance conducted by the Joint Committee on Education bringing 30 senior college professors for a three-week session in New York and the Annual IBA Seminar at the Wharton School in Philadelphia are examples.

In addition, of course, through the NAIC a widely diversified series of booklets and films relating to investment companies have been published and have been broadly distributed to major media of communication.

An important and continuing educational means for investment companies is the full disclosure principle that applies to the investment company industry. Regular and detailed reports, prospectuses, and other communications are designed to keep the shareholder and prospective shareholder informed.

Summary

Your Committee, in reporting the details of some of the investment company developments of 1960, believes it important to stress once again that the size and ramification of investment companies can only be ascribed to the basic soundness of broad diversification under constant and competent supervision.

We have spoken of the fact that 1960 was a year of strain and test. Perhaps what we have reported here is sufficient evidence of that statement. But did you ever stop to think what a severe and constant test it is for management in 1960 or any year to make public its results and its portfolio revisions and its current condition at least each six months and for most, quarterly. They cannot be selective, giving the results for their "best" fund, or for selected customers or trust accounts. The investment companies must stand up and be counted individually and in relation to others. And, no industry, to our knowledge, operates subject to more regulation on the federal and state level.

As the investment company industry moves forward into the 1960s, we can only reiterate that its progress will be undoubtedly of more concern to more people than ever before. As such, it will be the subject of more inquiry and study from within and from without.

It may be appropriate to quote from two well-known legislators.

Representative Eugene J. Keogh of New York, speaking before the Membership Meeting of the National Association of Investment Companies in October, 1959, stated that:

"In my judgment, the investment company makes an important contribution to the economy by providing a medium through which persons who are of moderate means can invest in the means of production and distribution and service within our country. The enlightened self interest of the investment company industry dictates a continuing surveillance of its own activities and operations to insure that they continue to be in the public interest."

And Senator Harrison Williams of New Jersey, in a speech prepared for presentation at the second NAIC Membership Meeting in October 1960 stated:

" . . . I believe it is inevitable, if you continue through the coming 20 years the service to the public which has marked the past two decades, that 1960 will indeed prove to be, in retrospect, a milestone and a threshold to greater days ahead. "One last word. I know of no representative, of either major party, who is not dedicated in principle to the free enterprise system, and who does not recognize that in our society, people engage in business for the purpose of making a profit. I would be most reluctant to see the development of limitations which would conflict with these principles. In the securities areas the principle of full disclosure has been developed to insure that investors are informed; in the investment company area, the principle of voting rights has been superimposed to insure that informed shareholders have the power to exercise control."

This review of the year 1960 will, we hope, be of help to membership in placing investment companies in their proper perspective and indicating their growing importance not only to members of the Investment Bankers Association, but to the investing public at large.

Respectfully submitted,
INVESTMENT COMPANIES COMMITTEE

Robert E. Clark, Chairman
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New York, N. Y.

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Boston, Mass.

Herbert R. Anderson
Distributors Group, Incorporated
New York, N. Y.

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Incorporated, Elizabeth, N. J.

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Massachusetts Life Fund Distributors, Inc., Boston, Mass.

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Bache & Co.
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Wellington Company, Inc.
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Robert L. Osgood
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Albert C. Purkiss
Walston & Co., Inc.
New York, N. Y.

Andrew G. C. Sage, II
Lehman Brothers
New York, N. Y.

Henry J. Simonson, Jr.
National Securities & Research Corporation, New York, N. Y.

Charles M. Werly
Putnam Fund Distributors, Inc.
Boston, Mass.

Carlton P. Wilson
Robert W. Baird & Co.,
Incorporated, Milwaukee, Wisc.

Ridge Inv. Assoc. Formed

UNION, N. J.—Ridge Investment Associates, Inc. has been formed with offices at 695 Liberty Ave. to engage in a securities business. Officers are Richard M. Chaiken, President and Treasurer; Donald F. Noonan, Vice-President and Secretary.

David Winthrop Opens

David Winthrop is engaging in a securities business from offices at 3394 Wayne Avenue, New York City, under the firm name of David Winthrop Company. Mr. Winthrop was formerly with Stryker & Brown.

Named Director

Harry C. Wood, Vice President of the investment firm of A. W. Benkert & Co., Inc., has been elected a director of the Bangor & Aroostook Corp. The corporation was formed in April of this year as a vehicle for the expansion of the Bangor & Aroostook Railroad's business activities.

With Bosworth, Sullivan

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Thomas F. Mapes has joined the staff of Bosworth, Sullivan & Co., Inc., 660 Seventeenth St., members of the New York and Midwest Stock Exchanges.

Carter, Berlind Partner

Carter, Berlind, Potoma & Weill, 37 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Melvin F. Shakun to partnership.

Harris, Upham & Co. Twenty-Five-Year Club

At its annual Twenty-Five-Year Club dinner, Harris, Upham & Co., 120 Broadway, New York City, nation-wide investment brokerage firm, added six new members to the roster of associates who have been affiliated with Harris, Upham more than a quarter of a century. They are James F. Burns, Jr., William E. Erdman, Joseph A. Dweck, Lewis Lundequist, May Schmitt and Thomas Matthews.

Form Ridge Inv. Associates

UNION, N. J.—Ridge Investment Associates, Inc., has been formed with offices at 695 Liberty Ave., to engage in a securities business. Richard Chaiken is a principal of the firm.

Eastman Dillon Branch

LONG BEACH, Calif. — Eastman Dillon, Union Securities & Co. has opened a branch office in the Security Building under the management of Montell Peck.

Three With Lundborg

SAN FRANCISCO, Calif—John B. Dottarar, Virgil F. Dove and Paul B. Kingsbury have become associated with Irving Lundborg & Co., 310 Sansome St., members of the New York and San Francisco Stock Exchanges. Mr. Dottarar and Mr. Dove were formerly with First California Co.

Edwards & Hanly to Admit

HEMPSTEAD, N. Y.—Edwards & Hanly, 100 North Franklin St., members of the New York Stock Exchange, on Jan. 1 will admit to partnership Anthony J. Shields, Mortimer W. Hanly, Michael Gargano and Stephen T. Monahan.

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under a formula in the bill if the loan were not otherwise available on equally favorable terms. If this proposed program had been in effect in 1959, about 27.9% (or over $2,000,000,000 of the municipal bonds that were sold during that year without Federal assistance would have been eligible for purchase by the Federal government under the proposed program, because they were sold at an interest rate above the rate which would have been applicable each month under the proposed Federal program). If S. 1955 had been in effect, the entire $1,000,000,000 of proposed Federal loans might simply have been substituted for financing that was done without the proposed Federal program.

S. 3471, to provide "The Standby Anti-Recession Act of 1960" (which would become operative on declaration by the President whenever seasonally adjusted unemployment (a) is more than 5% of the labor force and (b) has increased during each of six consecutive months) would have authorized $1,000,000,000 in Federal community facility loans at 2% interest with maturities up to 50 years.

Hearings were held on these bills in May, 1960, and the IBA submitted a statement opposing the adoption of these proposals.

H. R. 5944 in the House would authorize $1,000,000,000 of Federal loans to municipalities to finance community facilities for water, sewer, public hospitals or nursing homes, with maturities up to 40 years at a low interest rate determined under a formula in the bill if the financing could not be obtained from other sources on equally favorable terms. Hearings were held on this bill in 1959 and a representative of the IBA testified in opposition to the bill.

The general basis of IBA opposition to these proposals was that (a) municipalities are obtaining the financing for growing programs of construction of public facilities without the proposed Federal loans, as demonstrated by the record volume of municipal financing in 1959; (b) the proposed programs would not provide any appreciable amount of additional construction of public facilities, but would merely substitute Federal financing for private financing; and (c) it would be contrary to the basic economic and political concepts of our system of government for the Federal government through the proposed programs to take over functions of private business that are being performed at reasonable rates by private business. None of these bills were reported out of Committee.

(d) **Proposed "Mass Transportation Act of 1960" Not Adopted.** A new Federal program, known as the "Mass Transportation Act of 1960," would have been provided in S. 3278, designed to assist state and local governments and their public instrumentalities in providing mass transportation services in metropolitan areas. This program would (1) amend the section of the Federal Housing Act authorizing Federal grants for urban planning to include grants for the co-ordination of transportation systems in urban areas; (2) amend the Federal public facility loan program to authorize $100,000,000 in Federal loans at a low rate of interest determined under a formula in the bill (3⅛% during the first six months of 1960) to finance facilities and equipment for use (by operation or lease or otherwise) in mass-transit or commuter service in urban areas and to integrate and coordinate highway, bus, surface-rail, underground and other mass transportation systems in such areas, and (3) to authorized an additional $100,000,000 in loans under the present public facility loan program.

As originally introduced, this bill would have made the low interest rate proposed for mass transportation loans applicable to other public facility loans under the present program. The IBA opposed that proposal, pointing out that if such a proposal had been in effect during 1959 over 95% of the municipal bonds that were sold during that year without Federal assistance would have been eligible for purchase by the Federal government beacuse they were sold at an interest cost above the proposed rate. The bill was amended to apply the new low rate only to mass transportation loans. This bill passed the Senate on June 27, but was not reported out of Committe in the House. (A bill to extend housing laws was adopted, and it included authorization for an additional $50,000,000 of loans under the present Federal public facility loan program.)

(e) **Executive Department for Housing and Metropolitan Affairs.** S. 3292 would have provided for the establishment of a Department of Housing and Metropolitan Affairs at Cabinet level in the Executive branch of the Federal government. All functions and powers of the Housing and Home Finance Agency would be transferred to the proposed new Department. This bill, with amendments, was reported favorably in the Senate by the Senate Committee on Banking and Currency but it did not pass the Senate. While such a proposal may appear desirable to coordinate for administrative purposes all Federal functions regarding housing and metropolitan affairs, recognition of the tendency of Federal departments to expand and broaden their functions suggests that creation of such an executive department might be the first step in efforts for the Federal government to take over additional responsibilities of local governments.

Regional Group Chairmen

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Harvey J. Franklin *Merrill Lynch, Pierce, Fenner & Smith Incorporated, San Francisco*	**E. Richard Larson** *Richards, Merrill & Peterson, Inc., Spokane*	**Roscoe B. Ayers** *Cruttenden, Podesta & Co., Denver*

III

Municipal Industrial Bonds

This Commitee has repeatedly called attention to the dangers involved in the use of municipal credit to finance construction of industrial facilities to be leased to private companies. The resolution adopted by the IBA regarding such financing in 1951 was clarified and reaffirmed in a resolution adopted in 1959 and resolutions pointing out the dangers in such financing were also adopted by the Municipal Finance Officers Association and the Municipal Law Section of the American Bar Association. The use of municipal credit to finance facilities for private industrial companies endangers for all municipal bonds the tax exemption and the exemption from state and Federal securities regulation.

The statement submitted to the House Ways and Means Committee in November, 1959, by Mr. Solomon Barkin of the Textile Workers Union of America, for the panel discussion on the tax exemption for municipal bonds, included the following statements and recommendations:

"The issuance of municipal bonds to finance the building of plants for use by private enterprises is an abuse of the privilege of tax exemption which should not be countenanced by the Federal government. There is no justification for exempting interest on such municipal bonds from Federal taxation. The companies which take advantage of these bonds obtain an unfair competitive advantage at the expense of the Federal Treasury. Moreover, such companies have generally moved their plants from established locations in order to enjoy the subsidies offered by these municipalities. Consequently, they have not contributed to the general welfare but have merely transferred industrial activities from one location to another, leaving their former workers stranded in communities which are faced by the problems of adjusting to the loss of employment resulting from needless industrial migration.

"The process of industrial migration which is encouraged by municipal subsidies such as tax-exempt bond issues is a waste of valuable resources which we can ill afford in this crucial period. It is imperative that we make full use of our economic and social capital to accelerate the rate of our economic growth. We must facilitate the movement of industry where mobility is required for the achievement of higher productivity and better standards of living. But there is no excuse for subsidizing the migration of plants where the only result is the enrichment of private companies at the expense of the Federal Treasury."

* * *

"The basic reason for the exemption of interest from municipal bonds from Federal income taxation is the public purpose of the municipal government function. However, industrial development bonds are issued for a proprietary purpose, not a public purpose. Their primary objective is to enable a manufacturer to earn a larger profit in a commercial enterprise than he would otherwise be able to do. Consequently, the application of the tax exemption to such bonds is a perversion of the basic purpose of the tax law."

* * *

"In order to prevent future trading on the tax-exempt credit of municipalities we suggest that section 103 be amended to remove the tax exemption from any municipal bond issued to finance industrial plant construction. There is no justification for exempting bonds issued for a proprietary purpose from the Federal income tax."

The Supreme Court of Idaho in June, 1960 in the case of *Village* of *Moyie Springs* v. *Aurora Manufacturing Company*, declaring *unconstitutional* a 1959 Idaho Act authorizing municipal industrial revenue bonds, stated:

"The use of the name and credit of the municipality and the tax exemption, to make the bonds salable, are the devices by which the legislature has sought to accomplish the purpose of the act. It is obvious that private enterprise, not so favored, could not compete with industries operating thereunder. If the state-favored industries were successfully managed, private enterprise would of necessity be forced out, and the state, through its municipalities, would increasingly become involved in promoting, sponsoring, regulating and controlling private business, and our free enterprise economy would be replaced by socialism. The constitutions of both state and nation were founded upon a capitalistic private enterprise economy and were designed to protect and foster private property and private initiative. Socialism is as foreign to our constitutional, political and economic system as our private enterprise system is to the socialist system of Russia.

"Moreover, the tax exemption granted to industries under the act, would result in casting an additional tax burden upon the other citizens and industries, not only of the municipalities directly participating, but of the entire state.

"For all the reasons mentioned, we hold Chapter 265, Session Laws 1959, to be unconstitutional and void."

IV

Life Insurance Company Income Tax Act of 1959

Under this Act all items of investment income received by insurance companies are divided into the "policyholders' share" and the "company's share." The "policyholders' share" represents the part of the investment income which will be required to meet future claims of policyholders and beneficiaries. The policyholders' share of each item of investment income is exempt from tax. The company's share of investment income is taxable, execpt its share of tax-exempt income is also exempt from tax. During hearings on this Act in 1959, there was much controversy as to whether this pro-rating of tax-exempt income would impose tax on a portion of tax-exempt interest received by insurance companies. Therefore, a provision was added to the Act that, if it is established in any case that the Act would result in the imposition of tax on tax-exempt interest, an adjustment shall be made to the extent necessary to prevent such imposition of tax.

On Oct. 19, 1960 hearings were held on the regulations proposed by the Bureau of Internal Revenue under the Act. Numerous witnesses, including representatives of many municipal organizations, state officials and insurance companies, protested that the proposed regulations made no provision for the adjustment to prevent imposition of tax on tax-exempt income. The Treasury Department has maintained throughout that the pro-rationing formula does not impose any tax on any portion of tax-exempt income. Consequently, it appears likely that there eventually will be litigation to determine whether the pro-rationing formula imposes a tax on tax-exempt income.

V

Printing Legal Opinions on Municipal Bonds

In December, 1958 the IBA recommended that, whenever possible and practical, a copy of the complete final legal opinion should be 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. The recommended procedure was subsequently endorsed by the Municipal Finance Officers Association and by the Municipal Law Section of the American Bar Association. This recommended procedure has been widely used and has been received enthusiastically by investors and securities dealers.

The legal opinions were printed on the back of the last issues of housing authority bonds and, to give examples of only a few issues in recent weeks, the legal opinions will be printed on the back of the $35,085,000 City of Philadelphia General Obligation Bonds, the $14,000,000 Harbor Department of City of Los Angeles Bonds, the $1,717,642 City of Wichita, Kansas Bonds, the $3,000,000 Village of Bloomington, Minnesota Bonds and the $280,000 City of Roanoke, Virginia Bonds.

We appreciate the cooperation by numerous bond attorneys and municipal finance officers in carrying out the recommended procedure. We urge that a copy of the legal opinion be printed on municipal bonds in every issue where it is possible and practical, and that efforts be made to overcome minor technical difficulties rather than using them as excuses for not printing copies of legal opinions on bonds.

VI

Fundamentals of Municipal Bonds

Since the Handbook on "Fundamentals of Municipal Bonds" was published by the IBA in September, 1959, over 8,600 copies of the book have been sold. We recommend this book as an excelent tool for training new men in the municipal securities business,

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as well as an excellent guide for issuers of municipal bonds, investors and students.

In response to frequent requests for a compilation of recommendations regarding the sale of municipal bonds at public sale, the Committee presently has under consideration preparation of a pamphlet embodying recommendations on marketing municipal bonds at public sale.

There was also published by the IBA in May, 1960 a Digest of Authorized Investments and Actual Investments of State Pension Funds.

VII
Research Regarding Municipal Securities

The Research Department of the IBA has compiled considerable data regarding municipal securities and publishes periodically information that is of great value to all municipal securities dealers. The following should be particularly noted:

(a) The Weekly Summary of Federal Reserve Action. (Available to all IBA members on request.)

(b) The IBA Statistical Bulletin—A Survey of the Municipal Bond Market. (Issued quarterly.) This bulletin is mailed to all IBA members and the last four issues have included the following articles:

The Municipal Bond Market in 1959, a Year of Economic Expansion (March, 1960).

Short Cycles in Interest Rates in the Municipal Bond Market (June, 1960).

Seasonal Variations in Bond Yields (September, 1960).

Trends in School Finance (November, 1960).

VIII
Court Decisions

Attached as Appendix A is a summary of some of the principal court decisions regarding municipal financing during the past year.

Respectfully submitted,

MUNICIPAL SECURITIES COMMITTEE

Alan K. Browne, Chairman
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Wachovia Bank & Trust Co.
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Hess & McFaul
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Moroney, Beissner & Co.
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Dennis E. Murphy
The Ohio Company
Columbus, Ohio

Carl H. Ollman
Dean Witter & Co.
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Thomas J. Pendergrast
Courts & Co.
Atlanta, Ga.

Peter V. N. Philip
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Eddleman, Pollok & Fosdick, Inc., Houston, Tex.

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First National Bank & Trust Co.
Oklahoma City, Okla.

Marson B. Pratt
Estabrook & Co.
Boston, Mass.

Thomas L. Ray
Mercantile Trust Co.
St. Louis, Mo.

Gordon Reis, Jr.
Seasongood & Mayer
Cincinnati, Ohio

J. Creighton Riepe
Alex. Brown & Sons
Baltimore, Md.

Paris Scott Russell
Glore, Forgan & Co.
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Allen D. Sapp
Schmidt, Roberts & Parke
Philadelphia, Pa.

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H. J. Steele & Co.
Pittsburgh, Pa.

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Stubbs, Watkins & Lombardo, Inc., Birmingham, Ala.

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APPENDIX A

Summary of Court Decisions in 1960 of Particular Interest to the Municipal Securities Business.

ARKANSAS

In *Wayland* v. *Snapp*, 334 S.W.2d 633 (1960), a taxpayer's suit to test the validity of revenue bonds proposed to be issued for industrial development, the Arkansas court sustained the validity of the Act, holding that the sale of such bonds to finance the construction of manufacturing facilities for lease to a private corporation did not make the city a shareholder in a private corporation or constitute a loan of the city's credit. The bonds were to be serviced by rents received under the city's utility revenue account. The plant to be constructed was to be mortgaged as additional security for the bonds. Finding that the general benefit to the public was greater than the benefit to the lessee, the court held that securing and developing industry served a public purpose. In the prior case of *Williams v. Harris*, 215 Ark. 928, 224 S.W.2d9 (1949), the court had held that the pledging of utility revenues, in addition to the revenues of the facility to be constructed, was a violation of the state constitution when the purpose for which the bonds were to be issued, industrial development, was not authorized by the constitution. The court distinguished the *Williams* case on two grounds: (1) There had been an *intervening* constitutional amendment authorizing cities to issue bonds for industrial development, whereas the action taken in *Williams* had had only a statutory foundation; and (2) There had *been* a history of continual broadening by successive constitutional amendments of the powers of cities in the field of industrial development. The court reasoned that since a constitutional amendment gave the city the power to levy an additional tax to service the bonds, the use of any surplus from an existing tax must also be permissible.

DELAWARE

In *McClelland* v. *Mayor and Council of the City of Wilmington*, 159 A.2d 596 (1960), the City of Wilmington planned to construct a new dock and loading crane at the Wilmington Marine Terminal but the revenues from existing facilites were not sufficient to finance such construction. The city planned to issue revenue bonds in amounts sufficient to construct not only the desired dock and crane but also a new manufacturing plant at the terminal, and to lease the new plant to private in-