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Governors 1961-1962
Governors 1961-1962
The New President's Inaugural Address

By Curtis H. Bingham,* President-Elect, Investment Bankers Association of America, and President of Bingham, Walter & Hurry, Inc., Los Angeles, Calif.

Incoming IBA President's quick look at the ups and downs of the industry's history, approaching its 50th Anniversary in 1963, takes note of the little recognition accorded its contributions made to the economy. Looking to the future, Mr. Bingham sketches much that can be done in seizing opportunities now unfolding, in working with the SEC's broad study, and in helping the economy to overcome its problems. Particularly stresses what individual bankers themselves can do.

I am proud of the honor bestowed on me and fully aware of the responsibilities this high office entails. I am also cognizant that there were two principal considerations that resulted in my nomination: (1) Recognition of the growing importance of Southern California as a financial center; and (2) An expression of love and affection many of you hold for my wife, Mary.

The coming year of 1963 marks the 50th Anniversary of the IBA. A lot has happened in the last 50 years and you can be sure a lot will happen in the next 50 years. We are here today and each year to give our best efforts to improve our standards, solve our problems and plan for the future. And when we look at the vigorous condition of our economy, with the tremendously expanded acceptance by the public of the services we render, we can only hope that we will continue to work as effectively in the future.

I would like to read to you something I recently read. "I assume to say that the time is here when it is our duty to use every means at hand to improve our securities, to stand together as against an inviolate field for the many houses daily springing up having little or no capital, likewise experience, and, what is more dangerous, little care for what they offer beyond their ability to market and their immediate profit."

Sound familiar? That, ladies and gentlemen, was spoken by George B. Caldwell at a meeting of the IBA on Aug. 10, 1912.

The IBA was formed to promote a high standard of ethics in the securities business, protection for the public, and to be more effective in providing capital in a growing economy.

We have had our ups and downs. During the first World War our industry not only helped finance our government through the sale of 25 billion bonds, but also in contrast to the panic of 1914 it showed the American financial community fulfilled its role with confidence and imagination. In the depression years of the thirties we were "persona non grata" to the diplomats.

But here again the IBA took on a most active part in formulating new laws and regulations to restore investor confidence and encourage the flow of capital necessary for financing.

In the second World War our stock took another drop. The government listed all industries as to how essential they were to the war effort. Steel first, etc. Our industry ended up in 44th place just below the manufacture of artificial flowers. This despite the fact that our industry, and dedicated men in our industry, was largely responsible for selling the huge amounts of government bonds necessary to finance the war.

After the war our industry and the IBA really came into its own. The pent-up demand for capital had to be satisfied. Huge amounts of money were needed for municipalities, public utilities and industrial companies, large and small, to provide goods and services. We supplied it. It can justly be said our industry provides the money needed in war or peace.

Likewise, the IBA became much more active and effective in their programs. Real progress was made in many fields. Our education committees produced "Fundamentals of Investment Banking," the Wharton School In¬

and the Municipal Committee work on the problems of State Legislation, Federal Securities, and Federal Taxation have been of great credit to IBA.

How about the future? We can look ahead and see that the essential elements of popula¬tion growth and a rising standard of living are not only with us but in the entire world. The Investment Banker is faced with the opportu¬nity and responsibility of meeting our traditional needs, the needs of a rapidly changing tech¬nology, creating new companies with new discoveries but also the demands of a boroading world economy. I am confident we will do our job well.

The coming year our industry will be the subject of a broad in¬quiry by the Securities and Ex¬change Commission. Almost 30 years ago new laws were passed regulating our business. For the most part these laws were con¬structive. We welcome a review of these laws and regulations in the interest of protection for the public.

The Stock Exchanges, and the NASD have rules, regulations and codes of ethics and have made a great contribution. The great majority of our members are honest, sincere and ethical, but if our laws permit impropriety on the part of a few, they should be reviewed.

We as members of the IBA should continue our efforts of self-discipline. Each of us individually should continually remind our own firm to maintain the highest standards.

I am confident the SEC Investigation will be fair and impartial, with the full realization that our industry will continually be called on to provide huge amounts of money for a growing economy, at the same time making sure that the public, the market and everyone are protected.

In the next few years we can see a few clouds on the horizon. The stability of the dollar is threatened. We can see danger in the decline of our national virtues, thrift, self-reliance, responsibility and the spirit of risk taking for greater reward. We are witnessing Communism making strides. What are we doing about these things?

I believe that it is our personal and collective responsibility to wi¬den the public knowledge of our free enterprise system. To educate them on how that system works, what it stands for and how it has produced the highest standard of living in history. Eco¬nomics education is essential, yet neglected in our schools. Greater economic understanding is a safe¬guard against fiscal irresponsibilit¬y which destroys thrift and ini¬tiative.

You ask what can I do?

Well, all big accomplishments are the result of little jobs done by many people. Most of you are respected and influential mem¬bers of your community. Work with your School Board to see that better economic education is provided. Discuss problems with your elected representatives. Your voice will be heard. Do your friends and acquaintances un¬derstand your work as they do the doctor's or the lawyer's? Education is the most effective wea¬pon against communist propaganda and we as Investment Bankers should meet this re¬sponsibility for the preservation of our system and our country.

"We are proud of your heritage," of your country, and of the profit system. They have brought to you all the benefits of a free society where you can live and work as you please, worship as you please, and do with as you please, and do with as you please the property you have accumulated. Where else could you be so blessed?"

*President Bingham's remarks before the 55th Convention of the In¬
New Frontiersmen Imperil Our Freedom and Future

By George A. Newton, Retiring President of the Investment Bankers Association of America, and Managing Partner of G. H. Walker & Co., St. Louis, Mo.

Vigorous, candid defense of the investment banking industry against "unjustified vilification" is made by Mr. Newton on the occasion of his retirement as head of the IBA. Detailing governmental encroachment upon the economy, Mr. Newton finds singularly shocking and unnecessary government financing competition from the Federal Community Facilities Program, education and electric power proposals, and municipal industrial revenue bonds. The need to correct the twin plagues of the public's misconceptions and misunderstanding of the industry is recognized by Mr. Newton who hopes that investors will benefit from continuing efforts to educate them on investing and from maintenance of the industry's high standards. A big assist in this direction is expected from the IBA financed Wharton School study of the investment banking industry.

Welcome to the 50th Convention of the Investment Bankers Association of America. It concludes a year, during which a special effort has been made to emphasize the importance of free enterprise and private capital, for these are the answers to most of our problems, both as well as home. This is a system powered by individual initiative and based on incentive to encourage maximum performance by labor, management and capital. In the long run, the greatest rewards go to those who produce results.

The willingness of people to surrender their authority and control, in order to enjoy the opiate atmosphere of "letting someone else do it" leads only to more troublesome days ahead. The growing reliance on Washington is alarming, for concentration of too much power in the Federal Government constitutes the greatest threat to our freedom and the future.

Thus, I had thought originally, comments on these developments would be appropriate, for a grasping government worries me and I admitted, found a little nervous, at times, depending on Frontiersmen who worry about whether there will be enough work to do, and if so, whether they should spend more than 35 hours a week doing it, those who penalize fellow associates for exceeding production quotas, or strike to continue work assignments now obsolete; Frontiersmen in leadership, reluctant to assume responsibility; Frontiersmen who want investment guaranteed against risk, criticize profits of others and advocate government finance. Somehow, I find it considerably more comforting to think of the old-fashioned type of Frontiersmen, who survive because they are industrious, courageous and self-reliant.

But others have been directing attention to all this of late and by coincidence, several weeks ago, there was occasion to attend a two-day meeting of various associations where one of the sessions was devoted to discussion of "ethics in our daily lives." As the list of horrible examples "drooned" on, it occurred to me, that here was the investment banking industry, the greatest living example on the face of the earth of good ethics in our daily lives: yet an industry often maligned, monotonously made the scapegoat of others, and berated with fury, especially in election years. So popular is the sport, even Khrushchev employed the technique, when earlier this year, he is alleged to have said, "The American people want peace, but the capitalists of Wall Street push them on to war."

Why the Unjustified Vilification?

Why this unjustified vilification? Why is the backbone of free enterprise, providing the thrift with investment opportunity to share in the growth and wealth of their nation, channelled into the clutter to business and industry, so their needs may be met by the private capital, not government done. Here are thousands of men and women of various ages and experience handling, daily, millions of other people's dollars without default. For instance, take a three million share of the New York Stock Exchange and assume a price of $50 per share (I imagine it is more) you have $150 million involved. Most of the transactions have two brokers, so that makes $180 million being handed in one day, and this is the New York Stock Exchange alone. In addition, there are the other exchanges, and the over-the-counter market, including municipal bonds and governments. The magnitude is staggering.

Perhaps it may be said the industry still suffers from shadows of less noble days of years gone by, but it is the present that counts. Even the Church had its dark ages but reached the promised land by continuing to preach its Gospel. Is it not time we preach ours that each of us do something about it?

This time a year ago, it was noted that ours is an industry of integrity; that so seldom was she violated that when it did occur it was front-page news; that such publicity is long remembered and attributed to the entire industry. That, therefore, the conduct of each of us must be impeccable for to act otherwise compromises not only our associates and members of the industry, but the free enterprise system as well. Unfortunately, during the year we have been so exposed, and now we must endure crowded quarters and try to explain that others move in and seek to apply their particular brand of politics in the entire household. However, a happier thought is that the Securities and Exchange Commission has been the official body designated to inquire into the Securities Markets and their operation and although the Commission and the Industry have disagreed on frequent occasions, there has been every effort to reach a mutually satisfactory solution. Therefore, the opportunity is welcomed to see if between us there is anything that can be done to improve the operation of the Securities Markets and related practices and procedures in order for the industry to better perform its functions. Our complete cooperation can be expected to achieve this goal.

Two Continual Plagues

Fortunately, misconduct is seldom with us. The industry's established code of business conduct goes far beyond requirements of the law. No industry police itself so well. But unfortunately, there are, what I think of, as two girl friends of Misconduct, that plague us continually—Misunderstanding and Misconception. I have been told it's quite complicated to live with one unmarried woman, and so to do with three is impossible.

With respect to "misunderstanding," I recall that when I first went to St. Louis I was most impressed by our municipal man, who picked up the telephone and said, "Yes, I'll take $250,000 of them. We will underwrite a half a million ... and then he would scrabble a little something on a piece of paper. I was somewhat concerned, coming from a law office, where a flunky like myself would have worked a week on a $10,000 contract and if it had been $100,000 a partner of the firm would have been sitting beside me and for half a million the whole firm would have been in the act. So I went to our senior partner in St. Louis, who has been around the business for many years, and suggested that it might be a good idea to have a so-called memorandum, or something more elaborate in the file to avoid "misunderstandings." He put his arm around me and said, "George, we just don't do business with people who have 'misunderstandings'."

With so strict a code within the industry, it must be that we fail to get through" to the public—
fail to get our message across. So, emphasizing good training of personnel and extreme care in communicating with customers, so they are sure to understand, needs the utmost top management.

In most cases of "misunderstanding," it may be just "that" to us, but to the customer, it is generally, "I've been "ad," and that's not what I wanted.

Remedying the Public's Misconception

Misconceptions of the investment banking industry and its objectives is widespread. Few realize how essential the investment industry is to the economy, the functions it performs, or the significant part it plays in one's daily life. Two often, it is viewed akin to "legalized loan-sharking" or the people are tempted to act by rumor and myth, by listening what the J.B.A. advocates—investigate before acting. Therefore, we must be more informative, better informed ourselves, and more articulate about this great industry and free enterprise.

As ground work, the most significant step taken by the association, was last year, in authorizing the grant of $150,000 to the Wharton School to undertake a study of the investment banking industry. This culminated three years of work, considering how well might be assembled basic information, facts and figures concerning the investment banking industry. The resulting manuscript should be of great value to the public and the Government. Hopefully, it may help in the future to improve the investment banking industry, will depend in large measure on what use each of us makes of the material in developing better understanding of the industry's functions and operations and in what respects, procedures and practices, possibly can be improved by our respective firms, to better serve the customer.

Further reference, specifically to Association's position on the "General Welfare" is illustrated by the Association's position regarding industrial revenue bonds, with disfavor. Here is your Association at its best, facing up to a difficult but considering the issue on fundamentals, and reaching its conclusions as conscience and good judgment of the majority dictates regardless of possible financial loss to members. It is recognized that a few have not followed the Association's position and that increasing numbers may join their ranks; nevertheless, the Association has demonstrated the courage of its convictions and leaves to each member the choice of part it wants to play in this type of financing, with "time" and "sell" the final critic.

BAA's Stand on Federal Aid to Education

Willfulness of the Association to make its position known on this matter is evidenced by its vigorous stand opposing Federal aid to education. Although many members shared a multitude of others the apprehension of Federal invasions of that field, the Association avoided the "issues of emotion" and based its case on "insufficiency of need," using as its example the proposed program of grammar school construction for elementary and secondary schools. Government figures were reported as showing there was an immediate need for 66,000 new classrooms and that an additional 7,500 would be required to replace ones now obsolete. BAA figures, which remain unchallenged to this point out that for the past four years, the number of elementary and secondary classrooms constructed by municipalities, averaged better than 60,000 per year and than the month of January, 1961, municipalities voted more bond issue dollars for construction of elementary and secondary classrooms, than in any other month in history. Government figures supporting the balance of the program become suspect as well. Should not the entire question of need be reviewed?

Coincident with the merit of these domestic programs, is their impact on the Federal budget. Their insatiable appetite for dollars is vividly illustrated by this college housing program. Prior to 1950, this type of facility had been financed by the Federal Government. In 1950, $300,000,000 was provided for a five-year period. In 1955 there was provided for the next five-year period, approximately $1,200,000,000; and in 1960 there was provided approximately $1,200,000,000 more, but for only a four-year period. Thus, even this imagination is strained to envision the gargantuan sum that would be consumed in the general field of education. Compared with the many other demands for Government funds, can this really be considered so serious? Especially when the performance of the municipalities and private institutions has been so outstanding?

Shocking Government

Commissions

Unnecessary government spending, at its "shocking worst" has been seen under the Federal Community Facilities Loan Program, as presently administered. Here our concern is not just with "government spending," but with the "constitution" of government funds for private capital. The now publicized CHARLES W. A. financing, where bids by private capital at an interest rate of 3.945% were rejected for Federal funds at interest rates less than the Federal Government itself could borrow, stands as a sickening reminder that the context is not between alleged selfish interests of investment bankers and the public interest, but is a mortal conflict between private capital and government financing.

A struggle of similar nature and equally disturbing, is the direct competition of expanding government electricity, with that of privately-owned, taxpaying public utilities.

Thus, in opposing such proposed government programs, of which there are so many, the Investment Bankers Association is not guilty of a negative approach to modern-day problems, but is vigorously advocating the principles of free enterprise and private capital as the proven weapons of strength which have made this nation great, and which can bring victory out of the current struggle, if not mishandled or abandoned for something else of passing fancy.

Regardless of talk about social and political ideologies, the struggle is fundamentally economic. It is said, "This is a struggle for men's minds." Perhaps, but first, it is more important to fill men's stomachs. This has been the sphere of free enterprise. If an man will work intelligently, assume responsibility and have faith. Throughout history, wrong often seems so strong. Yet, through faith, and a willingness to lead, right has turned to wrong!

Where there is displayed more faith in each other, than demonstrated daily by members of this industry, as commitments, large and small, are made and carried out by word of mouth, a scribbled note, or brief memo? To those who seek to discredit this industry by reference to isolated transactions, shame on their dirty minds! No industry handles so much, so well!

As a relative newcomer to the world of investment banking, I am grateful for the heritage and tradition you have shared with me, tarnished at times by a very few, but polished ever brighter by the multitude of individuals who never forget their responsibility to serve the public as best they can. The proudest moments of my life have been this year with you. As I said about half-way through, I may get into trouble, but it's sure going to be with classy people and in places of repute.

The greatest testimonial to the character of this industry, are the women to whom its men are married. With their inspiration and example, we will achieve greater success; and perhaps, with their proven ability, to get across their point, they will teach us an effective way to "get through" to others the story of the Investment Banking Industry, and that BAA symbolizes "Integrity Before All.


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Raising the Standards of The Securities Business

By William L. Cary,
Chairman, Securities and Exchange Commission, Washington, D. C.

Investment bankers’ orientation on the SEC’s relationship with, and supervision of, the securities industry is under close scrutiny. The agency is charged with overseeing an industry that has been noted for its fraud, misrepresentation, and lack of ethical standards. The SEC is under pressure to improve the standards of the securities business.

Our view of the current state of the securities industry is that it is in a state of flux. The industry is undergoing a transformation, and the SEC is playing a crucial role in guiding this transformation.

Securities and Exchange Commission’s Role

The SEC is responsible for enforcing federal securities laws. Its role is to ensure that the securities markets operate fairly and that investors receive accurate information about the securities they purchase.

The SEC’s primary responsibilities include:

- Investigating and prosecuting securities fraud
- Registering and regulating investment advisory firms
- Overseeing the activities of broker-dealers and investment advisers
- Monitoring and regulating the activities of securities exchanges

The SEC’s work is essential to maintaining the integrity of the securities markets. It plays a critical role in protecting investors, ensuring fair and efficient markets, and promoting capital formation.

Our main concerns are:

- The need for stricter enforcement of securities laws
- The importance of ensuring accurate and timely disclosure of financial information
- The need for greater transparency in the securities markets

We believe that the SEC must continue to take strong and effective action to protect investors and ensure the integrity of the securities markets.

William L. Cary

Chairman

Securities and Exchange Commission
Underwriting Practices

We shall also review current underwriting practices. We have noted with interest the increasing use of various forms of speculative underwriting compensation, such as cash or stock for securities. We have seen in a few cases extraordinarily high commissions in cash or stock and wonder whether the taking of such compensation is consistent with just and equitable principles of trade. Also, in a few instances, we have seen that many negatives have occurred with the issuance of securities whose only business seems to be the manufacture of its securities. A disappointing board chairman told me that he asked a president what his company made, and the reply was $2 a share. What are the responsibilities of the underwriter who participates in a public distribution of securities? I know that many require for more information an issuer price to underwrite its securities than will be presented in a prospectus. Should not this type of careful study be the standard for the industry? Does anything less satisfy the objectives of the Securities Act and the Securities Exchange Act? Just as you must "know your customer," should you not "know your issuer"?

Premium Over Offering Price

In connection with our analysis of the distribution process, we shall study in depth the distribution and "after market" trading patterns of issues offered to the public for the first time. Particular attention will be paid to issues in which the first trading price of a security represents a substantial premium over its public offering price. The staff will attempt to determine what is the cause of this premium, whether it results wholly from supply and demand and from practices which are intended to generate a certain type of market reaction. Among the practices which may be analyzed are those whose effect might be to restrict artificial the floating supply of stock in an initial distribution, such as sales to insiders or preferred shareholders who agree not to resell for a given period and sales to discretionary accounts where the customer in ignorance of the immediate knowledge of the transaction. Furthermore, after-market activities which might tend to maintain or inflate prices will be reviewed. These include the requirement that a customer who buys at the offering price purchase additional shares at higher prices in the after market; open market purchases by insiders, underwriters and others for the purpose of maintaining a market; and the use of bids in the "pink sheets" to give the appearance of after market activity. The Commission will have to determine which of the foregoing activities actually are occurring with frequency and the extent to which they operate as fraudulent or deceptive practices.

ASE and Other Exchange Issues

The staff of the Commission is nearing completion of its investigation of the rules, policies and procedures of the American Stock Exchange relating to the conduct of specialists and other members. It is anticipated that the staff report in that investigation will be coordinated with a general inquiry into exchange problems. In this area of inquiry, we will take a new and comprehensive view, in light of past experience and present conditions, at certain basic questions that have been the subject of continuing concern, such as the specialist's role, trading by members, block distributions on and off the exchange, and the like. Another very important area for inquiry deals with credit restrictions on the purchase of securities. There are at present numerous gaps and inconsistencies in the margin requirements. We shall attempt to determine if there is a rational or necessary basis for allowing these to continue. At present the credit problem has been growing prominence because of the insolvency of a large factor in concern which wrongfully was lending substantial amounts of money to customers for the purchase of securities.

Mutual Fund Examination

Finally, I should like to comment briefly on investment companies. Although some may not be directly involved in this aspect of the industry, I am sure they recognize the growing impact of the mutual fund on the economy. At the outset I should like to make it clear that the Commission do not sit in any way desire to impair the effective and proper operation of mutual funds, or to question the mutual fund as an investment medium for public use in the investment, we do, however, believe that certain practices, patterns, and policies in the investment company area warrant close examination. The 50-odd law suits involving mutual funds and their affiliates focus attention inevitably on certain ways of doing business. In the course of the market study we shall analyze selling practices of mutual fund salesmen. Independent of this study, the Commission itself has been undertaking a review of investment company relations with their investment advisers, brokers and underwriters; the participation by underwriters and dealers in investment advisory fees; joint transactions between the investment company and affiliated persons; and other practices as "reciprocal business." The Investment Company Size Study undertaken at the request of the Commission by the Wharton School of Finance of the University of Pennsylvania is nearing completion and should provide useful data. The Commission will review and study all pertinent information with a view towards formulating a sound program in the investment company area.

In conclusion, I want to re-emphasize the anticipation and desire of the Commission for continuing and full industry cooperation on all the problems jointly facing us. We have a common goal—to raise the standards of the securities business.

Shifting Gears in The Canadian Economy

By Norman J. Alexander,* General Manager, James Richardson & Sons, Winnipeg, Canada, and Chairman, Canadian Committee of Investment Bankers Association of America.

Refusing to go along with his countryman's dark mood at doubt, Mr. Alexander submits Canada can cope with its critical problems. He avers the business upturn is well in progress—though still relatively unnoticed. Moreover, Mr. Alexander admits Canadians have only themselves to blame for "overbuying. . . . the Pauley Report," and declares the economy must develop its secondary industries to be competitive at home and abroad. Further, he commends the successful temporary steps pursued in what he calls "Operations Clean-Up" to help the Canadian dollar and trade, and outlines what should be done for the more permanent solutions.

I would like to comment upon certain features of Canada's economic problem and what is being done about them. The disappointing slow growth in Canada in 1960 contrasted sharply with the widespread optimism expressed at the beginning of that year. Undoubtedly, there will have been the cautious early prognostications made for 1961. There is no question now that a business upturn is well in progress in Canada, but it has not attracted too much attention.

The upturn has been largely masked by the interest that is directed to the 'worsening issues of the day' in the form of unemployment, the discount on the Canadian dollar and the building up of export surpluses which are a counterpart of the Great Britain's proposed entry in the Common Market.

Nevertheless, Canadians individually are much more concerned about Canada's economic feature than the collective planning and action in a purposive sense has been. It becomes important now in developing.

While I have to admit that economic Canada has arrived at a critical point in history, I am not prepared to concede that this critical point is dangerous and I do not in any way share the dark mood of doubt which is a feature that afflicts all too much Canadian thinking.

Stout of Heart

Canada is a Nation with a stout heart. We have the economic strength and human resources to meet and solve our knotty problems. Introspection, which can be an unhealthy attitude in both nation and individuals, will in Canada have to give way to critical analysis, constructive thinking and courageous concerted planning and leadership.

The nature and extent of Canada's resources from the first, when we exported largely furs, has led to the development of an economy that has been dependent on International markets and never more so than today. We had so much that the world wanted and there was such an outside help eager to assist us in developing these resources.

In passing, may I point out that it is crucial that we in Canada in the past decade has been direct investment in productive resources which obviously has been good for Canada and does not leave our own vulnerable to the flight of capital or difficulties in servicing it.

Today Canada is facing the competition of a rehabilitated Europe and Japan with their modern plant and lower wage scale production. We are already competing with underdeveloped nations of Africa and Asia and elsewhere that are striving lustily for their place in the sun.

Of course, we are by no means alone in fighting for markets but there are the minor aspects of the Canadian economy that make the task very difficult.

Canada's resource industries can claim an efficiency as high as that of comparable industries anywhere in the world. We can and should be competing successfully on world markets and are a world supplier of basic resource products. As such, however, we have become far too dependent on transportation and foreign markets to support dynamic industry growth such as that seen in the United States.

Must Develop Secondary Industries

If we have trapped ourselves by overbuying the arguments of the Pauley Report, we have only ourselves to blame. The long and short of it is that Canada, in order to maintain the high standard of living of which we are proud is going to have to develop our secondary industries. To do this, they too can compete domestically and in a very substantial manner on the world market.

Canadian secondary industry, there is little question, has prevailed on the Canadian dollar for a number of years has not helped. Under the circumstances it is not surprising that Canada's secondary industry has not been featured among the real growth segments of our economy.

If Canadian secondary industry can be moved into the good growth category, there is little question that we will have taken the long step toward solving the problems that threatens to aunque ominously.

Canada's resource industries such as forestry, mining, and oil and gas employ a small part of our labor force but a decade ago. Agriculture is critically important and similar absorption of labor by secondary industry has not been sufficient to take up the slack. As the increased use of labor force created by the normal population increases, it is now reaching the "war babies" that is now reaching the labor force.

In short, Canada's affairs have not been managed in a manner that has permitted the achievement of sufficient business with the rest of the world to ensure continuation of her present high standard of living. While the obvious efforts to this end have failed, there is evidence of a far greater export drive than we are maintaining. If in our domestic affairs that must be crossed to achieve this goal.

Not the least of these is the generation of an export capability by our resource industries. It has been the past has been geared to the limited home market and the accompanying curtailment of secondary and tertiary processes and productivity.

Export Agency Created by the Government

The Canadian Government at the beginning of 1961, through its Department of Commerce and Defence Industries, began a determined drive for export business. Trade commissions in various countries have been recalled to Ottawa and held long conferences with client nations. Trade commissions are now on the order of the day.

Under the Canadian government, the Canadian service people formed the Canadian Government Corporation Ltd., to finance export sales for less than foreign. Foreign capital is still needed in Canada and will be taken to the extent of paying for the firm.

A National Productivity Council has been established by the government. The Industrial Development Bank has been provided in this an additional effort. In October 1964 government trade commissions started to visit overseas markets. Tax concessions have been made to promote in the United States and Canada, and currently the government is redefined to be considering establishing a fund to underwrite industrial research.

The premium on the Canadian dollar has long been a handicap to Canadian exporters and domestic secondary industries. Steps have been taken to eliminate this handicap which is largely the result of the flow of capital into Canada on an excessive scale.

The changes in the withholding tax rates made in the Baby Budget of December, 1960, were designed to repel foreign capital from Canada thus helping to enhance special incentives to attract foreign capital and that were no longer necessary. Foreign capital is still needed in Canada and will be made welcome. The government is in the bonus for coming to Canada. When making statements, the Minister of Finance also introduced other measures in regard to export commissions and personal plans that would promote more domestic investment by Canadians.

The Canadian Dollar's Value

Probably the most dramatic development in connection with the dollar was the announcement in the June, 1961 Budget that the government intends to reduce its exchange fund to lower the external value of the Canadian dollar. This was a complete reversal of policy in that the government had claimed that such an undertaking would be far too costly.

Exchange fund figures for July to September indicate that the Canadian dollar had largely been "tainted down" to a discount as the fund actually lost U.S. dollars as it repaid the loans. However developed in a substantial way in 1961, the Canadian Government had to purchase 187 million U.S. dollars.

The number one problem observer this catalogue of moves made by the government suggests that Canada must soon be taking to satisfy pattern. Because they treat every individual aspect of our economy, they may be considered rather than a panacea or even a collective solution of remedies. It is sufficient to say that the accuracy of the observa-

tion is at the same time it is certain that there will be many constructive propositions before the political jungles of Canadian constitutionalism.

Centralization, if ever, however, can be overcome by appropriate legislation, and cannot be permitted to stand in the way. As mentioned previously, the greatest concern of our economic prospects, and great pressure is now being brought to bear upon the Federal Government for a series of national plans to achieve our economic goals. The National Development Plan is designed to meet the demands of the future.

Operation Cleanup

I would like to leave members of the IBA with the impression that Canada has started with a "new leaf" and full recovery. I would suggest that the government might be labelled "Operation Cleanup." It is a plan to adjust our affairs—cleaning up our own yard—all of which is necessary work and the more we do, more better. More and more important is the government's support.

Actually "Operation Cleanup" is being successful. It now looks like we could enjoy a number of years Canada will have a substantial increase in trade and investment. There has been a reduction in imports of capital. The GNP is going, production is increasing and the government is beginning to improve and with the result a substantial unemployment is decreasing.

The beneficial effects of "Operation Cleanup," however, are likely to subside relatively quickly. It is now considered as a necessary but temporary measure to give time to our economic development. And it is not possible at this time to undertake the kind of comprehensive operation to be successful, however, it must embody:

(1) Coordinated, determined and responsible leadership, at the highest level of authority.
(2) Co-operation and co-ordination of effort between management and labor at the two main industries of government.
(3) Co-operation and co-ordination of effort between management and labor at the two main industries of government.
(4) Co-operation and co-ordination of effort between management and labor at the two main industries of government.

It is often said that adversity stimulates maturity. Maybe that is what has happened in Canada. Certainly we have not had hardships but the modest set back that we are suffering the past five years contrast sharply in our minds with the relatively easy times of the first ten post war years.

We have suddenly come of age and now we are experiencing difficulties in our domestic affairs to meet the responsibilities that come with this new status. We are having to learn to live not only with ourselves but with other nations in a rapidly changing but mature world.

Thy Neighbor’s Dilemma
By Herbert H. Lank, President, Du Pont of Canada Limited, Montreal, Canada

Canadian industrialists’ frank-spoken address warns us not to be so naively confident in Canada’s efforts to promote its potentialities. The world is becoming increasingly aware of the importance of the industrial base of the Canadian nation, and pressure is increasing to develop more effectively the resources and industries which are so vitally necessary to Canada’s economic well-being.

The Canadian government is now in the process of formulating a comprehensive plan for industrial development. This plan, which is expected to be adopted by the Dominion government in 1960, will provide a framework for the encouragement and promotion of new industries and the expansion of existing ones. The plan will also establish a number of federal government agencies and other bodies to carry out their specific functions in the field of industrial development.

The plan is based on the principle that the government should encourage and promote new industries, but that it should not interfere with the operation of the market. It is expected that the plan will result in the creation of new jobs and the increase of the country’s industrial output, which will in turn lead to an increase in the standard of living of the people.

The plan is being implemented by the government in cooperation with the private sector, and it is expected that the private sector will contribute a large proportion of the funds needed for the development of new industries. The plan is expected to be successful, and it is believed that it will result in a significant improvement in the economic well-being of the country.

Canada’s economic future is dependent on the successful implementation of this plan. The government is committed to the success of this plan, and it is expected that it will result in a significant improvement in the economic well-being of the country.
Peace or War?

By John J. McCloy, Counsel, Milbank, Tweed, Hope & Hadley, New York, N. Y., and Member, Board of Directors, The Chase Manhattan Bank, New York, N. Y.

A new international "free world" economic organization and a wider appreciation of the world's political problems are among the problems that would bring into consideration vast complicated changes and dangerous international repercussions if they are adopted. Reviews are diverse proposals to ease our balance of payments deficits, and the difficulties of dealing with the U.S.S.R. illustrated by first-hand recollections of their disarmament diplomacy. What Mr. McCloy outlines is the U.S. following, somewhat, Britain's footsteps in joining or altering the "free world" membership of the pioneering E.E.C. This stop, he says, is what is needed to—and can easily be—done in a (possibly) small (quite small) mass which before long will seriously mount their economic challenge.

I have had some difficulty in selecting a subject which seemed appropriate for a group of investment bankers. Perhaps it is because there are so many problems in this country whose determination afflicts values or investment that it is difficult to single out any particular one. I suppose a number of them will be discussed at talks and panels during the course of this meeting, and I am sure there are few, if any, to which I could contribute any new thinking.

Recently I have been concentrating on what I suppose might be called the problem of peace and war and its relation to disarmament. It is so absorbing a problem that it is rather difficult to shift one's thinking to anything else. On the surface this may seem to be somewhat far removed from the consideration of security exchange regulations or marketing problems in the selling of securities, and yet it is hard to think of any aspect of this problem which could not deeply affect any business, including investment banking.

Let us say, for example, that the Soviets suddenly accepted a far-reaching disarmament program under principles which we are committed. The effect that it would have on your economy could be quite drastic. What would it do to some of our growth stocks, the airplane manufacturers and many modern producers would be very marked. How much of our industry is today related to defense, directly or indirectly? I have seen a number of figures—figures depend largely upon what you mean by the word "indirectly." Suppose we say 20% or even 25%, whatever the percentage is—we all know our defense activity has become an enormous factor in our economy and a considerable proportion of our productive plant. If put into effect, would require some major readjustments. They are adjustments which could be made, but would not be minor. So should the aid program was suddenly abandoned, we would have to make the readjustments and cope with its immediate and its long-term effects. We do not bear much about its success, but I could not do much to analyze the facts to which it would have on our economic status.

And this leads me to ask what effect the political situation in which we find ourselves has upon our balance of payments problem, of which we hear so much today. I think this reference to balance of payments may be a good starting point for me to stress my main thesis, namely, the necessity of a wider appreciation of the world's political problems to the part of those in positions of economic responsibility in this country. There was and is quite long since we had a balance of payments problem, certain classical, homespun remedies could rather readily be applied with the certainty of almost immediate relief. If there was no pain involved, it was largely destitute and such steps could be taken without serious international repercussions. Things have changed, however.

Payments Deficit at "Serious Proportions"

After a short period when our accounts were roughly in balance, we are again faced with a deficit of serious proportions. We know that we cannot long stand a 2% or 3 billion deficit in those balances without serious impairment of our currency, and the impairment of our currency would have a profound effect on our security and that of the Free World. The fact is, however, that we can't permit the deficit to persist. If we let it go on, we enjoy the freedom of action to deal with them that the Free World has had. We must apply a ban on foreign investments, if we shut off all aid if we did not permit foreign travel; if we entered a number of our banks and tariff barriers; if we closed down on foreign investments; if we pay our obligations abroad to the West European and cut our military expenditures, we would not have a balance of payments problem, but we would have some other problems so serious that we might even seek a little improvement in the situation.

There has been a disposition on the part of some critics abroad to take us to task for our failure to apply some of these measures and point to their own discipline in the face of similar difficulties. Some of the critics may be justified, but more often I believe it falls to take into account the far greater complications we face, as well as the facts that there has been a large scale aid program, which we have helped and even enabled them to take the measures which brought about their improved position.

Our task of balancing payments is immmeasurably complicated by political realities. It is not easy to take much comfort in the thought that because war has now become more remote, we might escape the evils of war. Other causes are more balance of fear; they will require a great deal of statesmanship and to be that it is best that we are not seen as a large number of people, some including in Europe, if they are suddenly prived of our markets and capital, and were at the time called upon to take up large shares of economic aid to under-developed countries and face their overall military responsialties, we would have to face a recurrence of new aid.

U. S. Must Move Cautiously

Constant vigilance must be maintained to keep our currency strong and the speed with which it is to be done done as quickly as possible. I know that many people have thoughtful decision from us than from any other nation to avoid the rather heavy costs of the Free World leadership. To put it another way, every dollar of aid which does not mean that monetary adjustments to ars are more than monetary adjustments to the military side of the operation. If we well may involve a rather agonizing response for the economic integration of Europe and our economic ties with the others can choose, it will have to be done as quickly as possible. This is the greatest danger and the danger to our security and that of the Free World is not to be done in a manner that is unwise.

Some time ago I tried to develop this question of our interna¬tional payments position in detail there were some regional group of investments and, if we are able to do this, it will help to repeat the effort at this time. The situation is that since their 1949 situation has become even more challenging, more serious, and we are forced to do it in this field may be more difficult but it is possible as large which is new on the ground between the Free World and the Free World. And I do believe that some of our other colleagues have become more conscious of this fact and the mutuality of all of our problems is becoming better than that it has been in the past. The Monetary Fund meeting has been very helpful and it is my mind that the situation is serious and the issue is clear from settled.

What we all know is that the Soviets and we ourselves possess between us the means by which we could bring about a lasting peace between us, and that we know it to an end—an end from which mankind will have gained the better part of a century to re¬cover. After all, under our economic system, mankind has achieved the doubtful and somewhat uncommon goal of almost the ultimate victory. The fact could be the starting point towards the elimination of some means of settling our international disputes, or we would become a starting point of venture to say that to no one really knows what the sequence of man's possession of these weapons may be, but my belief is that the assurance of war will not follow unless there is a real danger of existence. Mankind has too long a time. At this moment of peace we know how to take much comfort in the thought that because war has now become more remote, we might escape the evils of war. Other causes are more balance of fear; they will require a great deal of statesmanship and to be that it is best that we are not seen as a large number of people, some including in Europe, if they are suddenly prived of our markets and capital, and were at the time called upon to take up large shares of economic aid to under-developed countries and face their overall military responsialties, we would have to face a recurrence of new aid.

World Attitudes Not Comforting

We also know that the world is torn by as much effort as we have experienced in modern times. Perhaps we can be optimistic that war is not imminent, but the fact that we did not explode one quite large that in this last line of tests, he did not permit us to get through without a doubt we could explode a 100 megaton bomb ourselves if we thought it served our purposes. And is safe to say that we would not really not take very many of them to bring about an entirely new and very much simplified order of things in what would be called a new world.

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Dilemma Confronting U. S. Regarding Latin America

By Dr. Milton S. Eisenhower, President, Johns Hopkins University.

Depiction of grave national dilemma confronting us with respect to our Latin American responsibilities reflects much of Dr. Eisenhower's first-hand study as Presidential Special Ambassador and Personal Representative to Latin American countries. Dr. Eisenhower finds we must quickly increase our aid to that area but observes that the needed, and committed, amount of $50 billion in the next 10 years will not meet the problem, and that even if it were to be met it would be only in the form of public credits. Noting that past similar aid has not paid off, and that we now have serious international debt problems which will not be amicably settled, Dr. Eisenhower concludes in the developed free world:(2) keep our export costs down and (3) restrict our foreign aid to the imperative, and, if need be, set up a priority as to which programs we must aid the most and concentrate it there.

Investment bankers, as leading industrial counselors and ministers, must be deeply concerned, as I am, with trends in international finance which threaten the soundness of our currency at the very time that world debts and international burdens lie upon us. In the present situation we are compelled to make choices, none of which appear to be attractive. I want to discuss this national dilemma in relation to our responsibilities in one major area of the world—Latin America.

I am sure we all recognize the exacting interdependence of the United States and the countries of Latin America. Our private and public investments in these countries exceed $1 billion and, save in Cuba where unblemished robbery has replaced nationalization and decadency, our investments earn a fair return. Trade with Latin America—amounting to $4 billion a year each way—exceeds that with Europe, and with all other areas of the world, except Canada. We do not buy from Latin America a vast array of primary commodities which are indispensable to the operation of our immense industrial and business complex, and we do not sell to Latin America manufactured and processed goods which will enable our own enterprises to benefit all the more from the production in the United States.

In World War II the revolutionary threat has been growing in Latin America with bewildering speed. We in the United States have tried as best we could to be constructive in our aid to Latin America. We have spread the blessings of the good life. We have fed the hungry with public credits. We have increased education, improved medical facilities, and to a degree prepared to go into governmental, industrial, business and other undertakings. We have helped small countries to get up. In the past eight years, we have become more aware of our public investment in Latin America, as compared to any other part of the world.

Now, under the 1960 Act of Congress, if a government were to make a loan to a Latin country, it would have to be with the permission of the Senate. This does not mean that we are in any way changing our policy regarding Latin America; it does mean that the United States is more fully informing itself about what it is doing.

Revolt Against Poverty

Unfortunately, most of the nations of Latin America have not progressed economically as rapidly as we might wish. Indeed, we are faced with the problem of poverty on a general scale in Latin America, and we are pressing on in this field with all the resources at our disposal. In the United States today, and particularly in the rural areas, there is a serious difficulty in the field of food and in the demand for payment of wages.

Exports of goods and services from the United States continue to exceed $7 to $8 billion a year. But support of our own credits has been, and will be, analyzed and military and economic aid to other countries in the United States. Latin America and a steady outflow of private investment capital have overcome the problem. Until recently we have had a large net outflow of capital on the balance each year. Between 1929 and 1941 we had gold reserves declined by $5.4 billion. In the same period, foreign claims against Latin America increased by $47 billion. Today, foreign claims exceed our total gold supply by more than $2 billion. Since more than $1 billion in gold must by law be held in reserve as backing for our currency, the actual deficiency in our gold supply, to settle international accounts, has reached more than $13 billion and hence seems to become greater.

How long the United States can tolerate this situation without encountering financial difficulties, which would be disastrous both domestically and throughout the free world, surely merits careful consideration.

Dillon's Policy

Secretary Dillon, testifying before the Senate Committee on Appropriations shortly after our Punts del Este commitment for greater aid to Latin America said: "I wish to emphasize that it is in the form in which aid is extended,... that is most relevant to this question (of international balances). Under the new program, as at present, we will continue to place primary emphasis on the purchase of United States goods and services by aid recipients. The preponderance of goods purchased with aid is made possible by (1) a greater import of United States goods which are accompanied by American exports, have no adverse impact on our balance of payments. Our objective will be to reserve to Latin America the bulk of the available funds for procurement of United States goods and services.

It must be noted, however, that the policy enunciated by Secretary Dillon has been in effect for several years and has left us with the annual imbalance I have mentioned. It follows that greater aid to Latin America or any other external area will enhance the problem.

The opposite phase of our dilemma is that we must quickly increase aid to Latin America to meet the rapidly growing threat of revolution. We see dramatic evidence of political instability today in Ecuador, Northern Brazil, Peru, Panama, El Salvador, and other countries. The threat of revolution has been made far more dangerous by the spread of Castro-communism in Central and South America.

Most nations in the United States are mystified by the support which the eccentric, flamboyant dictators, Castro has attained throughout the hemisphere, while we view his inhumanity as being worse than that of Trujillo, Peron, and Persas. If we are to exercise the degree of patience required of us, we must be to effective in keeping Latin America within the fold of freedom-loving nations. It is imperative that we understand why this divergence of view has developed.

The Castro Story

In the tumultuous months following Castro's victory as a revolutionary leader, and the dispossessing and subversion of his enemies emerged: First, was Cuba at last to enjoy democratic freedom, or to suffer still another tyranny, even worse than that imposed by Castro, or to revert to the conditions of the past? Second, if tyranny were the unalterable fate of the people, would it be preferable to a Castro revolution or to an oligarchy? The whole hemisphere is now faced with this problem. If we, as a people, must choose between the two, it will have to be determined by subversion of the extrareagional power.

Third, would threatened manipulations of property be handled in harmony with the revolutionary custom or would they be outright illegal? And, fourth, would Castro, whether as democratic leader or dictator, proceed with promised social reforms which initially had gained him the support of Cubans and of the hemisphere generally? As events unfolded, most persons in the United States gave primary attention to the first three of these issues. Most peculiarity in Latin America were more concerned with the fourth, the promise of social reforms.

Consequently, our attitude became deeply and unanimously antagonistic. That in Latin America became ambivalent, though commonly sympathetic.

This divergence in attitude was due to a sharp change in our thinking, not so much in itself. At the height of the revolutionary struggle, and even for a short time after Castro seized power, he was a hero in Cuba, in Latin America, in the United States—indeed, in all the free world. This was a natural reaction of decent people who were disgusted with the brutality of Batista and deluded by Castro's repeated promises. After the initial support, the constitution which would become the supreme law of the land. He guaranteed freedom of information, which would become a truism, and general elections a year after the defeat of Batista. His propaganda continuously called for "a free and democratic Cuba dedicated to social and economic justice."

But, strictly speaking, he came to power, Castro began to reveal such a degree of power.

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Volume 194 Number 6209 . . . The Commercial and Financial Chronicle
Growing Role of the SBICs

By Phil David Fise, Department Administrator of the Small Business Administration, Washington, D.C.

Investment bankers are brought up to date on the growth and impact of SBICs since their statutory inception in 1958, and invited to participate more fully in this financing medium. SBICs are now engaged in new number 425 companies, with nearly $450 million in capital and $100 million investment potential, which include 42 that have gone public in the total amount of $300 million with another 17 SBICs currently in registration for a total of $80 million more. Described is the investor appeal these companies have, their contribution to the economy's growth, the participatory role of commercial banks, and the growing awareness of all this in the investment banking field.

Although a few years ago there were few, I'm sure, who ever visualized the government's being in the investment banking business as an active partner, we are very much in it today through the Small Business Investment Company program.

For those who are not fully acquainted with SBICs, perhaps I should describe this program in brief. In 1958 the Congress, after completion of a study by the Federal Reserve which established that long-term funds for small business were not easily available, passed a law authorizing the Small Business Administration to license, supervise and, in certain cases, help finance small business investment companies which would serve as sources of equity capital and long-term loans to small businesses.

There have been sources of equity capital available to larger businesses almost since the beginning of our country. And there have always been individuals and businesses ready to invest in promising situations.

What the SBIC has done is to institutionalize the procurement of venture capital for small business and make the rules open for public scrutiny very much as investment bankers and major stock exchanges have done for bigger businesses.

42 Gone "Public"

As proof that the principal aim has a good running start in the proper direction, I cite the fact that as of November there are nearly 425 small business investment companies in business, with nearly $450 million in capital and with investment potential in small business of over $1 billion.

This capital has always existed, but it has never before been concentrated into even a dozen groups to say nothing of 425 companies.

I might add that the SBIC program has had direct benefit to some investment bankers as well as small businessmen, the facts on which I plan to touch. Because 42 of these SBICs are known that their initial funds were inadequate to meet the needs which they saw coming up, promptly went "public" through underwritings conducted by quite a few members of the IBED.

The total amount of their public sales was more than $300 million while another 17 SBICs are in registration with the SEC for another $80 million each.

This represents a fair bit of business for the investment banking business.

If the volume of sales were the only criterion by which to judge the SBIC, it would be less impressive in comparison to underwritings in other fields.

However, it is the awareness displayed by people in the investment banking field in recognizing that the SBIC has an important role which is deserving of attention.

Ordinarily it takes quite a bit of time for reasonably widespread appreciation of the potentialities of a new investment medium. In this case, the investment banking fraternity took a good, hard look at SBICs and their principals—many of whom, I might add, can be found in any financial "Who's Who"—and decided quickly they liked what they saw and that the new investment medium had worth.

It had worth not only as an underwriting venture, it has worth now as a profit-making investment medium which will show big appreciations in the future, the degree of which will depend upon the management personnel of each SBIC.

Currently, these four SBICs which are publicly held are selling at prices averaging 118% of book value.

While this ratio can be subjected to numerous interpretations by dozens of securities analysts, it is nevertheless an indication of public acceptance of SBICs after only a year—or slightly more for very few companies—as an investment medium.

Not "Out of Vogue"

And, I might add, it contradicts the considerable degree the recent statement in Barron's editorial that SBICs are "out of vogue" in Wall Street.

But regardless of criticism by Barron's or any other publication—it is an established fact that since the first year of this fiscal year, 27 SBICs have had successful public sales of stock for nearly $210 million, $132 million of which was sold in July, August and September of this year, and that does not include the 17 now in registration for another $80 million.

It ought to be noted that more than 60 SBICs are ready to accept their applications for registration among other registrants—80, and more than 100 for some of the major in the country.

A good example of what this public acceptance through securities underwritings—has done is shown in a single instance.

One SBIC, backed by a small group of banks among other stockholders—sought the public sale of stock jointly through an underwriting firm with limited experience and reputation, and through a hastily set up organization composed mainly of the commercial banks listed among the stockholders.

The underwriting firm undertook the sale on a "best efforts" basis.

The net result at the end of a year was that less than $200,000 in stock had been sold, less than a good underwriter could place in a half day.

Convinced finally that commercial banks are not equipped to do such projects, and after settling with the original underwriter, the SBIC began anew. With a complete reorganization and by enlisting the help of an established investment banking firm, the SBIC was able to complete a successful venture, and is having a $850 million in capital which has the promise of reaching $1 billion in a few years.

Presently, there are exist in existence 425 SBICs with total capital available or about to be available for investment in small business amounting to nearly $200 million. In addition to this sum, they have a borrowing potential from the SBA of 50% of that figure, $250 million, or $750 million altogether. And this is exclusive of the commercial borrowing power from outside sources.

This growth is buttressed further by another $300 proposals either ready for licensing or un-

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der review for another $120 million.

Many of these will be going public as the awareness grows that to maintain an adequate portfolio requires more than the minimum capital with which so many started in the early stages of the program.

Let's go back in history a bit.

How Did This Phenomenon, the SBIC, Come About?

From the Federal Reserve study mentioned earlier, which was the synthesis of findings by Congressional groupings holding hearings across the country for more than three years, the Small Business Investment Act of 1956 was born, and with it the SBIC.

In the beginning there were those seeking to form SBICs who lacked investment knowledge and who saw in the program possibilities which they couldn't properly evaluate.

But, there were those also who sensed immediately what an SBIC could become; analyzed its favorable tax climate, saw the tremendous need and moved into high gear.

I cite an instance of the kind of situation best suited to the SBIC: A midwestern electronic engineer with a background in his field and author of numerous papers on electronics, started his own firm. It consisted of a full time engineer, a secretary and a part-time help.

Because he had helped develop instrument systems for guided missiles in the Naval Research Laboratory, he was able to obtain a consulting contract from a nearby Air Force Base. This was followed by development contracts with two commercial firms.

At the end of his first year he showed a $5,000 net profit.

In the following year he obtained contracts with three major missile manufacturers for the development of signal processing equipment and a number of other telemetering equipment.

As a result of these contracts the firm developed a proprietary line of telemetering components and began the sale of these items. Sales for that year were $200,000, a 400% increase, and he showed an after-tax profit of $24,000.

The following year brought growth and excellent potential but his individual resources were strained. Payments were running 90 days slow. He passed his salary for three months and essential equipment was needed.

A bank which earlier had advanced $25,000 would advance no more. He needed equity money. He retired to SBIC, studied his application for funds, saw the potential and the bank would consider as an asset.

An SBIC Entered the Picture

His annual sales of $700,000 were 35% higher than the previous year; his net profits were double, even after the big percentage bite taken by corporate income tax. His backlog stood at $1 million, yet, he couldn't pay his creditors and had a $36,000 liability to the bank made due in March.

His biggest single backlog was a $400,000 order for telephone facsimile receivers and the others were for telemetering equipment.

Working with his accountants, he made a financial analysis of his position and called in an underwriter's representative.

Then the engineer contacted an SBIC.

Eventually, he worked out an arrangement with two SBICs for $1,111,111 in capitalization whereby he would set aside $5,000 shares comprising 23% of the stock, for a subscription at $4.36 a share, while the selling price would be $6 a share.

The usual agreements regarding possible public sale followed and the electronics business was on its feet. The SBICs had adequate board representation and were satisfied.

I won't go into all the details, but that business has continued to grow tremendously and the conversion rights of the SBICs would show a realizable profit of $90,000.

However, at the rate the conversion rights they held fell, one could wait for bigger profits.

Lesson for Underwriters

This may seem a long detailed and drawn-out story, but I cited it because it points out a lesson to be studied.

An investment banking firm may or may not be interested in Regulation A financing. There are advantages and disadvantages to such financing.

But mark you, if you will go to the trouble of investigating the need and profit potential of more than 150,000 of the Nation's small businesses — and by small businesses I mean those manufacturing and other businesses with assets of $250,000 or upward — you will, I am sure, decide it's time you got in on a tremendous potential.

Let me chart such a possibility.

Let's suppose the SBICs made the arrangements I've cited—previ¬ously—and they are true except as to geographical location and manufacturing category. Again, let's suppose the electronics company grew to the point — as this one did — where it was ready for a public offering.

It would then need a reputable underwriting house to handle its financial arrangements for such an offering.

And your firm, like others, would be attracted by your reputation, your business would be a strong one, you might get it. You might not.

Now let's suppose on the other hand that 10 of the SBICs which did supply the needed capital was willing to offer its stock to your underwriting firm.

Where would that business go for financing?

It wouldn't go anywhere. It would so have the confidence in your affiliate SBIC that it would easily be sold to your parent firm for the funds it needed.

This is a fanciful idea. Three participant underwriters and others of the SBICs which did supply the needed capital was decided to be incorporated. They would show a realizable profit of $90,000.

However, at the rate the conversion rights they held fell, one could wait for bigger profits.

The same enviable spot the Yankees do in the major leagues. It doesn't take a Casey Stengel to know that if you can get one Tony Kubek out of 16 rookies on the Richmond team, you have a big profit ring.

Nor does it take a senior partner in Lehman Brothers to know that one small business which is brought to the point where it has a successful public sale of stock, will make up for the 10 or more in the subsidiary category which show merely taxable profits.

"Here to Stay"

The SBIC is here to stay. What use is made of it by the investment banking fraternity is their decision to make.

I point out only that it is now a tested medium (In their first eight months of the program SBICs showed a 12.5% return on invested capital) and can produce profits for those with know-how.

There is no place in the program for charlatans and those who set up arrangements whereby the first will be punished and the second will wither.

For these who can view the potential of thousands of businesses needing—and lacking—the financial guidance without which success cannot be attained, a rich goal lies ahead.

It will be rich for investment bankers as the operator of an SBIC—those tax benefits are not to be ignored—and of real advantage to the businesses to be aided.

Beyond this, in an appeal to both curiously and patriotism, I point to what adequate financing for small businesses can do to help expand the potential might of our Nation.

We live in a period where only the threat of our potential lies between us and attack by an enemy who would destroy us.

If we do not keep pace we'll be a vulnerable target for attack.

For forging ahead, we can achieve such potential that no enemy will dare attempt a frontal attack, lest one segment remain alive to thrive, regain power and restore us to the point where we loom against challenge—and overcome through sheer will—the attacker who sought to destroy us.

The challenge is the investment banker's—to expand our Nation's businesses. So is the destiny.
The Investment Banker and Merchant Marine Financing

By Leonard F. Nichols, Comptroller and Member, Maritime Subsidy Board, Maritime Administration, U. S. Dept. of Commerce.

Facts and figures of the development and present state of U. S. Government Insured Merchant Marine Bonds are a prediction made of a growing future for and greater acceptance of these offerings. Mr. Nichols terms these issues as quasi-Government bonds; dedicates their present higher basis points differential over comparable securities; and espies they should now not yield at offering more than 8 basis points more than long term governments. He foresees their being priced somewhere between long term governments and AAA corporates in the immediate future, and ultimately more closely approximating long-term governments. Investment bankers are advised to develop a supply of capital at reasonable rates and are warned not to adopt an attitude of relying solely upon Title XI insurance but to regard such transactions initially as a commercial venture and lastly as a government guaranteed project.

On behalf of the Maritime Administration, U. S. Department of Commerce, I am indeed appreciative of this opportunity to discuss with members of the IRA the role of private investment in the replacement program of the American Merchant Marine. It is my sincere hope that as a result of this paper there will develop a better understanding of the objectives of this program, a clearer perception of the means being utilized in achieving its objectives, and the creation of an awareness of the program on the part of many present.

The importance of ship replacement to the American Merchant Marine makes the continued success of the program imperative to the nation. An adequate American merchant fleet is deemed essential to the maintenance of our foreign trade and commerce, vital to the stability of the Free World.

The very outset, permit me to recognize the constructive professional advice and service rendered over the past several years by a number of highly respected individuals of the banking and investment industry. Were it not for their support, and personal advice to those of us in the Maritime Administration who are responsible for administering this program, it is doubtful that we would have progressed to our present posture.

In order to adequately appreciate the ultimate benefits accruing from the financing programs to be discussed, it would appear helpful to bring into focus the greater national interests being served by these programs both directly and indirectly. An appreciation of these interests should lead to the conclusion that the American Merchant Marine is a dynamic force at work daily influencing our economy, and our economic trade relations with other nations of the world.

Not since Colonial days have American economic strength and security been so dependent on ties with the outside world, and the principal commercial link in these ties is provided by our American Merchant Marine. Fast, efficient merchant ships are essential not only to our military activities but to the economic strength as well, and this factor is highly significant in maintaining our position as the leading power in the Free World.

Generates Billions of Income

Research conducted by the Committee of American Steamship Lines indicates that our merchant marine employs more than 200,000 in seafaring, shoreside and shipbuilding activities, and contributes several billion dollars annually to the economy, is an important customer of American farms and business, and is a substantial taxpaying group.

Our foreign trade is directly dependent on the availability of its shipping facilities. Under adequate conditions, more than 85% of our merchant ships are owned or chartered to U. S. companies and the claim is made that the presence of the American Merchant Marine has not only contributed to our exports but will encourage the increased utilization of the American Merchant Marine. (1) Unworkable Interest provisions. (2) Requirements that lenders take foreclosure action and accept government securities in lieu of cash in payment of insurance and (3) Provisions excluding construction loans on ships to be used for private financing of new ship construction. The amendment was the compilation of the efforts of the shipping industry and lending institutions working in close collaboration with the executive and legislative branches of the government. This enactment, as well as subsequent amendments, recognized the salient ship replacement program facing the American Merchant Marine and the importance of providing private rather than government financing for such program—thereby conserving public funds and avoiding the necessity for substantial appropriation of government funds. Since 1953 the insurance by the United States of mortgages and loans under Title XI has been the government policy for financing ship building and national reconditioning.

The government agencies generally provide the insurance of loans to provide funds during construction of up to 75% of the actual cost of vessels as determined by the Secretary of Commerce.
Report of IBA Foreign Investment Committee

Arthur L. Wadsworth, Vice-President of Dillon, Read & Co., Inc., New York City, in his capacity as Chairman of the Foreign Investment Committee, presented the following Report to the Committee:

INTRODUCTION

In our report last year we reviewed the development of foreign investment by United States investment bankers and investors, covering the period commencing with the end of World War II through 1960. In that report we included certain tabulations which are brought up-to-date in this report in Appendices A and B. We shall not repeat here the historical information included in last year's report, but we do wish to reconfirm the conclusions which we set forth in that report.*

In particular, in view of the continuing concern about our balance of payments position, we want to repeat one basic conclusion from last year's report as follows:

"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, that in private foreign investment 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."

Activities of the Committee

During the year the Committee held two meetings including one at the Spring Meeting of the I.B.A. last May. A sub-committee spent a day in Washington, D.C. this fall conferring with the principal governmental agencies and international institutions which are concerned with foreign investment. The Agenda of these meetings is set forth in Appendix C and certain pertinent information obtained at these meetings is incorporated in this report.

Your chairman and several members of the committee attended the 1961 Annual Meeting in Vienna of The World Bank, the International Monetary Fund and the International Finance Corporation. This was one of the most impressive meetings your chairman has ever attended. Seventy-two members were represented by over four hundred banks, including in most cases the principal financial officer of the respective member governments. In addition, approximately 300 "special guests" representing many of the leading private banking firms in the free world attended the meetings. At the meetings this year the greatest interest centered on monetary problems and policies, including proposals by the International Monetary Fund to increase, if necessary, the resources at its disposal by special standby credit arrangements with the main industrial countries.

The formal meetings included a number of stimulating addresses which were widely reported in the financial press. Mr. Robert Garner's final report as President of The International Finance Corporation was outstanding for his frankness in advising the developing countries that management and technical ability are even more important than money in achieving economic development.

Equally important were the opportunities afforded for private discussions of mutual problems in the field of international finance between government representatives and the private bankers present.

This meeting was a striking example of the success achieved by these international institutions since their creation after World War II and a tribute to the permanent position which they occupy in the free world today.

Foreign Investment Developments of 1961

The past year has been characterized by conflicting currents in international economic and political developments which have had varying effects on foreign investment activities. As the year began the United States was engaged for the first time in many years in widespread discussion of its "balance of payments" problem. As the year ends, this problem is still not solved and is a matter of continuing concern. Throughout the year there have been renewed efforts by our Administration and the United Nations to secure early agreement on the creation of a framework for international trade and investment which should provide the necessary "all risk" guaranty of United States nationals invested abroad. On the other hand there has been continuing rapid growth in the free economies of Western Europe and Japan and growing confidence in the success of the European Common Market.

The first two developments created a noticeable increase in the reluctance of institutional investors to make new investments in dollar bonds of foreign issuers. We believe that certain foreign enterprises, both public and private, have not been able to obtain funds through the sale of their bonds in our markets—funds which they desired and which they might have been able to obtain several years ago in our opinion.

Meanwhile interest in the purchase of foreign equities has shown an increase during the year. There was some reduction in interest during the summer and early fall but our members report a stronger resurgence of interest recently on the part of both United States investors in European equities and European investors in United States equities. In addition there have been several developments on the part of both United States governmental and international agencies which should foster private foreign investment in the future.

The United States Government has taken positive steps to encourage participation of private capital in foreign lending by supporting such credits with broader and potentially more effective guarantees than it has offered in the past.

Foreign Investments Guarantees Expanded

The first plan which is of particular interest to investment bankers is the new program of AID (the new Agency for International Development). Under this plan the former ISA guarantees against war, expropriation and uncertainty have been broadened to cover revolution, insurrection and serious breaches of contract by a foreign government. In addition, and of more importance, AID is willing to make "all risk" guarantees in special cases to write "all risk" guarantees in special cases to write "all risk" guarantees on high risk business losses. These special cases are limited to high priority projects in high risk areas among economically developing countries—principally projects furthering social progress or the development of small business.

The total fund available for "all risk" insurance is limited to $100,000,000, of which $10,000,000 is earmarked for housing guarantees in Latin America. In addition the coverage is limited to a maximum of 75% of the equity or loan investment (and more commonly not more than 50%) on equity investments, and to no more than $10,000,000 per investment. The specific political risk guarantors need be used alone to cover 100% of the investment where the "all risk" insurance cannot be obtained.

This program though limited in size and scope, recognizes a basic problem in interesting private capital for financing new enterprises in the less developed nations. The risks are too great without such guarantees to entice United States institutional lenders whose support is in many cases vital to provide the necessary leverage for the equity investors in new enterprises. If the program can be made to work even in a limited way it will provide a new opportunity to demonstrate the advantages of private capital and private business management in developing the economies of these nations.

We recommend that members of the Committee working with their industrial clients, develop projects which should be able to qualify for this new "all risk" insurance program. Only in this way can the possibilities as well as the problems in this new field be explored. The results should be mutually advantageous.

The second program consists of several new measures to provide comprehensive guarantees against political and commercial risks which have recently been introduced by governments and their agencies.

Backgrounds of the New Principal IBA Officers

The slate of officers elected at the Convention on Nov. 30 included a new President and five Vice-Presidents, three of the latter being named for the second consecutive term. The official biographies of each of these officers follow:

CURTIS H. BINGHAM
President-Elect

Curtis H. Bingham, President of Bingham, Walter & Hurry, Inc., Los Angeles, was elected President of the Association in the succession to George A. Newton, Partner, G. H. Walker & Co., St. Louis, Mo. Mr. Bingham has devoted his entire business career to finance and has almost 40 years' experience in the investment banking industry.

He was born in Rockford, Ill. (1886) and received his B.S. degree from Oregon State College in 1911. Upon graduation he was employed by Southern California Edison to sell the company's electric stock. Two years later he entered the securities underwriting and distributing business in Los Angeles and sold primarily bonds to institutional and individual investors.

In 1933 he organized his own firm, Curtis H. Bingham and Co., in Los Angeles, which in 1940 became Bingham, Walter & Hurry, partnership subsequently incorporated in 1941.

Mr. Bingham has actively served the securities business at both the national and Group level during the past decade. He has been a Governor of the Association since 1957, was elected a Vice-President for two terms, 1959-61, and served on the following national committees:

Investment Companies Committee, 1953-58.
Group Chairmen's Committee, 1957-58.
Arrangements Committee (Chairman), 1958-59.
Nominating Committee, 1959-60.

Mr. Bingham has held other positions of leadership in the industry; was District Chairman of the University of Chicago in 1935, Mr. Harris went to work for Sills, Minn. & Son; he became a Vice-President in 1944 and continued in the same capacity until 1945. He continued as President with his successor organizations, Sills, Fairchild & Harris, Inc. and Fairchild, Harris & Co., until the latter merged with Bache & Co. in 1966. Since then he has been a Resident Partner of Bache & Co.

Since 1948 Mr. Harris has been active in the Group and national activities of the Association. He served his first term as Vice-President, 1960-61, was a Governor of the Association from 1957-60, and has served on the following national committees:

Education Committee, 1948-51.
Industrial Securities Committee, 1952-55.
Group Chairmen's Committee, 1955-56; Chairman, 1957-59.

Finance Committee, 1956-59.
Membership Committee, 1962.
Nominating Committee, 1959-60.

At the regional level he was chairman of the Central Group in 1955-56 and for several years was a member of the Group's Executive Committee.

Mr. Harris has held positions of leadership in other organizations in the investment business: Vice-President of Commercial and Savings Bank, Charlotte, N.C., 1959-60; a director of the Liberty Loan Corporation and Colonial Acceptance Corporation. His activities in local civic affairs have included memberships in the Lake County District 105 School Board, 1961-62, and chairman of the Highland Park Community Chest Drive in 1968. Since 1956 he has been a trustee of the Highland Park Hospital.

Club and fraternity memberships include: Exmoor Country Club, University Club (Chicago), and Delta Kappa Epsilon. His hobbies are golfing and curling during the winter.

Mr. Harris is married to the former Evelyn R. Carr. They have a daughter and 10 grandchildren, all of whom live in communities close to South Pasadena.

DAVID J. HARRIS
Vice-President

David J. Harris, Partner, Bache & Co., Chicago, was re-elected as a Vice-President of the Association. Following his graduation from the University of Chicago in 1927, Mr. Harris went to work for Sills, Minn. & Son; he became a Vice-President in 1944 and continued in the same capacity until 1945. He continued as President with his successor organizations, Sills, Fairchild & Harris, Inc. and Fairchild, Harris & Co., until the latter merged with Bache & Co. in 1966. Since then he has been a Resident Partner of Bache & Co.

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THOMAS M. JOHNSON
Vice-President

Thomas M. Johnson, President, Johnson, Lane, Space & Co., Inc., Savannah, was re-elected as a Vice-President of the Association.

A native of Georgia, Mr. Johnson attended the University of Georgia and was a member of the Class of 1927. He received his B.A. degree with honors and was a member of Phi Gamma Delta. Since 1948 Mr. Johnson has been active in the Group and national activities of the Association. He served his first term as Vice-President, 1960-61, was a Governor of the Association from 1957-60, and has served on the following national committees:

Education Committee, 1948-51.
Industrial Securities Committee, 1952-55.
Group Chairmen's Committee, 1955-56; Chairman, 1957-59.
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Are Local Units Able to Finance School Needs?

Over $1,400,000,000 in school bonds were sold in the first six months of 1961 by states and local municipalities. This significant fact and many others are pointed out in a brochure published by the Investment Bankers Association of America. The information contained therein tends to dispel the hue and cry of the Federal Government that the states and local municipalities are not meeting their obligation in fulfilling the classroom needs of our children. The pamphlet also noted that the Federal debt is now about $230 billion and rising, as compared with $86 billion for states and local municipalities.

In its conclusion, the booklet states "one can only conclude, that this report dispels any doubt that Federal aid to education will result in a high degree of Federal control."

Those interested may obtain a copy of this most informative booklet "Federal Aid to Education?" by writing to the Investment Bankers Association of America, 423 Thirteenth St., N. W., Washington 4, D. C.

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Kidder, Peabody & Co.
Report of IBA Municipal Securities Committee

Alan K. Brown, Vice-President of the Bank of America National Trust & Savings Association, San Francisco, presented the following Report to the Committee in his capacity as Chairman of the Municipal Securities Committee.

Sales of new issues of state and municipal bonds during the first 10 months of 1961 aggregated over $6.8 billion. Since the sales of new issues have continued at a high level during November, it appears probable that the volume for the year will set a new record, close to $8 billion. The principal developments in Federal legislation affecting municipal securities since the last Annual Report of this Committee are summarized below.

Federal Legislation

(a) Community Facilities Loan Program

The Federal Community Facilities Loan Program, administered by the Housing and Home Finance Agency, authorized under the Housing Amendments of 1955 as a substitute for a program previously administered by the RFC, provides Federal loans to municipalities of community facilities if the financing is not available from other sources on "reasonable" terms. The 1955 Act authorized an aggregate of $180 million. In 1960 an additional $50 million was authorized. The Housing Act of 1961 amended the Program to authorize an additional $500 million for Federal loans for any community facilities except schools ($50 million earmarked as available only for loans for urban transportation facilities or equipment). Such loans, except urban transportation loans, may be extended only to municipalities with a population not exceeding 150,000 (or in the case of a community situated in a redevelopment area, with a population not exceeding 150,000). The loans are made at an interest rate determined annually under a formula in the law, which fixed the rate for the fiscal year beginning July 1, 1961 at 3% (or for communities in redevelopment areas at 3%). The law still provides that no financial assistance shall be extended under the program "unless the financial assistance applied for is not otherwise available on reasonable terms.

Eligibility under either of these programs depend on the interest rate at which is determined administratively as a "reasonable" rate, because municipalities are eligible for Federal assistance only if they cannot obtain financing from other sources at that rate. If the interest rate set as "reasonable" by the administrative agencies is too low in relation to current market rates, a substantial volume of Federal financing is available in lieu of that the alternative sources and is eligible under these programs.

In August the IBA submitted to the administrator of the Community Facilities Loan Program a suggested yardstick for establishing the reasonable rate monthly in a realistic relationship to current market rates. A rate fixed at a level high enough that only a small portion of municipal financing would be eligible under the program.

"Reasonable" Criteria

However, the Community Facilities Administration has followed a policy of determining whether financing is available from other sources on reasonable terms.

"For a bond issue secured upon the same terms and conditions as the government loan, the interest rate is to be deemed reasonable if it does not exceed 3%%, if the loan is repayable over 30 years or more. For shorter term loans, the 'reasonable' interest rate is to be reduced by 1/4% for each five-year reduction of the length of the loan, provided such interest rate is not less than 3%%. If the borrower is located in an area designated as a redevelopment area, the benchmark for reasonable interest rates would be 3%% (i.e., 1/4% for years or longer maturities or 3% for 20-year or shorter maturities in a redevelopment area).

The rate set as "reasonable" in determining eligibility for a loan under the Federal program is obviously too low in relation to current market rates, noting that 20-year bonds of the U.S. Government (the highest credit on a taxable basis) are presently priced at 4 3/4% or more. We believe that the policy of the Community Facilities Administration is contrary to the intent of the law which specifically provides that the Federal loans may be provided only when the financing is not available from other sources on "reasonable" terms.

President Kennedy on Oct. 26 ordered a Federal economy drive and asked agency heads to exert the maximum care in tightening requirements, postponing the initiation of deferable projects and phasing out any acceleration of spending which was instituted as a result of the economic measure. On Oct. 30 the IBA wrote to the administrator of the program that the IBA had been given 30 days notice of the President's order by restricting eligibility for Federal loans under the program by raising the rate of interest established as the reasonable rate under the program. Attention will be focused on this program when all seven bids on $4 million Charleston, W. Va. sewer revenue bonds at rate 3.845% in July 31, although the best bid provided a reasonable net interest cost of 3.945%, after a representative of the C. F. A. present at the meeting advised that the funds might be obtained from his agency at a lower rate. The C. F. A. approved the $4 million loan to the Canton on the usual requirement that the bonds be advertised again in a financial newspaper of national circulation and an agreement that the C. F. A. will purchase all these bonds for which bids are not received from other investors on "reasonable terms."

It is the policy of C. F. A. to require that bonds be offered in blocks of maturities so that private investors might purchase one or more blocks of the shorter maturities at an interest rate below the reasonable rate based on the maturity. This policy is constructive in making it possible for at least a portion of many issues to be purchased by other investors.

The IBA vigorously opposed the extension of this program when it was under consideration this year in Congress, through a statement submitted to the House Committee on Banking and Currency when the proposal was under consideration by that Committee, through letters addressed to all members of the House immediately prior to consideration of the proposal by the House, and through notice to members regarding the proposal. It is apparent that, as long as the current "reasonable" level of interest determined administratively under the Federal loan program is at a level too low in relation to general market rates, the principal effect of the Community Facilities Loan Program will be simply to substitute Federal financing for financing which would otherwise be provided from other sources at rates reasonable in relation to market rates. We vigorously protest this unnecessary assumption of private business functions by the Federal Government.

The Housing Act of 1961 also provided the "Area Redevelopment" Program by adding the following provision to Sec. 207. The Administrator is authorized to establish technical advisory services to assist municipalities and other political subdivisions and instrumentalities in the setting financing, planning, and construction of community facilities. There are already authorized to be appropriated such sums as may be necessary, together with any fees that may be charged, to cover the cost of such services.

This authorization also provides an unnecessary intrusion of the Federal Government in furnishing professional services which would be provided more properly and more effectively by professional financial advisers. We believe that much advice furnished by representatives of the Federal Government will be designed primarily to qualify for assistance under various Federal programs, rather than for the best long-term interests of the community.

IBA Recommendations

We recommend that:

(1) The interest rate determined as "reasonable" in establishing eligibility for Federal loans under the program be fixed at a level above market rates, for comparable maturities and other similar types of obligations or revenue bonds, which reasonable rate would be higher than the current yield on outstanding obligations of the United States or states.

(2) The provisions extending the application of the Community Facilities Loan Program to communities in redevelopment areas should be repealed.

(3) The provisions authorizing Federal advisory services to municipalities in budgeting and financing be repealed.

(b) "Area Redevelopment" Act of 1961

The "Area Redevelopment Act" of 1961 authorizes the following principal programs of Federal financial assistance in areas which qualify as "redevelopment areas":

(1) $100,000,000 in Federal loans in redeveloped areas and $100,000 - 500,000 in Federal loans in rural areas for "redevelopment projects." These "redevelopment projects" are for industrial or commercial usage. Such loans may be for a period of up to 25 years and cover...
up to 65% of the cost of the project. At least 10% of the cost must be met by funds supplied by the state or community or a non-profit local organization and at least 5% must be provided by private lending facilities. Such loans will be made if the financial assistance applied for is not otherwise available from private lenders or other Federal agencies at reasonable terms, at an interest rate determined under a formula in the bill which in November, 1961 would have been 4%.

(2) $100,000,000 for loans for public facilities. Such loans may have maturities up to 40 years for the full cost of the project and will be made, if the funds requested are not otherwise available on reasonable terms at an interest rate determined annually under a formula in the bill, which presently would be 3%

(3) $75,000,000 in Federal grants for public facilities if there is little probability that the project could be undertaken without the assistance of such a grant. It would be required that the entity requesting the grant shall contribute to the cost of the project in proportion to its ability to contribute.

APPENDIX A contains a more detailed summary of this law.

(c) Federal Aid to Education

Elementary and Secondary Schools

A bill passed the Senate to authorize over $2 billion in Federal grants over the next three years to assist public elementary and secondary schools, to be used either for construction of school facilities or for teachers' salaries. A similar bill was reported by the House Education Committee but was held up in the Rules Committee. An attempt to bring the bill up for consideration in the House under a special procedure bypassing the Rules Committee failed on Aug. 30 by a vote of 170 to 242. Accordingly, the proposed Federal aid for public elementary and secondary schools was not adopted this year. The existing programs, providing Federal compensation to school districts for burdens imposed by the location of tax-exempt Federal property on which public school children reside or their parents are employed, was extended for two years—after efforts failed to hold up extension of this program unless it was accompanied by the new program of Federal aid.

The IBA has vigorously opposed the proposed new program of Federal aid for public elementary and secondary schools on the basis that educational facilities for elementary and secondary schools are being financed adequately by state and local governments without a new program of Federal assistance. This conclusion seems well supported by the facts that:

1. (1) About 399,000 new classrooms for elementary and secondary schools were completed during the 3-year period 1957-1961.
2. (2) The rate of growth in enrollment in public elementary and secondary schools is decreasing, official estimates indicating that during the 3-year period 1961-1966 the rate of growth in enrollment will be down 3.1% from the growth rate during the past 5 years.
3. (3) Sales of new issues of school bonds continue at record levels, with over $500 million of school bonds sold in January, 1961 (the largest amount of school bonds ever sold in a single month) and over $1,410,000,000 of school bonds sold during the first six months of 1961.

A booklet giving essential facts on the question of Federal aid to education in question and answer form has been published by the IBA. Copies have been mailed to member firms and additional copies are available in quantity at a nominal cost. Since this subject is the current national high school debate topic throughout the country, it is suggested that copies of this booklet be given wide distribution.

(4) College Housing

The Federal college housing loan program, administered by the Housing and Home Finance Agency, authorizes loans at an interest rate determined annually under a statutory formula (presently 3%) with maturities up to 30 years unless the financing is available from other sources.

We welcome the opportunity of working with dealers, not only in this field but also in connection with local dealer origination where our facilities may be of service.
Continued from page 25

COUNTIES, MUNICIPALITIES, AND THEIR AGENCIES AND INSTRUMENTALITIES TO FINANCE THE ACQUISITION, CONSTRUCTION AND IMPROVEMENT OF FACILITIES AND EQUIPMENT FOR USE BY OPERATION OR LEASE OR OTHERWISE IN MASS TRANSPORTATION SERVICE IN URBAN AREAS AND FOR USE IN COORDINATING HIGHWAY, BUS, SURFACE-RAIL, UNDERGROUND PARKING AND OTHER TRANSPORTATION FACILITIES IN SUCH AREAS. LOANS WOULD BE MADE ONLY IF THE FINANCIAL ASSISTANCE WERE NOT OTHERWISE AVAILABLE ON EQUALLY FAVORABLE TERMS AT AN INTEREST RATE DETERMINED UNDER A FORMULA IN THE BILL.

H. R. 5721 would authorize, in addition to the grant and loan authority summarized above, federal guaranty of public transit authority obligations under which the Federal Government would enter into debt service guaranty contracts providing that whenever in any fiscal year the receipts of the public transit authority in connection with the projects financed by the bonds involved, after payment of operating expenses, are not sufficient to make all debt service payments falling due in such year, the Federal Government will pay to such authority an amount equal to one-half the amount which is necessary to make such payments of principal and interest in full. The bill would require that, to be eligible for such guaranty, the bonds be covered by a state or local guaranty providing for payment of an amount equal to the payment by the Federal Government in any fiscal year in which the Federal Government is required to make payment. The aggregate amount of payments which the Federal Government would be required to make in any one fiscal year pursuant to contracts under this section could at no time exceed $50,000,000.

None of these bills passed. However, the Housing Act of 1961 included provisions:

(a) Authorizing $25 million under the urban renewal program for mass transportation demonstration projects which the administrator determines will assist in carrying out urban transportation plans and research, such grants not to be used for major long-term capital improvement, not to exceed two-thirds of the cost of the project.

(b) To authorize grants under the urban planning assistance program for the preparation of comprehensive urban transportation surveys, studies and plans to aid in solving problems of traffic congestion, facilitating the circulation of goods and services, and reducing transportation needs in metropolitan and other urban areas and reducing transportation needs.

(c) To authorize $50 million in loans under the Community Facilities Loan Program to states, municipalities, public agencies, and public corporations and commissions to finance the acquisition, construction, and improvement of facilities and equipment for use by operation or lease in mass transportation service in urban areas and for use in coordinating highway, bus, surface-rail, underground parking and other transportation facilities in such areas.

New Transit Revenue Bond Act would include that revenue bonds (a) be issued for the purpose of financing the construction by a local public transit agency of a mass rapid transit system and may, in addition, be issued to finance the retirement or redemption of outstanding bonds of such an agency; (b) shall bear interest at an average interest rate not to exceed 3½% with maturity dates not in excess of 30 years and (c) shall be issued under a trust indenture meeting specified requirements. The trust indenture would be required to include provisions satisfactory to the Administrator requiring the local public transit agency to fix and collect rates, rentals or other charges at least sufficient to pay the principal and the interest on the bonds as they become due and payable together with all expenses of operation, maintenance and repair of the system.

The Institute of Public Administration in New York has been commissioned by the Housing and Home Finance Agency and the Department of Commerce to prepare a report on urban transportation problems and their solution. This report also presumably will include recommendations for

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(f) Tax Immunity

No bills were introduced in Congress this year attacking thegeneral tax immunity of state and municipal bonds. A bill was introduced (H. R. 798) to deny tax exemption to the interest on state and municipal bonds (a) issued to finance the construction, equipment or other development of property which is to be operated by one or more nonprofit enterprises and (b) not secured by the general credit of the issuer; but no action was taken on this bill.

The Committee for Economic Development in February of this year issued a statement on "Growth and Taxes" which included a recommendation (with a few individual dissents) to eliminate the exemption for interest on future issues of state and local government securities and to substitute a tax credit for holders of such securities. The C. E. D. proposal assumed that the Federal Government has power to tax interest on municipal bonds and that the credit could be decreased or eliminated at any time. The Sub委员会 on Fiscal, Monetary and Debt Management Policy and the Research and Policy Committee of the C. E. D. were responsible for the statement of policy on growth and taxes.

Information regarding the recommendation by the C. E. D. and a summary of the constitutional basis and the importance of the tax immunity of municipal bonds were furnished to all members of this Committee and IBA Group Municipal Securities Committee with the suggestion that they communicate with members of the C. E. D. Subcommittee and Committee to explain the importance of tax immunity of municipal bonds. Copies of subsequent correspondence by members of this Committee indicated that widespread action was taken pursuant to this suggestion.

General articles on tax reform in magazines this year have also included casual recommendations that the tax exemption for municipal bond interest should be eliminated. In every case where such articles have been called to the attention of this Committee, letters have been addressed to the editor explaining the constitutional basis and the importance of the tax immunity of municipal bonds.

Treasury Department's Position

Reports in the press state that Mr. Stanley Surrey, Assistant Secretary of the Treasury for Tax policy, in an address before the American Institute of Certified Public Accountants in Chicago on November 1 stated that the Administration plans to send to Congress in 1962 a much broader program of tax reform, and that the reform bill being prepared in the Treasury generally would broaden the tax base to include income not currently subject to tax.

In connection with this subject, agents of the Internal Revenue Service in at least two areas during the past year have disallowed a portion of the deduction by banks for interest paid on time deposits (savings accounts and certificates of deposit), on the theory that a portion of the interest was on indebtedness incurred or continued to purchase or carry obligations the interest on which is tax exempt. The formula used by the agent consists of totaling all interest (interest from loans, U. S. Treasury obligations, other bonds of every type and municipal bonds received by the bank during the taxable (calendar) year and then dividing the total by the net tax exempt interest (gross tax exempt interest less premium amortization) to obtain the percentage which tax exempt interest bears to total interest. This percentage is applied to the interest paid on time deposits and the result is then disallowed as an expense item. A ruling on this question has been requested from the Bureau of Internal Revenue in Washington and the ruling is expected soon. This reflects another effort to cut the value of tax immunity by administrative action without legislative or constitutional amendment and should be resisted vigorously if the ruling by the Bureau of Internal Revenue is adverse to the continued complete immunity.

Municipal Industrial Financing

A comprehensive report on this subject was approved by this Committee and by the Board of Governors of the IBA in May of this year. Printed copies of that report were mailed to all members of the IBA and many copies have been supplied in response.

Continued on page 28
Continued from page 27 to requests from other interested persons and organizations.

III
Constitutional and Statutory Debt Restrictions
The Advisory Committee on Intergovernmental Relations on Sept. 15 approved a draft report on "State Constitutional and Statutory Restrictions on Local Government Debt." The five basic recommendations in the draft report for state action are as follows:

1. The Commission believes that the present maze of constitutional and statutory restrictions on local government borrowing constitutes a serious impediment to effective local self-government in the United States. These restrictions handicap self-reliance of local communities and governments, and impel them toward increased financial dependence on State or Federal Government resources. In many States, present provisions have contributed to complexity and dearthness in local debt operations. The Commission believes that State action to remedy this situation is necessary and urgent.

(1) The Commission recommends that State provisions with respect to long-term borrowing and indebtedness of local governments be comprehensive in their coverage; any conditions they place upon local borrowing power should apply uniformly—or with a well-considered minimum of distinctions—to all types of long-term debt.

(2) The Commission recommends that authority to issue bonds should be legally vested in the governing bodies of local governments, subject to a permissive referendum only on petition, and with participation in any such referendum available to all eligible local voters and the results determined by a simple majority vote on the question.

(3) The Commission recommends the repeal of constitutional and statutory provisions limiting local government debt or debt service by reference to the local base for property taxation.

(4) The Commission recommends that the States consider measures to regulate long-term borrowing of local governments by reference to the net interest cost of prospective bond issues in relation to the currently prevailing interest rate on high quality municipal securities.

(5) The Commission recommends that States make available technical and advisory assistance to local governments with regard to their issuance of long-term debt.

Recommendation 4 suggests that states consider regulating long-term borrowing of local governments by forbidding the sale of bonds at a net interest cost of more than 1.3 times the current yield rate of the highest grade municipal securities. At the time of a particular bond sale, that rate is 3.00%. If the "best" bid would involve a net interest cost of 4.20% or less (1.4 times 3.00%), the award can be made and the sale carried out. But if no bid is less, all offers must be rejected. Recommendation 4 suggests only that states consider this type of regulation. The impact of this type of regulation would depend upon the precise formula adopted in any state. However, we believe that the implications of this type of regulation were not fully considered and we conclude that it is not a desirable way of limiting local debt. The proposed method of regulating local debt would establish an arbitrary prohibition against financing needed, desirable and feasible facilities if the interest cost exceeded the established rate.

Copies of the final report on this subject will be available and we urge all members to obtain copies from the Advisory Commission on Intergovernmental Relations (722 Jackson Place, N.W., Washington, D.C.). We urge all persons concerned with municipal finance to be on the alert for studies or legislative proposals on this subject in their areas so that the dangers in this type of regulation of local debt can be explained and the adoption of such regulation opposed.

IV
Computation on Transactions in Municipal Securities
The Subcommittee on Trading and Cashiering Procedures, under the Chairmanship of Mr. Neal Fulkerson (Bankers Trust Company, New York), with the assistance of Mr. H. F. Dobbin (Bankers Trust Company) and Mr. Charles Grisbee (President, The Financial Publishing Company), have prepared recommendations for computation of principal and interest on transactions in municipal securities.

These recommendations, if approved by the Board of Governors, will be printed in pamphlet form and mailed to all members, to be effective with transactions dated Jan. 1, 1962 and on when issued transactions computed for settlement on or after Jan. 1, 1962. These recommendations should be extremely helpful in obtaining uniform procedures in computations and in providing an explanation of computations in training back-office personnel.

V
Handbook on Fundamentals of Municipal Bonds
Since the Handbook on Fundamentals of Municipal Bonds was published in September, 1961, the first edition of 10,000 copies had been sold. We have now published a revised edition, bringing statistical material and references thereto up to date and over 600 copies of the new edition have been sold.

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The pamphlet on Suggestions for Marketing Municipal Bonds at Public Sale, approved by the Committee in 1960, has been well received and over 10,000 copies of it have been distributed.

VI

Subcommittee Reports

Many matters of interest and importance which are not covered in this report are covered in reports of some of the subcommittees, which are as follows:

Subcommittee on Accounting Terminology and Practices.
Financial Advisers Subcommittee.
Special Committee To Study Industrial Aid and Lease-Purchase Financing by States and Political Subdivisions.
Liaison Subcommittee on Bond Sale Procedures.
Liaison Subcommittee on Metropolitan Area Problems.
Subcommittee on a Municipal Conference.
Subcommittee on Syndicate Operations.

Subcommittee on Trading and Cashiering Procedures.
Respectfully submitted,
MUNICIPAL SECURITIES COMMITTEE

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APPENDIX A
Summary of Area Redevelopment Act (1961)
Public Law 87-27

The purpose of the act is to provide Federal assistance to communities and enterprises in areas of substantial and persistent unemployment and underemployment in planning and financing their economic redevelopment. The act will be administered by an Area Redevelopment Administrator in the Department of Commerce. The Secretary of Commerce shall designate "redevelopment areas" as follows:

(a) Under Section 5(a), those areas within the United States in which the Secretary determines upon the basis of standards generally comparable to those set forth in paragraphs (1) and (2), below, that there has existed substantial and persistent unemployment for an extended period of time. Such areas shall be included among the areas so designated any area—

(1) where the Secretary of Labor finds that the rate of unemployment among seasonal workers is currently 6% or more and has averaged at least 6% for any qualifying time periods specified in paragraph (2); and

(2) where the Secretary of Labor finds that annual average rate of unemployment has been at least—(A) 50% above the national average for each of the preceding four calendar years; or (B) 75% above the national average for two of the preceding three calendar years; or (C) 100% above the national average of one of the preceding two calendar years.

(b) Under Section 5(b), those areas within the United States which do not meet the requirements set forth in subsection (a) but which he determines are among the highest in numbers and percentages of low-income families, and in which there exists a condition of substantial and persistent unemployment or underemployment. The Secretary shall consider, among other relevant factors, the number of low-income farm families in the various rural areas of the United States, the proportion of such low-income families that are at risk of being displaced by such projects from the areas to which they are not being provided with equivalent opportunities, and the extent of Federal financial assistance that such areas will be provided under the Act. Under such circumstances, the Secretary shall be authorized to designate areas in the United States which for reasons of national security or for reasons of the public interest may be subject to extraordinary Federal assistance in the form of loans or grants to the States, counties, municipalities, or other political subdivisions. The Secretary shall report to Congress annually on the status of areas designated under this section.

Section 6 authorizes $100,000,000 in Federal loans for projects in redevelopment areas designated under Section 5(a).
and $100,000,000 in Federal loans for projects in redevelopment areas designated under Section 9(b) to aid in financing any project for the purchase or development of land and facilities (including, in cases of demonstrated need, machinery and equipment) for industrial or commercial usage. The loans shall not be extended for working capital or to assist establishments relocating from one area to another; but the limitation regarding relocation shall not be construed to prohibit assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate or subsidiary if the Secretary finds that such establishment will not result in an increase in unemployment in the area of original location or in any other area where such entity conducts business operations.

Loans with maturities up to 25 years may be made, if the financial assistance applied for is not otherwise available from private lenders or other Federal agencies on "reasonable terms," at an interest rate determined under a formula in the act (the rate paid by the Secretary on funds obtained from the Secretary of the Treasury, which rate would not be greater than the current average yields on outstanding marketable obligations of the United States of comparable maturities as of the last day of the month preceding the issuance of such obligation, plus $2 1/2 per annum) which in November, 1961 would have been 4%. The Secretary shall not make any loan without a participation unless he determines that the loan cannot be made on a participation basis and unless it is determined that there is a reasonable assurance of repayment. Loans under this section shall not exceed 65% of the aggregate cost to the applicant (excluding all other Federal aid in connection with the undertaking).

At least 10% of the cost must be supplied by the state or a political subdivision thereof, or by a community or area organization which is non-governmental in character, as equity capital or as a loan repayable only after the Federal assistance has been repaid in full and (b) at least 5% of the cost of the project must be supplied by non-governmental sources as equity capital or as a loan repayable only after the Federal financial assistance has been repaid.

Section 7 authorized $100,000,000 in Federal loans to any state, or political subdivision thereof, or private or public non-profit organization or association representing any redevelopment area, to assist in financing public facilities. Such loans with maturities up to 40 years may be made, if not otherwise available on "reasonable terms," at an interest rate determined under a formula in the act (the rate paid by the Secretary on funds obtained from the Secretary of the Treasury, which would not be more than the higher of (1) 2 1/2% or (2) the average annual interest rate on all interest-bearing obligations of the United States then forming a part of the public debt as computed at the end of the fiscal year next preceding the issuance by the Secretary and adjusted to the nearest 1/8 of 1%, plus 1/4 of 1% per annum) which in November, 1961 would be 3%. Such loans could be made only if, among other conditions (a) there is a reasonable expectation of repayment and (b) the project will tend to improve the opportunities in the redevelopment area for the successful establishment or expansion of industrial or commercial plants or facilities.

Section 8 authorizes $75,000,000 in Federal grants to any state, or political subdivision thereof, or private or public non-profit organization or association representing any redevelopment area, to provide technical assistance which would be useful in alleviating conditions of excessive unemployment or underemployment.

Section 9 authorizes $4,500,000 to provide technical assistance which will tend to improve the opportunities in the redevelopment area for the successful establishment or expansion of industrial or commercial plants or facilities.

Section 10 authorizes $4,500,000 for (a) studies of the size, characteristics, skills, adaptability, occupational potentials and related aspects of the labor force of any redevelopment area; (2) providing occupational training facilities and services and (c) assisting in setting up apprenticeships and promoting journeymen and other on-the-job training.

Section 17 authorizes $10,000,000 for weekly retraining payments to unemployed or under-employed individuals residing within redevelopment areas who are certified by the Secretary of Labor to be undergoing occupational training or retraining under Section 16 of the act. Such payments shall not exceed 16 weeks and the amount of any such payment for any week shall be equal to the amount of the average weekly unemployment compensation payment (including allowances for dependents when appropriate) payable for a week of total unemployment in the state making such payments.

This act and all authority conferred thereunder shall terminate at the close of June 30, 1965.
Committee Report on Industrial Aid and Lease-Purchase Financing

Monroe V. Poole, President of George B. Gibbons & Co., Inc., New York City, was Chairman of the Special Committee to Study Industrial Aid and Lease-Purchase Financing by States and Political Subdivisions. Its Report follows:

The basic report of this Committee on municipal industrial financing was submitted at the Spring Meeting of the IBA and was approved by the Board of Governors on May 12, 1961. Printed copies of that report were subsequently mailed to all members of the Association and hundred of additional copies have been furnished on request to individuals and organizations. This report simply summarizes important developments regarding municipal industrial financing subsequent to the basic report.

Connecticut—Authorized a State Building Commission with powers to insure the repayment of approved mortgages on industrial expansion and development projects. The Authority will insure these projects up to 90% of the cost, to a maximum of $5 million for each project. The 1961 State legislature authorized the issuance of bonds up to $25 million for this purpose.

Delaware—Authorized a State Industrial Building Commission empowered to pledge the faith and credit of the State in the issuance of bonds to aid in financing the construction or buildings for sale or lease to private industries. Outstanding guarantees can not exceed $15 million at any one time, however, and no individual project can be guaranteed over $2 million.

Illinois—Authorized State Industrial Development Authority empowered to issue up to $5 million in bonds to finance the construction or acquisition of industrial plant facilities for lease or sale to private industries in areas of the state that are designated as labor-surplus areas.

KANSAS—The Kansas Supreme Court, in a test case, has ruled constitutional a state law permitting cities to issue revenue bonds to finance construction of plants to aid private industry. The 1961 legislature created the Kansas Industrial Development Authority, and the authorization of $100,000,000 bonds—$50,000,000 general obligation and a $50,000,000 revenue bonds.

New York—The voters approved, on Nov. 7, an amendment to the New York Job Development Authority Act of 1961. This amendment authorized the creation of the New York Job Development Authority, and the authorization of $100,000,000 bonds—$50,000,000 general obligation and a $50,000,000 revenue bonds.

New York—The Port of New York Authority must pay taxes on a project built on Tottenhorne Airport land and leased for 20 years to a private industry. Supreme Court Judge Frank W. Broadhurst has ruled. The ruling was made in a suit brought by the Borough of Moonachie, N. J., in which it was contended that the factory building constructed by the Port Authority was not required for air terminal purposes and therefore was not tax-exempt.

Texas—Two separate bills were introduced in the Texas legislature this year which would authorize industrial bond financing. Both bills were defeated in committee.

Vermont—A new State Industrial Building Authority has been authorized by the 1961 Vermont legislature, the new organization is empowered to pledge the credit of the state up to $10 million to guarantee local development agency mortgage loans on industrial plants.

West Virginia—Authorized a State Industrial Authority to promote expansion of industrial activities held in depressed areas in key parts of the state. The Authority, empowered under the terms of a 1961 State enabling act, will make loans to local industrial development groups from a $2,000,000 fund.

Wisconsin—A bill to permit counties to appropriate funds to non-profit agencies to promote industrial development enacted into law in Wisconsin. Through an amendment, Milwaukee County was exempted from the measure.

APPENDIX A

The following municipal industrial bond issues were reported, authorized or executed (except a few subject to vote) since Jan. 1, 1961:

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Issues</th>
<th>Aggregate Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>2</td>
<td>$26,900,000</td>
</tr>
<tr>
<td>Arkansas</td>
<td>8</td>
<td>11,318,000</td>
</tr>
<tr>
<td>Georgia</td>
<td>4</td>
<td>4,463,000</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1</td>
<td>3,700,000</td>
</tr>
<tr>
<td>Mississippi</td>
<td>23</td>
<td>7,863,000</td>
</tr>
<tr>
<td>Missouri</td>
<td>6</td>
<td>3,045,000</td>
</tr>
<tr>
<td>New Mexico</td>
<td>1</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>2</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Tennessee</td>
<td>8</td>
<td>22,113,000</td>
</tr>
</tbody>
</table>

*Three issues account for $85,000,000 of the aggregate amount.

The Commercial and Financial Chronicle... Thursday, December 28, 1961

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"IN THE HEART OF THE INSURANCE DISTRICT"

GEORGIA

<table>
<thead>
<tr>
<th>Amount</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$44,950,000</td>
<td>Early County</td>
</tr>
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</table>

*Kentucky

<table>
<thead>
<tr>
<th>Amount</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,700,000</td>
<td>City of Florence</td>
</tr>
</tbody>
</table>

*Authorized.

MISSISSIPPI

<table>
<thead>
<tr>
<th>Amount</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$175,000</td>
<td>Cunton</td>
</tr>
<tr>
<td>400,000</td>
<td>Charleston</td>
</tr>
<tr>
<td>133,000</td>
<td>School Dist. 3 &amp; 4</td>
</tr>
<tr>
<td>1,850,000</td>
<td>Copiah</td>
</tr>
<tr>
<td>250,000</td>
<td>Covington County</td>
</tr>
<tr>
<td>60,000</td>
<td>Forest</td>
</tr>
<tr>
<td>250,000</td>
<td>Fulton</td>
</tr>
<tr>
<td>250,000</td>
<td>Grand</td>
</tr>
<tr>
<td>250,000</td>
<td>Hernando</td>
</tr>
<tr>
<td>250,000</td>
<td>Itawamba</td>
</tr>
<tr>
<td>250,000</td>
<td>Lafayette County</td>
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<tr>
<td>100,000</td>
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</tr>
<tr>
<td>80,000</td>
<td>Morton</td>
</tr>
<tr>
<td>150,000</td>
<td>Morton</td>
</tr>
<tr>
<td>300,000</td>
<td>Nocoochee</td>
</tr>
<tr>
<td>400,000</td>
<td>Okolona</td>
</tr>
<tr>
<td>300,000</td>
<td>Oktibbeha (District)</td>
</tr>
<tr>
<td>100,000</td>
<td>Okotoks (City)</td>
</tr>
<tr>
<td>100,000</td>
<td>Pike</td>
</tr>
<tr>
<td>125,000</td>
<td>Ruleville</td>
</tr>
<tr>
<td>100,000</td>
<td>Starkville</td>
</tr>
<tr>
<td>1,500,000</td>
<td>Tate (Senatobia)</td>
</tr>
<tr>
<td>140,000</td>
<td>Terry</td>
</tr>
<tr>
<td>425,000</td>
<td>Union S. D. 4 &amp; 5</td>
</tr>
<tr>
<td>250,000</td>
<td>Wiggins</td>
</tr>
<tr>
<td>$3,665,000</td>
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*Authorized by State Commission; not voted. Expense paid.

NEW MEXICO

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<tr>
<th>Amount</th>
<th>Issue</th>
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</thead>
<tbody>
<tr>
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<td>City of Clovis</td>
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</tbody>
</table>

OKLAHOMA

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<thead>
<tr>
<th>Amount</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000,000</td>
<td>State of Oklahoma</td>
</tr>
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TENNESSEE

<table>
<thead>
<tr>
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<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,850,000</td>
<td>Bradley</td>
</tr>
<tr>
<td>500,000</td>
<td>Fayette</td>
</tr>
<tr>
<td>175,000</td>
<td>Goodlettsville</td>
</tr>
<tr>
<td>400,000</td>
<td>Haywood</td>
</tr>
<tr>
<td>310,000</td>
<td>Hardeman</td>
</tr>
<tr>
<td>2,400,000</td>
<td>Lebanon</td>
</tr>
<tr>
<td>2,400,000</td>
<td>Nashvillle</td>
</tr>
<tr>
<td>270,000</td>
<td></td>
</tr>
<tr>
<td>$22,113,000</td>
<td></td>
</tr>
</tbody>
</table>

*First issue of a much larger authorization.

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Report of the Municipal Subcommittee on Syndicate Operations

John W. de Milhau, Executive Officer of the Municipal Bond Division of the Chase Manhattan Bank, New York, N. Y. has invited and received the attendance of the subcommittee on an urgent matter of public interest.

The meeting was held in the Conference Room of the Chase Manhattan Bank, 50 Wall Street, New York City, on Thursday, November 2, 1961.

The Chairman of the Municipal Subcommittee on Syndicate Operations, John W. de Milhau, called the meeting to order at 10:00 A.M.

The following members were present:

- John W. de Milhau, Chairman
- John W. de Milhau, Executive Officer
- Joseph B. Wulbern
- B. Wulbern
- John W. de Milhau
- John W. de Milhau

The meeting was opened with a brief statement by the Chairman, followed by a report on recent developments in the field of municipal bond underwriting.

The Chairman then introduced a discussion on the current status of syndicate operations, with particular emphasis on the role of the Municipal Subcommittee in monitoring and regulating these activities.

The members of the subcommittee, after some initial comments, proceeded to discuss the following points:

A. Concerning the Manager
   - The need for a complete and final commitment from each member.
   - The ability of the managing agent to accept bids from all members.
   - The selection of a managing agent who is experienced and capable.
   - The importance of establishing a clear and consistent policy for the acceptance of bids.

B. Concerning the Proxy
   - The definition of a proxy and its role in the syndicate.
   - The selection of a proxy who is knowledgeable and experienced.
   - The need for a proxy to be selected on a rotational basis.
   - The importance of maintaining a comprehensive record of proxy transactions.

C. Concerning the Subcommission
   - The establishment of a subcommission to oversee the activities of the syndicate.
   - The selection of subcommission members who are knowledgeable and experienced.
   - The need for the subcommission to have the authority to make decisions on major issues.
   - The importance of maintaining close communication and cooperation among the subcommittee members.

D. Concerning the Syndicate
   - The need for a comprehensive and up-to-date record of syndicate activities.
   - The importance of maintaining a comprehensive database of syndicate information.
   - The need for regular meetings of the syndicate to review past performance.
   - The importance of maintaining a comprehensive record of all syndicate transactions.

The Chairman then closed the meeting by expressing his appreciation to all members for their participation and for their commitment to the well-being of the municipal bond market.
Report of the IBA Liaison and Bond Sale Procedures Subcommittee

Walter W. Craigie, Partner in F. W. Craigie & Co., Richmond, Va., submitted the following Report of the Liaison and Bond Sale Procedures Subcommittee, of which he was Chairman:

Numerous changes in bond sales procedures are proposed from time to time and are referred initially to this Subcommittee for consideration. The attitude of this Subcommittee has been that any change in established procedures should be recommended only after careful consideration of all implications for the issuer, the underwriter and investors, but that there should be no reluctance to depart from established practice when a proposed change will be constructive and helpful in the marketing of municipal bonds.

(1) Denominations

There have been numerous suggestions in recent years, particularly by large institutional investors, that municipal bonds be made available in $5,000 denominations, in addition to the usual $1,000 denominations. For holders of large amounts of bonds, the physical bulk of bonds in $1,000 denominations creates a storage problem and the task of clipping coupons from bonds in $1,000 denominations is time consuming and expensive. With about $70 billion of municipal bonds presently outstanding and the volume of municipal financial continuing to increase, it is important to provide any feature which would lessen a deterrent and add an attraction for large investors in such bonds. Five thousand denominations would reduce by 86% the bulk of bonds and the task of clipping coupons from coupon bonds in $1,000 denominations.

On the other hand, it appears essential that the market for municipal bonds be broadened to include many investors who may want to invest in units smaller than $1,000 denomination. It concludes that it would be unwise to conclude to recommend that municipal bonds be issued only in $5,000 denominations, even in large issues.

Since $5,000 denominations in municipal bonds may be a feature attractive to many investors, we propose:

(1) Where controlling constitutional and statutory provisions permit, and where practical and feasible, issuers of municipal bonds may add to the invitation for bids a provision requiring bidders (and issuers of municipal bonds in negotiations) to transact with the underwriter(s) to arrange for the issuance of only $5,000 or in denominations only of $5,000 or in denominations only of $1,000.

(2) Where constitutional or statutory provisions require that municipal bonds be issued only in $1,000 denominations, organizations interested in municipal financing cooperate in efforts to obtain the necessary amendments, so as to provide some assurance of such bonds in $5,000 denominations in addition to $1,000 denominations.

There may be difficulties in providing for $5,000 denominations in certain issues and it obviously will be desirable to make provision, as long as the situation exists, for the establishment of another bond sale procedure to allow for the possibility of issuing large denominations in many issues. Another approach to this problem may be to establish municipal bonds preferably convertible (a) in denominations of $5,000 or in denominations of $1,000 or any multiples thereof, and (b) as coupon bonds or to some other bond form, to be attractive to many large investors, but to provide some other provision, one of the principal of which is the experience of such investors and issuers is unwilling to assume. The City of Philadelphia recently has proposed that its coupon bearer bonds may be freely exchanged for fully registered bonds in the denomination of $1,000 or any multiple thereof and that fully registered bonds may be exchanged for coupon bearer bonds in other denominations at the option of the city. The experience in Philadelphia will be helpful in further consideration of this approach.

(2) Award of Municipal Bonds at Public Sale

In 1960 this Subcommittee recommended that the Municipal Securities Committee adopted the IBA Board of Governors approved, a resolution urging issuers of municipal bonds to determine promptly whether receipt of bids whether a bid will be accepted, and if a bid is accepted, to make a prompt written award of the bonds to the successful bidder. This resolution was adopted, the Board of Governors of the Municipal Finance Officers Association at its meeting in May, 1961, and by the Local Government Law Section of the American Bar Association at its meeting in August, 1961.

(3) Delivery of Municipal Bonds

In 1960 this Subcommittee recommended, and the Municipal Securities Committee adopted, the IBA Board of Governors approved, a resolution that the contract for the sale of municipal bonds be delivered to the winner of the bid for the sale of municipal bonds advertised in public bids, by specific provisions in the notice of sale (and in the bid form where the terms of the contract are established by the bid form).

This resolution was adopted by the Board of Governors of the Municipal Finance Officers Association in 1961, by the Local Government Law Section of the American Bar Association in 1961, and by the Executive Board of the M.F.O.A. with the addition, to the provision with respect to the delivery of the winning bidder to cancel if delivery is not made by the specified date, of the qualification "unless and until such time as the winning bidder has been proved, at his option, as a substitute for the default occasioned by circumstances beyond the control of the issuer." The Local Government Law Section of the American Bar Association approved the resolution of the Subcommittee for liaison with the IBA, recommending that each member of the Section give consideration to the provisions of this resolution and take such action as he may deem appropriate to protect the rights of the winning bidder and the issuer.

(4) Supplemental Coupons

In 1960 this Subcommittee recommended, the Municipal Securities Committee adopted, and the IBA Board of Governors approved, a resolution recommending that the Municipal Securities Committee and the IBA Board of Governors, concluding with recommendations that:

(1) Impartial statistical provisions be made for bidding requirements, which necessitates the use of supplemental coupons, be changed to the effect that such supplemental coupons can be submitted on a regular basis without the necessity for using supplemental coupons.

(2) Be included in notices of sale or bid forms a statement whether supplemental coupons will be required, so that all bidders will be bidding on the same basis.

The Board of Governors of the Municipal Finance Officers Association at its meeting on February 24, 1961, by resolution ligation of the same effect, as follows:

"RESOLVED, that in order to avoid uncertainty on the part of bidders for municipal bonds, it is desirable for issuers to specify whether or not bids providing for supplemental coupons will be accepted, and for this purpose it is recommended that issuers include in their notices of sale a provision similar in form to one of the following:

(1) Only one coupon will be attached to each bond for each installment of interest thereon, and bids providing for additional or supplemental coupons will be rejected.

(2) Bids may specify that the interest payable for any period prior to maturity will be re- presented in part by coupons designated as additional or supplemental coupons."

The resolution of the Municipal Forum was approved by the Local Government Law Section of the American Bar Association and by the Executive Board of the M.F.O.A.

(5) Other Matters Referred to Subcommittee

Other matters referred to this Subcommittee but not yet considered include the following:

(a) What minimum amount of good faith deposit should be required by bidders, based on a percentage of par value of the issue?

(b) When multi-purpose bonds are sold as separate issues at the same time and same place, should they be awarded individually or on an all-or-nothing basis?

(c) What amount of money, for "unconditional" bids in notices of sale have detrimental effects on bids by forcing bidders to accept unfavorable conditions?

(d) What financial responsibility should be required of bidders on municipal bond issues?

(6) Liaison Meetings

Joint meetings of liaison committees of the Municipal Finance Officers Association and the Local Government Law Section of the American Bar Association, the Municipal Forum of New York and the IBA have held this year, as in recent past years, at the annual meetings of the M.F.O.A., the American Bar Association, and at the time of the submission, to take this opportunity to express our sincere appreciation to the representatives of the other organizations for their cooperation and for the cooperation of their organizations for cooperation throughout the year in the exchange of recommendations to facilitate sound municipal finance practices.

Respectfully submitted,

Legion and Bond Sale PROCEDURES SUBCOMMITTEE

Walter W. Craigie, Chairman
F. W. Craigie & Co.
Richmond, Va.

Russell M. Ergood, Jr.
Strood & Co., Inc.

Lloyd B. Hatcher
Pressprich & Co.
New York, N. Y.

Cushman McGregor
White, Pressprich & Co.
New York, N. Y.

Richard Morey
Pressprich & Co.
St. Louis, Mo.

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

Walter H. Steel
Drexel & Co.
New York, N. Y.

George B. Wendl
First National Bank of Chicago

Alan K. Bourne
Bank of America N. T. & S. A.
San Francisco, Calif.
Report of Subcommittee
On Trading and Cashiering Procedures

During the current year the Subcommittee has been concerned with two subjects of importance to our business. (1) Recommendations for Computation of Principal and Interest on Transactions in Municipal Securities: The recommendations adopted by the Municipal Securities Committee November 28, 1933, and approved by the Board of Governors providing for purchase and sale invoices for trades in municipal securities to be figured to three decimal places, instead of six as was formerly done, have been in effect since Jan. 1. For several weeks following this effective date there were numerous instances where discrepancies resulted in figuring errors because different methods of computing basis prices which had been in general use failed to produce uniform results in some cases when carried to only three decimal places.

In order to eliminate these discrepancies the Subcommittee appointed a group of senior operating personnel from major dealer and dealer-bank firms to explore the problem thoroughly and submit recommendations for various methods of figuring which would always produce identical results. This group received excellent cooperation from Mr. Charles H. Gublee, President of the Financial Publishing Company. The Group's recommendations were approved and released to the IBA membership on March 31 and have apparently been effective in producing uniform figuring results.

Since it seemed advisable to have available to our members additional recommendations to cover most of the usual problems encountered in figuring municipal transactions, the Subcommittee has prepared a more comprehensive summary of suggested methods. This material was submitted for review and comment to members of the Board of Governors and the Municipal Securities Committee under date of September 28. If approved, the recommendations will be distributed to the membership in pamphlet form.

(2) Counterfeit or Forged Municipal Securities: Early this year it was disclosed that a substantial amount of counterfeit Ohio Turnpike Authority bonds as well as bonds of a corporate issue had turned up in the market. This added to the growing concern among issuers, dealers and investors that our rapidly expanding volume of municipal securities might become a more attractive field for counterfeiters and forgers. The Subcommittee was requested to review the problem and consider revising or bringing up-to-date a report issued by a special committee in 1934.

Since the subject was also being considered by a committee of the Municipal Forum of New York our Subcommittee agreed to work jointly with this group in a review of the problem. Our study is being conducted under two general approaches to the subject: first, a possible standard of specifications for printing municipal bonds which will provide maximum practical security at reasonable cost; and second, a brief guide for personnel handling municipal bonds which will aid them in recognizing counterfeit securities.

Our work so far we have consulted with many interested parties including state and local officials, municipal bond attorneys, indemnity companies, bank note companies and commercial banks. The Municipal Finance Officers Association is greatly interested in the problem and will undoubtedly work with us through the respective IBA committees when final recommendations are proposed. On October 8 we submitted to groups of municipal bond attorneys and bank note companies a suggested set of specifications for review and comment. It is our hope that a final report may be issued early next year.

The Subcommittee also has been asked to consider the practice of dealers offering two or more issues of bonds as an all-or-none package at a single price. The Subcommittee has not as yet had an opportunity to consider that question.

Respectfully submitted,

W. Neal Fulkerson, Jr., Chairman

MUNICIPAL SUBCOMMITTEE ON TRADING AND CASHIERING PROCEDURES

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Industrial and Municipal Securities

Shields & Company

Underwriters Distributors

of Municipal and Corporate Securities

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Telephone Digby 4-1400
Report of Subcommittee on Liaison With the ABTTA

William F. Morgan, Vice-President of Blyth & Co., Inc., New York City, was Chairman of the Subcommittee on Liaison with the American Bridge Tunnel & Turnpike Association and reported to the Convention as follows:

The Subcommittee appointed by the Committee had a relatively uneventful year. This position, to a large extent, has been due to factors over which neither the Committee (or the ABTTA) has had control and includes the following:

(a) The ABTTA for a substantial portion of the year had no active secretary (for approximately six months of the current year).

(b) The ABTTA moved its Executive Office to Washington earlier this year with subsequent difficulties of organization.

On Oct. 19, 1961 the Subcommittee had a luncheon meeting with President Frank J. Horthy, Vice-President John Pershing and Executive Secretary W. A. Rusch of the ABTTA in New York to discuss means of improving liaison with the Association. At this meeting, plans for the ABTTA for the future, changes with respect to its objectives, and its convention in Philadelphia on Nov. 12, through 17 were discussed thoroughly. The meeting was friendly in every respect and plans, methods, and hopes for improving liaison were considered by those in attendance.

The 29th Annual Convention of the ABTTA in Philadelphia was attended by three members of the Subcommittee. They attended business and committee meetings of the ABTTA to evidence the interest of the Committee in the activities of the Association.

(b) The ABTTA moved its Executive Office to Washington earlier this year with subsequent difficulties of organization.

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The 29th Annual Convention of the ABTTA in Philadelphia was attended by three members of the Subcommittee. They attended business and committee meetings of the ABTTA in order to evidence the interest of the Committee in the activities of the Association. At this meeting a plan was worked out whereby the IBA Subcommittee will assist the ABTTA in its efforts to secure improved additional use of standardized interim reporting for toll road projects.

Mr. John Pershing, President-Elect of the ABTTA for the year 1961-62, is well acquainted with investment banking activities and is aware of the wish of the IBA to cooperate on matters of mutual interest. The New Executive Secretary of the Association also appears to appreciate the value of closer liaison of the two organizations.

Accordingly, the Subcommittee feels that the outlook is favorable for improved liaison with the ABTTA during the coming year.

Respectfully submitted,

W. F. Morgan, Chairman
Blyth & Co., Inc.
New York, N. Y.

Report of Subcommittee on Financial Advisors For Municipalities

William C. Jackson, Jr., President of First Southwest Co., Dallas, as Chairman of the group, submitted the following Report of the Subcommittee on Financial Advisors for Municipalities.

Municipalities considering financing projects involving the use of money and avoiding serious problems by obtaining expert financial advice is available for the smallest of municipalities, which need assistance in elementary planning, procedures, and underwriting, as well as the larger municipalities, which need highly specialized advice on interest rates and market conditions. Expert financial advice should be obtained from an investment banker. Not only is he best qualified on matters such as current market conditions and interest rates, but he is most familiar with the requirements of various types of investments, municipal bonds, rates, options, and other pertinent facts which will result in the municipality receiving the best possible bids on the securities to be sold or as an engineer is employed to prepare the engineering surveys and an attorney is employed to prepare the legal proceedings and render a market opinion, an investment banker should be employed as early as practicable to provide sound financial advice.

Some of the important functions of a financial advisor include: making a survey of the financial resources of the municipality; recommendation of a plan of financing designed to obtain the needed funds on the most favorable basis; the selection of a date when the sale is available for receiving bids; the preparation of the New York City to include all information needed by bidders; the preparation of a Prospectus to include information expected by bidders and investors; assistance in the tabulation and comparison of bids; and arranging for the printing and delivery of the bonds.

Financial advisory service for municipalities is usually provided under one of the following two arrangements:

1. For continued counseling on financial matters not limited to any particular financing on a retaining basis. Counseling on this basis might involve matters other than the issuance of bonds, such as tax rates, utility rates, budgets, charter provisions, or a program for the investment of municipal funds. The compensation for this type of service might be a fixed amount, an annual retainer, or, if the issuance of bonds is involved, a per bond charge.

2. For a particular financing, where the bonds will be advertised for bid at public sale, or where the bonds will be sold on a negotiated basis to someone other than the financial advisor, the advisor will be compensated according to the extent of the services to be rendered, taking into account the type of bond and size of the issue.

Under either of the above arrangements, the compensation to be paid the financial advisor may be made to include reimbursement of various expenses such as cost of reports of engineers and fees of the attorney engaged by the issuer to perform legal services in connection with the issuance and/or approval of the bonds. In every instance, bond counsel should be engaged by the issuer and named in the financial advisory contract.

Respectfully submitted,

W. F. Morgan, Chairman
Blyth & Co., Inc.
New York, N. Y.
Report of Municipal Conference Subcommittee

Russell M. Ergood, Jr., Vice-President of Stroud & Co., Inc., Philadelphia, in his capacity as Chairman of the Municipal Conference Subcommittee, advised the Convention as follows:

The Municipal Conference committee was charged with the task of studying the necessity of an annual I.B.A. Municipal Conference where more time could be made available for more of the municipal people to discuss and study the many more problems created by the tremendous increase in volume in the field of Municipal Finance today.

In the last ten years, the volume of new issues of municipal bonds has increased from approximately $3,278,000,000 to $7,300,000,000.

Our committee is composed of capable representatives of our industry representing large and small dealers from various sections of the country. In fact, the geographical coverage of this committee is from coast to coast and the Great Lakes to the Gulf. This was not just by good fortune but by design because the problem which we were given to work out concerns everyone in this great land of ours interested and involved in municipal finance.

After thorough sampling of many opinions in various sections of the country, we found that most everyone was greatly in favor of having this Conference provided, however, it was held completely under the I.B.A. umbrella. It also came to light that many members of the I.B.A. who are interested in municipal finance have been unable to send their municipal men to the convention due to the limitation on the total number permitted to attend from an individual firm.

It is likely that various I.B.A. groups throughout the country will want to host a Municipal Conference so that from year to year it would take place in different geographical areas. Such conferences would, of course, be open to all I.B.A. members but appeal to the municipal element. The Conference could be one or two days with regular programs that would encourage participation and expression of individual opinions. In all probability, this would create greater grass-root interest and participation.

Therefore, our committee recommends:

1. The first Annual Municipal Conference be held prior to the Annual Convention in Florida.

2. Subsequent Annual Conferences can either be held at Florida or under the auspices of the various I.B.A. groups. It is recommended that this type of Conference be referred to the Group Chairman Committee.

3. In order to implement the First Annual Municipal Conference, our committee offers its services toward this objective, and it is further recommended that an Annual Municipal Committee be appointed by the Chairman of the Municipal Securities Committee.

The problems of our fifty states and their laws plus local customs and usages of the municipal bond business, and better communications between all segments of our business is important. An I.B.A. Municipal Conference can and will play a big part in solving these problems.

On behalf of the members of our committee, it has been a pleasure to serve you.

Respectfully submitted,
MUNICIPAL CONFERENCE SUBCOMMITTEE OF THE MUNICIPAL SECURITIES COMMITTEE

Russell M. Ergood, Jr., Chairman
Stroud & Co., Inc.

Ernest J. Allgeier, Jr.
Harry Trust & Savings Bank
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Subcommittee’s Report on Metropolitan Area Problems

Orlando S. Breuer, Partner, Phelps, Fenn & Co., New York City, in the role of Chairman of the Subcommittee on Metropolitan Problems, submitted accompanying Report to the Convention:

In recent years a large number of studies have been conducted seeking a solution to the metropolitan area problems of transportation, school planning, water, sewerage and a multitude of other services required by mushrooming communities dotting the nation. Many of these problems can be attributed to the metropolitan areas spreading beyond the political boundaries of the cities which form their base. These problems are further magnified when one takes into consideration the system of cities in the suburban and the urban to the rural. It is apparent that no easy solution exists. However, in seeking a remeedy three general problems which involve the metropolitan area are:

1. The appropriate governmental units to furnish the facility or service, (2) the division of political authority among the various governmental units within the area, and (3) the means of financing the facility or service.

Five general approaches determine what governmental units are to provide area-wide services which have been:

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 New York Port Authority and the Metropolitan Water District of Southern California).

2. A metropolitan federation organized on a regional basis as a new governmental entity, to which the various central governmental units within the area surrender authority to deal with specific functions (for example, the Municipality of Metropolitan Toronto).

3. A shift of specified functions to an area-wide governmental entity which encompasses the entire area (for example, Dade County, Florida).

4. Annexation or consolidation of entities.

5. Joint exercise of powers through contractual arrangements for services.

This report does not propose to cover all the developments regarding metropolitan area problems, but it includes a summary of some of the principal developments illustrative of the problems involved and the solutions suggested.

CALIFORNIA

California population explosion poses many problems. A recent study by the Governor's Commission of California for Metropolitan problems brought to light various and sundry problems that are now plaguing the state and will continue to do so in the near and distant future. As a result of this state's population explosion, California today has 15 million people. Almost 14 or 15, or close to 90% of this population, live in one or another of nine metropolitan areas. The number of these cities has increased to 36, but in spite of this, a tremendous number of the people living in metropolitan areas do not live within incorporated communities. The metropolitan community—millions of people and their daily living activities—expanded beyond municipal boundaries, and in several cases, has crossed boundaries. Half of the metropolitan communities in the state include two or more counties. In short, there now exist area-wide complexes with wide-area problems, and needs which are beyond the capacity of one or a few of local units of government to solve.

These area-wide problems are acute and are mounting with population increases. It is estimated that California's population increases by 1,500 people a day, that each year one million persons are added. If this rate of increase continues, California will have reached two million people within the year 1980. In common with national trends 80% of this growth occurs in metropolitan areas. By 1980 California will have an estimated 30 million inhabitants. If 28 million will live in one metropolitan area of the state.

The Commission, after examining and evaluating these problems, concludes that many problems of metropolitan area planning must be faced. The governor has directed that the plan be developed and that the director of the Planning Department be appointed as the director of a Metropolitan Planning Board. A metropolitan area plan is needed for Los Angeles, Orange and Riverside counties. The plan would be developed under the Metropolitan Planning Board, with the cooperation of the counties, cities, school districts, and special districts within the area. The plan would be based on the California State Plan and would deal with problems of transportation, land use, and water supply. The plan would be submitted to the Legislature for approval and would be effective for five years.

The plan would be a guide for the development of future growth, and would provide a framework for the growth of the region. The plan would also provide a basis for the development of a metropolitan area plan for the entire state, which would be submitted to the Legislature for approval and would be effective for five years.

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the plan, local governments will maintain autonomy for local planning, while using the special district organization as a tool for cooperation for the development of the region as a whole. MPTA could be later expanded geographically or developed into a multi-purpose district as recommended by the Governor's Commission on Metropolitan Area Problems.

The Southern California Research Council recommended that the proposed Authority's initial planning should be designed to seek balanced development of freeways, of rapid transit facilities in the city centers, of bus expressways or express lanes, of airport access routes, and of multi-purpose transit centers.

**SAN FRANCISCO**

Millions in benefits expected by Bay Transit. In 1975, within three years of the proposed regional transit system's entering full operation, a 120-mile system will consist of 20 miles of subway and tunnels, 46 miles of aerial lines, 41 miles of high-speed surface lines, a 14-mile underwater transit tube connecting San Francisco and Oakland, and a 4-mile rail link suspended beneath the present deck of the Golden Gate Bridge. The network will comprise five main transit lines radiating outward from the trans-bay tube and extending along heavily travelled traffic corridors.

Total cost will be $1,078,000,000 not including $133,000,000 for construction of the trans-bay tube which will be provided for from surplus Bay Bridge automobile tolls. By 1980, the systems will be carrying more than 127,000,000 passengers annually and producing gross revenues of close to $400,000,000 annually. In addition, the systems will leave a surplus of more than $25,000,000 annually after operating expenses and initial debt costs.

Financial advisors of the San Francisco Bay area Rapid Transit District have developed a schedule of future tax rates to finance the construction of the rapid transit system. The tax bill of a Bay Area homeowner will total approximately $4 during the initial years of construction, which are planned for 1965-1966, $28 after the 1960-1961 period, and $45 in 1962-1963.

Underwriter's fee and all operating costs, including equipment, will be covered by the general fund of the Authority. The general fund contains all revenues and is the legal entity that can secure construction and operating capital. Preceding the 10-year period, assessments will meet only interest payment. The maximum transit district tax rate would represent 17% of the average combined tax rate in the five counties of the District.

**FLORIDA**

Metro Government to Continue in Dade County, Florida. The controversial "Metro" plan of government is to be continued in Dade County which encompasses Miami and surrounding areas. The metropolitan form of government was saved from virtual oblivion by a narrowly favorable margin at the polls in an election held on Oct. 20. A record number of voters turned out to decide the fate of the five-year-old experiment. Although passage of the amendment would not have dissolved Metro completely, it would have put such strong restraint upon the power of the body that flight of the status would have been the ultimate result. If the Metro plan had been turned down, the ramifications could have caused grave consequences in many parts of the country where the plan is being considered—notably in Cleveland, St. Louis, Nashville and Memphis. In fact, the question now is: Can Metro iron out the many problems that have been plaguing the Metro operation? No doubt, those considering the plan will develop a wait-and-see attitude before jumping in with both feet. Metro's problem has been that the municipalities within the government have maintained much control over many local matters nullifying the roll of Metro to some extent. However, it is hoped the vote of confidence given the transit system, establish transportation policy and direct all transportation activities. This present recommendation makes no provision for the control of traffic, parking and planning by the Authority. It has, however, been endowed with regulatory powers, the right of eminent domain and the power to buy and sell property. Immediate ownership and operation by the authority of a mass transit system has not been provided for. In fact, there is a mandatory two-year moratorium on

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The problem of adequate mass transportation in the Baltimore area is a regional one and its solution will provide benefits irrespective of internal political boundaries.

The proposed metropolitan transportation authority for the Baltimore area, is looked upon for the most part with favor by all. It goes without saying that the initiation of the proposed plan, would do much to alleviate the problems now plaguing the city and surrounding areas. But it is doubtful that this will come to pass this year or in the near future, until a remedy can be found for the attitude of the Anne Arundel County Commissioners towards the proposed programs. This could come about in the county elections in 1962.

The Commission report observes that only a metropolitan authority can supply a comprehensive approach and continuous specialized handling of the mass transit problem.

The advantages of a metropolitan transit authority include first that the exclusive concern of a special agency would be given to metropolitan transportation. (At present, public mass transportation in Baltimore is regulated by the Public Service Commission.) Second, the jurisdiction of the proposed authority would extend over the appropriate geographical area. Third, the authority could use its revenue-raising capacity to the advantage of private companies. Fourth, in the event that the authority acquire and operate mass transit companies, it would have at its disposal revenues, formerly paid in taxes or dividends, which could be used by the authority to subsidize its services. Fifth, private companies could be required, in the suggested program, to extend existing services. Sixth, the use of prudent operating ratios as a method of fixing rate return would encourage private companies to improve services. The general grant of powers would include authority to issue bonds, raise revenues, and assist private operators in their business. The authority would be empowered to require extension of services or routes in given circumstances.

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Missouri
St. Louis faces transit quandary. More than $400,000,000 is being spent on expressways as part of a federal aid program in St. Louis County but traffic growth outstrips highways. Railways face increased costs, competition and declining patronage. Public transit is fragmented. Area population surges upward.

In recent months three proposals have been made to solve the acute St. Louis metropolitan area transportation problem. The central feature of all three plans is a coordinated metropolitan area transit system. To date there has been little integration of transportation facilities.

Two of the three plans which have been submitted call for public ownership, the third approves continuation of private ownership. There is common emphasis, however, on a consolidated all-bus transit system. The first of the three plans was prepared in 1959 for the Citizens Metropolitan Transit Committee, a group appointed by the Mayor of St. Louis and the County Supervisors. This plan was prepared and presented to the County Board of Commissioners. The second plan was prepared by an organization of business leaders known as the Business Growth and Development Committee. The third plan was presented by the Metropolitan Regional Transit Authority to the County Board of Commissioners in October.
plan advocated a number of changes, including an extensive network of expressways, limitations on parking, improved traffic controls and highways, rapid transit bus terminals and increased parking facilities. A bus rapid transit system is the central feature of the plan. Radial routes would connect a bus roadway distribution loop with outlying sections of the city and county. Of 86 miles of rapid transit service, almost half would be on exclusive bus roadways, the balance on outer sections of expressways. The same buses would supply both local service and exclusive roadway rapid transit service. The report proposes an area-wide authority with taxing powers and power to deal with traffic, fares and service. Total cost of the plan, including improvements in highways, traffic control, parking and other projects, is $340,000,000. A $30-a-year levy on all automobiles within the area is suggested as a means of financing the plan.

Mayor Raymond Tucker of St. Louis has proposed a second plan, the creation of a St. Louis Transit Commission, appointed by the mayor, with power to acquire all transit facilities in the area.

The third plan was offered by the St. Louis Public Service Company, a private enterprise. Under this plan the company would integrate all transit service in the St. Louis Metropolitan Area. It now earns approximately 80% of the total dollar volume of transit services. Its plan provides that it will acquire working control of the 14 other transit companies in the area. This would make possible coordinated schedules, unified planning and operations, and centralized maintenance of equipment. The new traffic system would be relieved of the obligation to pay local taxes. New traffic and parking regulations would be introduced. Regulatory jurisdiction would be given a local St. Louis metropolitan area agency, rather than a state commission.

Operating contracts would cover the service and rates to be provided, with a floor and ceiling on earnings. The company would replace double buses with transfers, add 57 rush hour and shopper express lines to outlying districts, supplement local routes and extend existing routes. The advantages and disadvantages of a publicly subsidized, profit-making private system, compared to a publicly owned system that pays neither taxes nor dividends, must be weighed in the balance. The plan is generally agreed, however, that delay in a worsening situation is the most costly course of all.

NORTH CAROLINA

Consolidation of the City and County of Durham meets defeat. A better than a four to one vote cast by the citizens of the City and County of Durham defeated the Durham Charter Commission to consolidate the County and City. Both rural areas and city districts as well as professional groups were members of all ethnic groups, voted in the defeat. Among the telling factors was a fear of increased taxes and an effective "Don't be fooled" campaign by those opposed to the Charter.

OHIO

Cleveland voters decide on establishment of a charter commission. A delegation from Cuyahoga County Mayor's and City Manager's Association appearing before the Board of County Commissioners requested that the voters be allowed to vote on the question "Shall a Charter Commission be established?" This action follows by only 15 months the rejection of a proposed Council Charter which would have metropolitanized most of the services with metropolitan implications.

A new move by municipal leaders followed a nine month study by a special committee of Mayors and other civic figures in which they agree upon the idea of a limited management charter.

Pennsylvania

Philadelphia area transportation problems. In common with other large metropolitan centers, the Philadelphia area is suffering from an acute and growing transportation problem. Various localized efforts are being made to correct this situation, such as the organization of the Passenger Service Improvement Corporation, involving a cooperative agreement between the City of Philadelphia, the Pennsylvania Reading railroads, and the railroad brotherhoods, and the promotion of a high-speed transit line connecting the City of Philadelphia with the Camden area, but by far the most comprehensive...

Continued on page 42

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effort to resolve the problem consists of a study which has been under way since January, 1969, by an organization under the name of Penn-Jersey Transportation Study. The group making up this organization consists of 12 agencies, including the U. S. Bureau of Public Roads, the State highway departments of both Pennsylvania and New Jersey, and the nine counties making up the Philadelphia-Camden-Trenton metropolitan area. The announced objective of this study is "to plan a coordinated highway and public transport system to promote and serve a desired pattern of regional development in the nine-county Philadelphia - Camden - Trenton metropolitan region." Intensive surveys and other exploratory work have been underway in this region and exhaustive studies on transportation problems and their solutions have been conducted in other metropolitan areas throughout the country.

This work is being directed by a large staff, including experts in all of the specialized fields which can contribute to the solutions of transportation problems and the associated issues of regional development. The staff includes not only contractors and traffic planners and engineers, but also economists, sociologists, political scientists, urban planners, geographers, and experts in modern data compilation and processing. Full-time staff members number some 600 people. While most of the effort so far has been devoted to field surveys and other work of an exploratory nature, recommendations should be forthcoming soon as to what character of transportation facilities, both rail and highway, will best serve the region's needs and as to the methods of putting these plans into effect.

TENNESSEE

Legal steps taken to prevent Tennessee annexation. Court action has been initiated by both state and Federal forums to halt the proposed annexation of a 41 mile area with a population of 48,000 by the City of Knoxville.

Petitions calling for a referendum on the annexation ordinance have been circulated widely. There have been reports of irregularity regarding the petitions though the Knox County Election Commission receipted the circuit court for information on the course of registering voters. However, enough suspicion was generated to force the City Council to initiate an investigation. The Election Commission thereupon petitioned the circuit court for information in order to stop the course of seeking the petitions and succeeded in securing a show-cause order. Upon hearing the arguments the referee ruled that a petition for a referendum on an ordinance was properly submitted to the City Council and that the City Council had the power to decide on the validity of the petitions.

Further litigation pertaining to the annexation consists of individual suits brought by property owners in the annexed areas. An ultimate appeal to the Supreme Court on the constitutionality of the state law, which permits annexation by ordinance, is considered probable. Litigation on this question promises to continue for two years or more during which period annexation cannot be effected.

In the Knoxville area, local courts in a brief ruling have upheld the annexation to the city of Nashville of seven miles of commercial and industrial property. The courts found that since the reasonableness of the annexation was a debatable question, the annexation could not be overturned, and that a prior Supreme Court decision upholding a Knoxville annexation was reasonably the issue of representation in the instant case. Appellants are expected to distinguish between the Nashville and Knoxville annexations on the grounds that the Knoxville councilmen are elected at large and the annexed areas would automatically have the right to vote for them whereas in Nashville councilmen are elected from districts and the annexation ordinance has therefore made provision for representation.

TRI STATE REGION

New Jersey - New York: Crystal ball view of metro needs in 1985 discussed by businessmen. Businessmen, forty-one strong, from the New Jersey, New York, Connecticut metropolitan region, met in Harrison, New York, to discuss their area needs for the future. Their discussion of the region's development over the next 25 years was based on the recently released New York Metropolitan Region Study, a three-year project conducted by Harvard University's Graduate School of Public Administration.

The improvement of mass transportation systems and the development of broad land use plans in the region was considered vital. It is anticipated there will be a 50% increase in jobs and population in the region over the next 25 years, with the fastest rate of growth occurring in the outer ring - Monmouth, Middlesex, Somerset, and Morris Counties in New Jersey; Dutchess, Putnam, Orange, Rockland, and Suffolk Counties in New York; and Fairfield County in Connecticut. The study estimates that there will be 24 million people and 9.5 million jobs in the region in 1985. The area of urbanized land will double to cover 4,000 square miles by that date. The region will continue to be a relatively high wage area providing a diversity of employment opportunities, which will be filled to a greater extent by natural population increase and to a lesser extent by in-migration.

The businessmen concurred that the coherence of transportation facilities and waste of capital investment and prime land were found to be the fundamental weakness in the present regional plant. Transportation to the central business districts is inadequate, traffic congestion in the core now cost an estimated $2 billion to the state's businesses. They further agreed that the total transportation system of the region must be dealt with as a whole.
to assure efficient communication among the older central business districts, and the newer industrial clusters and residential areas which will continue to spring up throughout the region. It was suggested that New Jersey and Connecticut develop programs comparable to New York's limited tax abatement and low-interest, long-term loans for new low-rent housing units.

It was further agreed upon that States, counties, and municipalities must act quickly to halt hazardous land development and to reserve open space for the anticipated population boom. It was recognized by the group that public policies for guiding the region's development will require careful study and close cooperation among the region's 1400 local governments through organizations such as the Metropolitan Regional Council. Effective regional cooperation requires adjustment of the tax structure to eliminate competition among local governmental units for high tax producing industries and residents. The states and counties should exercise more responsibility in regional development through technical advice and services, and stimulation of cooperative local planning and action. Finally the group suggested that the public must be educated to the concept of the region and its patterns of change and growth.

VIRGINIA

Richmond talks about merger. Richmond--Henrico County: Decision to be reached on Dec. 15, 1961. The property line of the City of Richmond, Virginia and its neighboring Henrico County is approaching completion. The decision will be made by the voters on Dec. 12, 1961. If the voters and the legislature approve the plan, the merger will become effective Jan. 1, 1963 creating a city of 250,000 persons.

The bonded indebtedness of Henrico County, which is outstanding as of the official merger date, would be assumed by the new incorporated city. Henrico County obligations are rated Aa and the present city of Richmond retains an Aaa rating. The merger would make Richmond one of only three cities in the United States with county and city governments combined. Denver and San Francisco enjoy governments of this type.

An important factor in the proposed corporation entails the revision of the tax equalization rate. Henrico County tax rates would have to be gradually raised if such a merger was to be effected.

To provide for a representative government body, the proposed city area would be divided into five boroughs, one being the present city and other four being the four magisterial districts of Henrico County. The present city borough would elect four council members and each of the county boroughs would elect one member. The council members would be elected from the incorporated city at-large.

County-Town merger denied. A petition by the Fairfax County, Virginia Planning Commission seeking a referendum to consolidate the town of Clifton and Fairfax County has been denied by the Circuit Court. If it had been approved, a formerly sparse rural area would have become the second largest municipality in the nation. Fairfax County, Virginia, with an area of 460 square miles and a population of 275,000, had previously signed a merger agreement with the town of Clifton, with a population of 250, on the authority of a heretofore unused state law which authorizes a county and town to consolidate into a single city.

The merger plan represented an attempt to prevent the gradual eating away at the county by selective annexation suits and incorporations. Under Virginia's unique pattern of city-county separation, wherein a city of over 3,000 persons is de jure independent from the county which may surround it, city annexations remove territory, population, and taxable values from the county. A Falls Church suit to annex 4.5 square miles of Fairfax is still pending in the courts and Alexandria is expected to seek a larger area later this year.

Fairfax County, which has experienced a population increase of more than 200% since 1950, has been considering measures to prevent fragmentation by incorporations and annexations for over three years. In January, 1958, the Public Administration Service recommended a "Metropolitan County" form of government, pointing out that if existing state laws remained unchanged and expansion of cities and towns continued, the county would be cut into two in ten years by a series of municipal islands which would dilute county planning and zoning, and complicate extension of urban-type services.

The urban county plan, as drafted by the Fairfax Commission on Urban County Government, continues on page 44.
Continued from page 43

ment, was enacted by the State Legislature in 1960. It extends to counties of more than 90,000 persons a new organizational option which allows sub-units of county government to function as service districts and pre-empts all future incorporations within the county territory. It does not, however, limit annexations by formerly incorporated cities.

If the current merger proposal survived, the county would have achieved city status without waiting for legislative charter approval. The pertinent enabling statute provides that such consolidation may take place provided that the consolidated city adopts the draft charter, which is written into the statute and is given prior approval. A City Council would have replaced the County Board of Supervisors. Initial public reaction to the move was favorable, although the town of Fairfax had petitioned for second-class city status to assure its territorial integrity within the proposed larger city.

WASHINGTON, D. C.

D. C. compact sets precedent
A precedent-setting document, the Washington Metropolitan Area Transit Regulation Compact, was signed in December 1960 by the Governors of Maryland, Virginia and the Commissioners of the District of Columbia. The compact establishes, provides for the creation of the Washington Area Transit Commission, which will regulate the existing, privately owned transit in the metropolitan area. The Commission is to begin operations 90 days after the signing of the compact, set for March 1961.

The compact is the product of several years’ work. This was negotiated in 1959 by representatives of the Tri-State Commission in cooperation with the utilities commissions of Maryland, Virginia and the District of Columbia. In June 1960, Congress gave its consent to the states and the District of Columbia entering the compact. At present, transit operations in the region are subject to the regulation of four separate commissions, three from the District of Columbia, Maryland, and Virginia and the fourth, the Interstate Commerce Commission. The newly created Commission will centralize the regulation of transit in the metropolitan area.

SUBCOMMITTEE ON METROPOLITAN AREA PROBLEMS

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The Commercial and Financial Chronicle • Thursday, December 28, 1961

JAPANESE SECURITIES

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The price-earnings ratio of insurance stocks, representing the state of mind of investors toward insurance companies, has become, in recent years, a more important yardstick to the investor. For this reason, the insurance sector has been attracting more and more attention in recent years.

The insurance industry is one of the most important industries in the United States. It plays a vital role in the economy, providing protection against loss and helping to ensure the financial stability of individuals and businesses. Insurance companies provide a wide range of services, including life insurance, health insurance, and property and casualty insurance.

The insurance sector has been growing rapidly in recent years, as more and more individuals and businesses have come to rely on insurance to protect themselves against financial loss. This growth has been driven by a number of factors, including increased demand for insurance and improved underwriting practices.

However, the insurance sector has also faced a number of challenges in recent years. The most pressing of these challenges is the rising cost of claims, which has put pressure on insurance company profits. In addition, the insurance industry has also faced increased competition from other financial institutions, such as banks and investment companies.

Despite these challenges, the insurance sector remains an important part of the economy, providing a range of services to individuals and businesses alike. The continued growth of the sector is likely to be driven by increasing demand for insurance and improved underwriting practices.
the progress made in solving the problem of automobile liability insurance, gains made in increasing operating efficiency by reducing the ratio of expenses to premiums written and the effect of weather conditions on underwriting results.

Factors affecting investment results. Underwriting a line of liability business would be gains made in net investment income and returns on investments on the one hand and the large public's trust in the security of various companies on the other.

Development in the field of combinations or mergers of fire and casualty insurance companies. This would include a description of the combinations which have taken place and consideration of possible future implications of the recent decision of the Court of Appeals of New York State which reversed the ban which the New York Insurance Department had placed on the acquisition of a fire and casualty insurance company in New York.

An examination of the aggregate combined loss and profit ratios of a group of 40 representative fire and casualty stock insurance companies for the past four and one-half years indicates a basically improving trend of underwriting results, as shown in figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Loss Ratio</th>
<th>Expense Ratio</th>
<th>Combined Ratio</th>
</tr>
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<tbody>
<tr>
<td>1960</td>
<td>85.9%</td>
<td>63.5%</td>
<td>149.4%</td>
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<tr>
<td>1961</td>
<td>85.9%</td>
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<td>1962</td>
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<td>1964</td>
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Property Losses Increased Owing To Bad Weather

Unfortunately, bad breaks in weather conditions both in 1960 and 1961 resulted in sharp increases in property losses, especially in the fire and extended coverage lines. Losses were reduced and gradually converted into profits. Closer scrutiny of the underwriting business received from agents in certain metropolitan areas also produced better underwriting results through the process of weeding out less desirable business.

Perhaps more important than either of these factors has been the company's effort to increase efficiency and reduce their expense ratios. Adoption of more efficient operating techniques, particularly through increased utilization of electronic data processing equipment and through better control of personnel, has represented an important avenue for improvement. Reductions in cost have been such as a result of the combination of using more efficient techniques and the more judicious use of resources available to the company.

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The Commercial and Financial Chronicle

Volume 194 Number 6120

September 10 and 11 of this year whipped into Texas from the Gulf of Mexico and caused numerous catastrophic property losses in that area. Fortunately, the second major tropical storm of the season, hurricane Esther, stayed off the coast and its winds caused a relatively small amount of property damage.

It would thus appear that in 1960 and 1961 there have been more neutralized periods which have suffered from natural storms and natural disasters.

Unfortunately, the second major storm of the season, hurricane Carla, occurred September 10 and 11 of this year, whipped into Texas from the Gulf of Mexico and caused numerous catastrophic property losses in that area. Fortunately, the second major tropical storm of the season, hurricane Esther, stayed off the coast and its winds caused a relatively small amount of property damage. The year 1957 represented one of the worst loss years in the history of the fire and casualty insurance business. Since that time, however, im¬
Continued from page 45

vanced by more than 5% and surplus increased by 10%.

The upward trend of investment income and values of equities owned has continued to date in 1961 and is expected to provide an important buffer against the increases in property insurance losses being experienced as a result of the severe storms of this year. Based on representative figures for a broad group of 210 stock insurance companies, their aggregate policyholders' surplus as of Dec. 31, 1960, was approximately $8 billion, so that a 10% increase would amount to $800 million. This would more than take care of a substantial amount of underwriting losses.

Dividends Increased

Dividends declared by the aforementioned list of 210 fire and casualty insurance companies aggregated $279 million in 1960 (including policyholders' dividends). This equaled 56.7% of net investment income. Exclusive of policyholders' dividends, the pay-out percentage might be estimated at about 50%. This indicates that there is a good margin of coverage for dividends for the average fire and casualty insurance company. A large number of fire and casualty insurance companies increased their dividend rates to shareholders in 1960 despite the Inroads made in underwriting profits by hurricane Donna. More companies have raised their dividends to date in 1961.

However, the pace of dividend increases for the balance of this year probably will be slowed as a result of hurricane Carla's effect on underwriting results for 1961. Net investment income can be expected to continue its steady upward trend, however, and this should pave the way for future dividend increases when underwriting results show improvement.

During the past 12 months the merger movement among the fire and casualty insurance companies has made substantial progress. The following combinations have constituted some of the principal recent developments along this line.

Federal Insurance Company and Great Northern Insurance Company.
Hanover Insurance Company and Massachusetts Bonding & Insurance Company.

Court Decision May Augment Mergers

One new factor, which is expected to have important implications with respect to future developments in the merger movement in the insurance company field is a decision of the New York State Court of Appeals rendered on June 1, 1961. In this decision, the Court upheld the right of a life insurance company licensed in New York but incorporated in another state to purchase a controlling interest in a fire and casualty insurance company organization. Whether or not this new right will be exercised cannot now be forecast, nor can the timing or the names of the companies involved be predicted with accuracy.

Based on market action of their stocks following the announcement of decision, it would appear that investors tend to think that Aetna Insurance Company and Phoenix Insurance Company, both of Hartford, are the fire and casualty insurance companies most likely to be involved. This perhaps stems from the fact that the companies originally involved in the case were both located in Hartford (Connecticut General Life Insurance Company and National Fire Insurance Company of Hartford). The chief effect of the decision is to remove one possible obstacle to future combinations.

Market action of fire and casualty insurance company stocks has been favorable during the past year, although the hurricane news concerning the large losses from Carla depressed insurance stock prices in September, just as the effect of hurricane Donna last year was to bring prices down then. The Alfred M. Best Index of 29 fire and casualty insurance stocks started the year 1961 at 425. As of Aug. 31, 1961, it was up 32% to 561. A study of the price action of individual issues indicates that the highest quality stocks during this period showed an average gain of over 40% while for the second line issues the average gain was closer to 20%. Thus, the overall tendency has been to favor the highest grade issues which are on the approved lists of such institutional investors as trust companies, pension funds, investment trusts and universities.

Outlook for 1962

In looking ahead to 1962 it would appear that, for the fire and casualty insurance companies, the favorable factors outweigh the negative ones. Despite the hurricane losses, the basic factors relating to underwriting appear to be on the plus side. Definite progress is being made toward solution of the automobile insurance problem and toward reducing expenses. Mergers or combinations are expected to help increase the overall strength and efficiency of many companies in the industry. At the same time investment results are continuing to make possible good gains in surplus and in net investment income.

Significant Developments in The Life Insurance Field In 1961

From the standpoint of Investment Bankers, the most significant development in life insurance affairs in 1961 has been the advance in the price of the stocks. Shares of life insurance companies have had a rather steep increase from the levels which existed at the beginning of the year. At the end of December, 1960 the Alfred

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M. Best & Company Index of 30 life stocks was 193.9. At the end of September, 1961 this index was 341.9, an increase of 77.2%.

The year 1961 has been a year in which institutional investors have been heavy buyers. Institutions are generally long-term holders and do not trade the stocks. As they "lock up" sizable blocks of stock, the already thin markets become tighter. In other words a supply and demand factor is injected into the market prices. Although most analysts seem to agree that current times earnings multiples are high enough, the stocks do have support at present levels.

Life Insurance Sales Up 5.6% Over 1960
Sales of life insurance so far in 1961 are greater than they were in 1960. For the first nine months of this year, the latest data available, total purchases of life insurance were $57.1 billion an increase of 5.6% over the same period in 1960. Of that total $19 billion or 60.3% were sales of ordinary life insurance, $12.8 billion or 22.4% was group life and $5.3 billion was industrial insurance. Ordinary insurance sales, normally the most stable and profitable type, increased less than 5.6% over the same period of 1960. Industrial insurance sales increased about 1% and sales of group insurance increased approximately 28%. The large increase in group sales was partly accounted for by one large case which was slightly over $2 billion.

Purchases of life insurance are not keeping pace with the great up-surge in sales in the period from 1946 to 1960. It would not be realistic to expect such percentage gains in each year. The life insurance industry continues to stress its product, however, and $76 billion is not an insignificant figure for a nine month period. As the population of this country continues to expand there is every reason to believe that more and more life insurance will be sold.

Mutual Funds and Life Insurance
The year 1961 has seen a continuing change in the emphasis on the types of coverage being sold. Until quite recently most life insurance purchased was whole life or some variation of that form. The policies built up cash values and had some savings features as well as protection to survivors in the event of the death of the insured. During the past 10 or 15 years the insurance public has become more aware of inflation and its threat to a program of fixed guaranteed dollars. For many years the life insurance industry has built its reputation on a promise to pay a sure and certain sum upon the happening of a specified event, either death or the passage of a specified period of time. As the treasure of purchasing power of the dollar declined, the insured's only protection was to purchase more insurance in the hope that he would have enough to fill the need insured against at some future date. Because of the increased awareness of inflationary pressures, and the fixed nature of the life insurance program, many people are turning to the purchase of equities in some form to help protect them from a decline in future purchasing power. As a result there has been, of late, more emphasis on buying term life insurance which has little if any savings element and is cheaper than whole life. These purchases of term life are coupled with the purchase of mutual funds to attempt to provide a program which will keep pace with the cost of living as well as provide protection in the event of death. There are in existence today a fair number of large agencies whose salesmen are licensed to sell both mutual funds and life insurance.

Variable Annuities
Another approach to the problem of inflation versus fixed dollars is the Variable Annuity. Annuities have been sold by life insurance companies for many years. However, these like life insurance policies provide fixed guaranteed dollars. Many buyers of annuities, specifically buyers of group annuities which are often pension plans, have preferred to have their monies invested in equities. Therefore, the life insurance industry has lost some of its group pension business to the banks. Variable annuities can be one method by which the life insurance industry can recapture this business.

There are other approaches to this problem which are more favored by the industry. Many life insurance company officials believe that they could solve this problem if they were allowed to segregate funds. By this, they mean to invest the reserves set up against life insurance in fixed income securities and to invest at least some of the reserves set up against pension business in equities. The pension reserves would be kept in a separate account and not co-mingled with straight life insurance reserves. All of these plans have advantages as well as disadvantages and which one is used will depend on the individual company's approach to the problem.

The year 1961 has been a satisfactory one from the standpoint of mortality experience and investment results. Mortality experience is not improving as rapidly as it did during the period immediately following the advent of the "wonder drugs" such as penicillin, sulfa and the nicotines. The gains made in medicine and in general public health during past years do, however, continue to keep current mortality rates at a very satisfactory level. Any significant progress in the treatment of cancer and heart disease would prove of material future benefit to the industry.

Investment results in 1961 continue to be excellent. Money rates have been maintained at a reasonably favorable level and while the industry must constantly search for attractive investments they have, in the main, succeeded in finding them. Life insurance shares are currently being priced as growth stocks. The past record plus the indicated potential supports this position. Investors who purchase them as long-term commitments should do very well.

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Report of the IBA Public Utilities Committee

Carl C. Brown, Partner, Dean Witter & Co., New York City, presented the following Report of the Public Utilities Securities Committee, of which he was Chairman:

Since reporting to you a year ago about the status of the Public Utility Industry, we have been through trying times both on domestic and international fronts. We are delighted to report that the electric utility industry, the telephone industry, and gas distribution companies have come through the 1960-1961 recession with outstanding results. They have shown higher earnings, more dividend distributions and experienced substantial appreciation of their common stock equities. The electric utility industry is in an especially favorable position today, because of its large excess reserve capacity position to handle greater volumes of business, and its financial strength enabled to take care of expansion requirements with relative ease. We cannot say the same for the natural gas transmission companies, where we observed the recession in terms of volume of business done but have suffered deterioration of investor confidence. With this note of cheer, we wish to turn to the problems of the future. On this score we cannot afford to become complacent because we see storm signals appearing along the horizon.

Advocates of Public Power Gaining Strength

During the year there have been mounting developments which have harassed the electric utility industry on a number of fronts. Public Power advocates now have stronger representation in the Nation's Capital. While all of us have become accustomed now to the acts of "cold war" being waged against the United States by foreign nations, we are disturbed to see a "cold war" being waged within our own ranks by investor-owned utility companies. While we have little, if any, control over the international situation, there is much that we can do to exercise our rights and affect decisions over domestic matters. Let us see just what has been happening which is tending to weaken the utility industry, one of the stalwarts of the American economy.

We must be reconciled to what has happened in the case of the Tennessee Valley Authority, which initially was created for the purpose of utilizing a small amount of hydro-electric project and now has evolved into the largest steam generating operation in the country. You are not unfamiliar with the fact that the Government's enlarged interest in TVA has resulted in taxpayers in every state of the country assisting in financing the operations of the TVA. When private companies could have done the job with a resultant tax payment to municipalities and to the Federal Government and reduced the tax bill of the American people.

Now we have another giant in the making, the Rural Electrification Administration, which was originally designed to bring electricity to farmers located in distant rural areas not receiving power from any source. Since the Act was passed many years ago, over 97% of the rural areas of the country are now adequately served with electric power so that the need for help from the Administration is now negligible. Despite this fact, the REA has conceived a plan to put itself into new and bigger business, planning to build steam power plants and hydro-electric plants and extensive transmission systems. In short, taxpayers' receipts are being used by the REA to lend money to these unnecessary schemes of its interest in the Government having to spend a dollar. Nevertheless the Interior Department seems to ignore the offer of the utility companies and proposes to duplicate facilities and to build its own lines with resultant costs of taxes to the states to the Federal Government. It also puts the Federal Government in competition with the private companies which have developed this territory for many years.

Hanford Project Defeated

On another front, we have observed this year proposed Federal legislation to make atomic power at the Hanford Project available in the State of Washington available for sale to the United States, or any state or political division thereof, by the Federal Government in direct competition with investor-owned companies operating adequately in the area. Fortunately this project was defeated in the last session of Congress.

There are also grandiose schemes being considered in Washington of tying up the Federal Hydro-Electric Projects with transmission lines so that Bonneville, Grand Coulee, TVA and the like can compete with the atomic industry. This would be a very expensive undertaking and would be a duplication of the already existing capabilities of the Federal Government.

At another front, Government action is proceeding to the payment of unneeded expenditures and unneeded waste. In the Public Works Appropriation Bill passed in the last session of Congress, funds were provided for the construction of an all-Federal transmission system in connection with the Upper Colorado River Basin Project. This has to do with the operation of power from Glen Canyon, a new hydro-electric plant being built on the Upper Colorado River in Arizona, and in Mexico. Five private companies in the immediate area already have extensive transmission lines systems that are prepared to implement these in order to do the job completely without the need of the Federal Government having to spend a dollar. Nevertheless the Interior Department seems to ignore the offer of the utility companies and proposes to duplicate facilities and to build its own lines with resultant costs of taxes to the states to the Federal Government. It also puts the Federal Government in competition with the private companies which have developed this territory for many years.

Discriminatory Tax Proposal

Still another development during the year in connection with proposed Federal tax legislation. In the last session of Congress legislation was proposed which would give tax benefits to the nuclear power industry but would deny it to the electric power industry. Such tax legislation was not cleared for consideration but will likely come up for action when the Congress reconvenes in January. It was proposed to give a tax credit to companies for the purpose of increasing capital spending and plant modernization, but denied the same advantage to utility companies. This discrimination was based on the supposition that utilities would spend a larger proportion of their earnings as a function of public utility construction. In taxes would be passed on to consumers of utilities, but the competitive and their facilities are not subject to competition. The proponents of this proposal, Industry spokesmen have pointed out that the tax credit would stimulate capital investment by utilities for expansion, but would not benefit localities and congested areas. Reduction in taxes would permit lower electricity costs which would help to stimulate the growth of Industry and maintain the competitive position of the utility industry against other beneficiaries of the tax program.

On a broader scale, investor-owned utility companies have been encouraged to double their investment in transmission lines requiring a total of over $7 billion. By the end of 1970 the major power systems will be in position to operate their properties on an interconnected basis throughout the United States. In this way service will be rendered on a most dependable and economical basis.

The electric utility industry, as evidence of this fact, was concerned about certain certain amendments made last year to the Federal Power Commission. These include two members, whose record is closely associated with public power, one with the TVA and the other with the Pacific Northwest. Another member comes from a state where no natural gas is available and where the individual admitted having little, if any, knowledge of the industry. These appointments must also be scrutinized from the standpoint of the many different problems facing the Commission in its deliberations over the important national gas industry.

Natural Gas Industry Also Under Attack

Last year we brought to your attention the regulatory situation...
with respect to the natural gas industry. We pointed out that before the Federal Power Commission had permitted the customary rate of return on investment in plant, in the area of 6% overall rate of return. Security holders relied on this method of regulation to invest hundreds of millions of dollars in the industry between 1890-1960 when the greatest growth occurred. Last year the Commission went off on a new tack and changed its formula to a rate of return on common stock only, and arrived at 10% and 10 1/2% return on this basis. We characterized this new method of determining a rate of return to natural gas pipelines as being "skin and bones" treatment and furthermore that it changed the rules of the game in the middle of the game. Furthermore this method results in penalizing the new pipeline companies which had been necessary, set up on a thin equity basis. At this moment it is not possible to say how little it will affect a number of important companies in the industry. If it were rigidly enforced, it could result in several companies reducing their present dividend rates, as the initial step, and such a development might be the forerunner to a further deterioration of investments in that industry. There are other problems which give cause for concern in the natural gas industry, particularly as many of the companies do not know, and may not know, for a number of years what earnings they will be able to keep and what the Federal Power Commission will determine must be refunded to the rate payers because of open rate proceedings that run back five years and more.

We are also concerned with the apparent anti-attitude in Washington toward large strong companies which have a vast number of stockholders. In the utility field we have in mind the situation of the American Telephone & Telegraph Company. There have been threats reported which would require the telephone system to be broken up. Also, while on the one hand we have realized the necessity of beating our adversaries in launching an intercontinental satellite communication system, we are creating apparent philosophical obstacles and deterring private companies proceeding at full speed to reach their goal.

Local Regulation Reassuring

The one reassuring strength of the utility industry is that the greatest segment of its operations is still subject to regulation at the local level, within the state of municipalities. The State Commissions and municipal authorities have continued a sane and sound policy of regulation. Where rate assistance is needed by individual companies it has been forthcoming satisfactorily and promptly.

During the year 1961 we have had a fair and prompt decision in the State of Arizona affecting the Tucson Gas, Electric Light and Power Company. Likewise there were reasonable rate decisions in Michigan, affecting Consumers Power Company; in Ohio, in regard to Columbus & Southern Ohio Electric Company, and in Indiana, affecting Public Service Company of Indiana.

The New York Commission allowed rate increases for New York State Electric & Gas Co., Niagara Mohawk Power Co. and Consolidated Edison Co. A conflict with the California Commission was reconciled to clarifying and strengthening the rate position of the two largest utilities in the State, the Pacific Gas & Electric and the Southern California Edison Companies, and some rate increase was given San Diego Gas & Electric Company.

State Courts have also been instrumental in strengthening the position of the utility industry. We cite for example decisions in the State of North Carolina where both the lower court and the highest court concurred in rendering a decision in the case of the Piedmont Natural Gas Co. which established proper and fair standards for regulation in the State of North Carolina.

There were constructive rate decisions in the State of Iowa affecting the Iowa-Illinois Gas and Electric Company, reaffirming the fair value principles laid down by the State Supreme Court in 1957. Also in New Mexico a District Court set aside an unfair decision of the Commission in the case of the Southern Union Gas Co., a matter we brought to your attention a year ago.

Generally speaking, at the state or local level utility companies receive fair and consistent treatment which is a real bulwark to the utility industry and serves to maintain investor confidence in public utility securities. It is only at the Federal level where danger signals are up and give cause for concern not only to every taxpayer in the country but also to every investor.

Respectfully submitted,

PUBLIC UTILITY SECURITIES COMMITTEE

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On the domestic scene, there were the problems of a labor force rising at a rate faster than it is being absorbed; a substantial adverse balance of trade; the heavy inflow of foreign capital funds because of an inadequate rate of domestic capital formation and an almost static condition of non-farm business inventories both in Canada and in the U.S.A.

**Situation Now Much Better**

The situation in the latter part of 1961 improved considerably.

There is a distinct prospect of a surplus for the year in merchandise trade; the inflow of foreign capital funds has eased and despite the increased level of final expenditures, business inventories are beginning to grow.

Detailed statistics on the various segments of the Canadian economy are contained in the attached appendices. Some comments concerning these figures would, however, appear pertinent.

The Gross National Product in 1960 rose by 3.2% over 1959 to $28,927 million, mainly on account of the gains in the GNP represented in increases in personal production. Despite this, however, even the growth of 1960 was only about half that in 1959.

As between the various segments of the economy, there was a lack of uniformity of trends. In general, however, it might be said that in 1960 the service producing industries grew slightly more than the goods producing industries.

In brief, the rate of growth of the Gross National Product was uninterrupted in 1960 as the level of economic activity eased in response to downward tendencies in the final demand. During the first quarter there was a slackening in the growth of total final purchases and business inventories rose appreciably. In the second quarter both final purchases and the level of business inventories declined, while business inventories declined by nearly the amount of the increase in the first quarter. Final purchases rose relatively sharply but the renewed strength was only partial in conjunction with the result that business inventories in the first half of 1961, and in the final quarter of the year both the final demand and the inventory demand began to exert an expansionary influence on the Gross National Product. The gains however, were somewhat restricted by a decline in demand for Canadian export products.

The Gross National Product was at a record annual rate (seasonally adjusted) of $36,438 million. In the first quarter of 1961, the goods selling and production and inventory demand was more than counter-balanced by a substantial gain in output for housing; the material improvement in demand and the continued strength in government expenditure. Despite these developments, however, the Gross National Product declined to an annual rate of $36,012 million because of the unusually sharp increase in dividends paid abroad during the period.

In the second quarter of 1961, the trend was again reversed and the Gross National Product rose to an annual rate of $36,280 million. The improvement can be seen with satisfaction in the light of the drought conditions in Western Canada which had cut net income of farmers by more than 40% when compared with 1959 figures. There was also a substantial rise in consumer spending, cut down heavily overseas due to the government sector and small business.
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Incomes and Surpluses. Business inventories increased but the amount involved was limited. Non-residential construction was practically unchanged from the previous quarter but there was a sharp decline in expenditures for new plant and equipment. Residential construction was also off approximately 5%. Figures for residential construction for the second half of 1961 are expected to show a material improvement over the first half.

National Income

During 1960, National Income rose $609 million or 2.6% to a total of $27,770 million. The increase was modest when compared with the $1,723 million increase—or nearly 7% in 1959. Major changes were an increase of $773 million or 4.2% in labor income to $18,314 million and a decline in corporation profits before taxes (excluding dividends paid to non-residents) of $172 million or 9.5% to $2,735 million.

Unincorporated business income of $2,105 million was $113 million lower than in 1959. Net farm income, after inventory adjustments improved $70 million to $1,207 million and there was a moderate improvement of $25 million to $2,362 million in interest, insurance and miscellaneous investment income.

Consumption

During 1960, $23,409 million was expended by persons on consumer goods and services which was an increase of 4.1% over personal expenditures in 1959. Amounts spent on durable goods showed very little change from 1959 whereas expenditures on nondurables were up about 4% and there was a 5% rise in expenditures on services.

Government expenditures for consumer goods and services rose nearly 5%. At the same time government capital expenditures rose by $60 million or 4.3% to $1,562 million. All of the increase in capital spending was at provincial and municipal levels as Federal expenditures for capital account were slightly lower.

Foreign Trade

Exports of merchandise in 1960 rose by $351 million or 4.9% to $7,400 million. Imports declined by $24 million to $5,548 million so that there was an adverse balance of trade of $148 million—a marked improvement from the adverse balance of $243 million of 1959. The pattern of exports during the year was irregular being at a very high rate in the first quarter; declining sharply in the second, only to recover again in the third and easing off in the final quarter. Exports to the United States at $3,039 million were $150 million below 1959 while exports to all other countries increased almost 23% or $401 million over 1959 to $2,361 million.

Non-merchandise transactions in 1960 increased by an adverse net total of $1,122 million and brought the current account adverse balance position to $2,170 million. This compares with the 1959 current account balance of $1,494 million of which non-merchandise items were $1,071 million.

The highlights of the Canadian trade deficit were export of heavy machinery with comparative figures for 1959 and 1960, as shown in the following tabulation:

**Securities Markets**

During 1960, there was a marked decline in the amount of both new Canadian issues coming on to the security markets and the net borrowing from the chartered banks for capital purposes. The total amount of new issues of securities of all descriptions declined to $1,894 million as compared with $2,279 million in 1959 and the peak of $3,054 million in 1958. The decline was spread fairly proportionately across all divisions of security issues with the main exception of corporate bonds where the net new issues totaled $243 million in 1960 as compared with $102 million in 1959. This increase in corporate bond issues was more than offset, however, by the decline in new corporate stocks from $406 million in 1959 to $227 million in 1960.

Prompted, no doubt, by the government's efforts to reduce the very substantial adverse balance in Canada's International Current Account there was a sharp drop in net new issues payable in other Canadian currencies. The total for 1960 was $102 million as compared with $221 million in 1958.

Net new issues of Canadian securities in the first half of 1961 totaled $956 million and was relatively high in comparison with the $1,600 million in the corresponding period of 1960. In the first half of this year net new issues payable in foreign currencies only amounted to $327 million.

The effects of the heavy private demand for credit, particularly bank credit, which had built up in 1959 continued into 1960. The combination of a heavy sales of new securities by the Federal Government, the sales of portfolio investments by the banks to finance demands for credit, heavy bond offerings by provinces, municipalities and corporations and the disparity in government accounts in the early part of 1960 resulted in a very tight government markets which yielded which reached their peak during the month of February. The trend then changed and

Continued on page 52

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Ninety-day Treasury Bills started off the year at a 5.14% basis following a decline from a 6.18% yield in August, 1959. The low for 1960 was a 1.68% basis in September and they ended the year at 3.25% yield. During 1961 up to the end of October, the 90-day Bill movement has been much more moderate with a high of 3.34% in April and a low of 2.26% during August. At the end of October the rate was 2.56%.

New Deals

These are strenuous times in both Canada and the United States of America, as government, finance, business and industry seek means of adjusting to the marked shift in the supply of money at the face of high and steeply rising interest rates. The emphasis on Current Account, government deficits, monetary policy and the financing of our activities. Many of these problems are interlocking which makes the situation more complicated. As to be expected, there is a diversity of views as to remedial methods of which takes objective reporting difficult.

One of the most controversial subjects has been the question of the dollar. For the past two years, this has been the debate over the role of the dollar as an economic and financial instrument of international importance. The following 13% increase in money supply in 1958 to support the larger foreign aid program, loan, operation and Federal deficits which produced, provided, and in the case of inflations, the money supply was held almost constant between October, 1958 and October, 1959. Without question, this was the policy in the face of the near 6% of the Federal net debt, with increases of similar proportion in provincial and municipal debt and a 9% increase in the Gross National Product, which was in the midst of an unnecessary “tight money” policy that was hindering the economy.

Without attempting to appraise the merits or otherwise of the money policy, it should be pointed out that the Canadian chartered banks remained in an excellent liquid position with their liquid asset ratio much in excess of the minimum requirements of 15%. General loans of the chartered banks which had declined from a peak of approximately $1.1 billion in August, 1959 to a low of $4.6 billion in February of 1960 had increased steadily since October and at the end of the year were approximately $5 billion again. After holding relatively steady for the first quarter of 1961, there was a slight increase in the second quarter and by the end of the third quarter, the increase was recorded to a high point of $7.6 billion.

Despite this, however, the liquid asset ratio had built up to approximately 19%. It is also interesting to note that apart from the usual dips that occur each year at the time of the annual offering of Canada Savings Bonds, personal savings accounts in the chartered banks had continued to grow steadily and by the end of October were static at $7.7 billion, an increase of nearly $1 billion since September, 1958. In the 1960 policy of Canada’s money supply was increased close to 1% per month. These were also the first increases since September, 1958. During the first half of 1961, subject to seasonal fluctuations, the money supply was held relatively constant. It then began to rise again. Between the beginning of September 1960 and the end of October, 1961 the total increase amounted to approximately a 9% increase in annual basis between October, 1958 and October, 1959 the increase in money supply has been 3% a year.

The Coyne Controversy

In the spring of 1961, a bitter and disturbing controversy developed between the Minister of Finance and the Governor of the Bank of Canada as to the relative functions and responsibilities of the respective fiscal and monetary policies. This culminated in the resignation of Mr. James E. Coyne as Governor of the Bank of Canada.

With the appointment in July, 1961, of Mr. Louis Rasminsky, who is widely known and respected in international monetary circles, to replace Mr. Coyne, Governor of Canada’s financial community heaved a large sigh of relief as for a number of months the bond and money markets had continued to operate on their own momentum but without direction. While to date there has been no official announcement of changes in fiscal or monetary policy, it is evident that with Mr. Rasminsky’s appointment a new period of close relationships between the government and the Bank of Canada and between the bank and the financial community is developing.

Because of her export trade, the trend of economic events in Canada is heavily influenced by the course of economic events in other nations and in particular the United States. Under these circumstances, the Bank of Canada’s export trade in 1960, as compared with a 10% increase in the value of goods entering the channels of world trade and a 20% rise in the U.S. merchandise exports, was most disappointing and particularly so as Canada continued to run both a trade and international current account deficit.

New Tax Policy on Investments

During the past 12 months, determined efforts have been Initiated to improve Canada’s trade and financial position. Of particular interest were the steps taken by the government in the Supplementary or “Baby Budget” of 20, 1959 to stimulate a greater participation of Canadian capital in the ownership of Canadian industry. Investment funds and mutual funds in Canada which are referred to as “investment companies” under the Income Tax Act enjoy a special low rate of tax increase. But to 1956, there were no regulations as to the percentage of investments which should be in Canada. New regulations were introduced in 1957 which require that corporations desiring to qualify as "investment companies" for tax purposes had 80% of all of their total investments be in Canada. This was increased to 90% by 1959. In 1960, there were regulations as to the percentage of investments which should be in Canada. New regulations were introduced in 1957 which require that corporations desiring to qualify as "investment companies" for tax purposes had 80% of all of their total investments be in Canada.
purposes and to permit their Canadian shareholders to enjoy the 20% tax credit on dividends, which in the future, obtain at least three-quarters of their gross revenue in the form of dividends from taxable Canadian corporations.

Registered, pension funds or plans, in Canada, are exempt from income tax and contributions to the plans in almost every case are deductible from income. The Budget provided that in order to continue to enjoy these privileges, pension plans must in future derive 90% of their investment revenue from Canadian sources. Both investment companies and pension plans are given until the end of March 1963 to complete the required adjustments in their portfolios.

A second major change, and one which is of particular interest to U. S. investors, was an adjustment in the "withholding tax." The "withholding tax" exemption of interest on Government of Canada bonds and the 5% special rate on provincial issues was eliminated on all new bonds and they became subject to a 15% withholding tax on interest. The special 5% withholding tax on dividends to non-resident parent corporations was increased to 15% and a 1% tax levy was imposed on profits withdrawn from branches of non-resident corporations. Exceptions to these new regulations were made in the case of banks, life insurance, transportation and communications companies.

Not Aimed at Foreign Capital

When introducing these changes, the Minister of Finance emphasized that they were not intended to block out foreign investors but rather to promote greater use of Canadian capital in Canada and were merely the overhanging special incentives, that are no longer required, to attract foreign capital. At the same time it was hoped to remove some of the upward pressure on the external value of the Canadian dollar that was impeding the competitive position of Canadian producers.

The June 1961 Budget was essentially domestic in nature. Nevertheless it contained the announcement of several policies that are worthy of note because of their influence on the financial markets. Of particular interest to non-residents, was the announcement that Canada intended to operate its exchange to new regulations of the Canadian dollar. This was a complete reversal of policy as up to the 1961 Budget the Minister of Finance had flatly rejected the adoption of any such measures by the new government. During 1960, the Minister of Finance had no more than one occasion expressed the opinion that the cost of eliminating the premium on the Canadian dollar by use of the exchange fund would be in all likelihood prohibitive.

Between the end of June and the end of September, following the Budget Speech, there was actually a reduction of $61 million in the exchange fund hard currency holdings. Included in this reduction was a $50 million payment to the International Monetary Fund. In October, however, the picture changed considerably and the exchange fund had to buy 187 million U. S. dollars to keep the Canadian dollar at a discount of about 3% against the American dollar. This brought the total amount of U. S. dollar holdings of the exchange fund to $2,111 million.

Low Interest Rate Policy

During the Budget speech, the Minister of Finance said it was the determined policy of the government to do everything possible to force down interest rates and in this connection he made three announcements. The first was that the government intended to keep interest rates low for several months, to confine new Federal issues to the "short end" of the market. Secondly, the government was setting up a purchase fund with an initial size of $100 million which would be used to purchase Canadian mid and long term securities.

The third step to help the Canadian bond market was that the entire portfolio of the Unemployment Insurance Fund would be taken over by the Treasury at book values and in exchange, the Fund would acquire interest bearing non-marketable bonds which are to be redeemed by the government as required. The direct Government of Canada bond held by the Fund would then be cancelled. This would remove about $245 million mid and long term bonds that have been crowding the market.

Whether these steps will continue to force the desired effect of forcing down interest rates is still questioned by many financial men. The government will require in the order of $1 billion of new money which is a heavy load on the "short end" of the market. This new load might well coincide with the increasing demand for credit by private enterprise particularly on the chartered banks as Canadian industry gets back into high gear. As previously mentioned, general loans of the chartered banks are already at record levels although there is no evidence at present that they are selling off bonds and treasury bills in size to satisfy the demand.

Royal Commission Appointed

Of more than passing interest was the announcement that the government was appointing a royal commission to examine Canada's entire financial structure.

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Continued from page 53

ture and institutions. The Honorable Dana Porter, Chief Justice of Ontario, has been appointed Chairman of the Commission. The terms of reference are brief but broad and facilitate a study of all aspects of money, banking, credit and finance. The timing is appropriate as the Bank Act comes up for its decennial review in 1964 and the last major financial study was by the MacMillan Commission in 1938.

To United States citizens whose rights as property owners are protected by the U. S. Constitu
tion, the action of the British Columbia Government in expropriating British Columbia Electric and certain other assets of the parent company, British Columbia Power Corp. Limited, at an arbitrary price, set without an independent appraisal and without the right of appeal to the courts must have been shocking and incomprehensible.

The action was widely deplored in Canada. The President of the Investment Dealers' Association of Canada dispatched a strongly worded message of condemnation. Other competent bodies both in Canada and elsewhere took similar action not so much against the actual expropriation but at the arbitrary price which without express permission of the B. C. Government could not be reviewed in the courts. Unfortunately, under the Canadian Constitution (The British North America Act) the injured party must seek permission from the B. C. Government to proceed against the Crown. The Corpora
tion on behalf of its shareholders has filed a "petition of rights" but to date of writing the B. C. Gov
erment has announced no decision in this respect.

Legality Attacked in the Courts

The legal ramifications of the expropriation are considerable and a discussion of same is beyond the scope of this report. No efforts are being spared by the B. C. Power Corporation lawyers in trying to bring the case before the courts. In a surprise move on Nov. 19, 1961, B. C. Power Corp. asked the British Columbia Supreme Court to rule that the Provincial Government did not have legal power to expropriate its former wholly owned subsidiary, British Columbia Elec
tric. If the court rules that the Provincial Government was within its legal powers, B. C. Power then asks that the Supreme Court set a price as "full compensation" for B. C. Electric.

In the meantime, some minor concessions have been obtained from the B. C. Government. Originally, holders of the B. C. Electric preferred shares were to exchange their holdings par for par into perpetual bonds with the same coupon rate. They are now able to take 23 year bonds or convert the perpetual bonds into 25 year bonds.

Britain's proposed entry into the European Economic Community or Common Market has special significance to Canada as a member of the Commonwealth. Opinions are sharply divided as to what effect this step will have upon Canada's existing trade and prospects for future expansion. One school of thought in which members of the government are prominent, contends that Cana
dian trade would be damaged if it is necessary to work under the external tariff arrangements of the Common Market. The other school of thought argues that it is necessary for Britain to seek its own economic salvation and Canada in the long run will benefit more with Britain economically strong and Europe politically strong.

Conclusion

There is little question now that the Canadian economy is experiencing a moderately healthy upturn which should carry well into 1962. The Dominion Bureau of Statistics Industrial Production Index in August advanced to a record level of 173.4. Durable goods production has shown an uninterrupted rise since January. It now looks as if, for the first time in a number of years, Cana
dia will have a surplus in her merchandise trade. The GNP is rising and corporation profits are beginning to improve and with the increased production employment has decreased at more than seasonal rates.

Respectfully submitted,

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Report of IBA Investment Companies Committee

Herbert R. Anderson, President of Distributors Group, Incorporated, New York City, was this year's chairman of the Investment Companies Committee and, in that capacity informed the Convention as follows:

Total sales of mutual funds in 1961 apparently will be in the range of $2.5 billion to $3 billion, a level 20% or more above the previous peak year. While redemptions of the approximately $2 billion in the industry apparently will exceed $1 billion for the first time, net sales in 1961 will record a substantial new high. By way of perspective, this year's gross sales are about equal to the total assets of all mutual funds five years ago, and we need go back only to 1949 for the time when total assets were no greater than this year's net sales.

In terms of people, total shareholder accounts are now close to 51 million held by an estimated 2 million individual investment accounts. These are large numbers and the relative importance may be made plainer when it is pointed out that mutual funds of corporate securities own some mutual funds and at least 10% of the total hold no other corporate security.

Driving Forces

The continuously broadening use of investment company shares suggests that some general discussion of this development would be of interest to the entire IBA membership. It has been said that most new ideas pass through three stages. Initially they are often thought to be "offbeat," ridiculous or disturbing, i.e., they are repugnant. Subsequently they become tolerated and subsequently they are accepted as self-evident truths.

To the extent this is true, the three stages would be: (1) the stage reached by all people at the same time, so nobody is more than a year ahead of the others in this regard; and (2) the stage reached by all people at the same time, so nobody is further along than the others in this regard.

A lot of trouble in the world today seems to stem from a lack of definition so, before going any further, a simple restatement of what an open-end investment company or mutual fund may be is in order. A mutual fund is no more than a handiwork of a commingled investment account, made easy to acquire or dispose of at a prearranged and agreed-upon basis, that is aimed at a particular—and stated—investment plan and operated within clearly defined policies. Other than within this broad definition, one mutual fund is no more necessarily similar to another than two of the individuals within an investment firm or brokerage office are the same as all others. Using commonly understood military terms, there are several mutual funds with all gradations of strategic position, as between income, growth and stability and then, within any plan, on the area of "risk tolerance," there is a further range in the tactics through which similar objectives may be sought.

The strength of this (whole-some, we believe) diversity of form and substance, there are attributes and developments generally considered common to all—and it is these which we believe underlie the transition that appears to be taking place in the cases of mutual funds from the era of earlier consideration as "another security to their becoming a widely accepted consumer service.

The sale of liberty bonds to the future investor during World War I is often credited with helping to solidify the public's interest in saving and investing. Whatever the cause, persons willing to invest in fixed dollar commitments probably have grown or more startlingly over a somewhat longer period than the growth of investment in open-end funds.

(Since 1915, deposits in mutual and savings banks have increased from $3.9 billion to $53.3 billion, investments in savings and loan associations from $1.4 billion to $71.4 billion and total assets of life insurance companies from $5.5 billion to $118.6 billion, per reports of gains of $1,472,000 and 2,204.)

Fixed Dollar Investments on The Defensive

Meanwhile, two other fundamental facts of far-reaching importance, have also occurred—(1) a distressingly constant and substantial "devaluation" in the value of the saved dollar and (2) a distressingly long-term "growth" in the dividends and price of common stocks. In other words, the public has had two strong forces driving them toward equity investment, and franchise companies would require it to be said that those offering fixed dollar forms of investment to the public generally have been placed on the defensive to that extent.

The so-called "variable annuities" is one reflection of this. The consideration by savings banks in New York State of the possibility of offering their mutual funds to depositors is another, as is the tendency by some banks to offer their common trust funds to the public generally. In the same line, the Board of Governors of the Federal Reserve System is considering an amendment to its Regulation "F" to curb this activity and insure that the common trust fund is restricted to its use with bona fide accounts, as was intended.

Mutual funds are not the only sound and substantial evolution in the value of the consumer units increased by nearly 20%, from 44.7 million to 53.7 million—more people earn and spend. We find that the proportion earning more or less than $4,000 was exactly reversed over the 10 years. In other words, in 1947, 43% earned more than $4,000, and 37% earned less, whereas of the greater number in 1957, 37% earned less and 63% earned more. If the break is made at $6,000, the percentage earning above that figure increased during these 10 years from 17% to 36%, a gain of 120%.

Possibly even greater significance may be attached to these figures when they are adjusted for the change in living costs. In other words, the proportion of "consumer units" increased by nearly 20% from 1947 to 1957, whereas the purchasing power of the average "consumer unit" in 1957 was 37% less than in 1947 when 37% earned more and 63% less. Using the $6,000 break point, there was an increase of nearly 50% in those earning more than $6,000 in 1957 than in 1947, i.e., 38% as compared with 26%.

The next point probably is arguable; we view it as interesting. Everyone believes that Social Security, and the substantial growth in use of employee retirement plans generally, has caused people to become more anxious in their planning. As long as people seem little or no difference in their annual compensation, a sufficient amount to be significant they tend to do nothing, but as a base is provided through these other media, the possibility of adding some further margin of comfort appears often to become more significant than possible of achievement to warrant doing something about it.

In short, we believe that the increasingly effective sales efforts in the last few years of mutual fund shares have been due to the development of new fundamental forces and factors, rather than a result of the industry's growing importance.

The best defense of our national interest, the more widespread ownership of equity securities in which mutual funds contribute so much more than certainly constructive. The whole base of the free enterprise system—"people's capital"—is thereby broadened while capital formation is increased.

Investment Company Institute

Mention should be made in this report of the recent change in the name of the National Association of Investment Companies to the Investment Company Institute. Organized 20 years ago as an Association of issuer's, or operating companies, this change broadens the base of membership to include investment advisers and underwriters of investment companies. While still a voluntary Association, the new Investment Company Institute is believed to be in a position to more effectively represent all phases of the industry.

In view of the substantial size and still accelerating growth in the public acceptance of mutual funds, it is not surprising that somewhat continuous inquiry should be made into their structure and operation. Physical checks-ups are good for people. A similar examination of any business, that one concern, isolate and remove possible weaknesses, should also exist.

Constructive Analysis

Today's investment companies, of course, have grown to their present stature and public acceptance without the formative statutes that regulate their operations and disclosure standards that are unique to today's competitive business world. Significantly, these statutes—and particularly The Investment Company Act of 1940—represent the achievement of the entire industry and those in the business.

To the extent current inquiries seek to examine the effectiveness of these statutes, and whether im-

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Perspective on Size
This report has mentioned the size and growth of mutual funds, but not to relate these to the environment within which they have been achieved would omit a quite material fact.

For example, in 1940, when the assets of mutual funds were less than $500 million, their holdings of New York Exchange listed issues amounted to an estimated three-quarters of 1% of the total value of all such listed issues. Today, with fund assets increased more than 40 times, this figure is still less than 4½% and, of course, they hold a substantially lesser percentage of issues traded in other markets.

As for their market activity or influence, the net purchases of mutual funds in 1940 were small, at an estimated one-quarter of 1% of total trading volume on the New York Stock Exchange. However, toward the figure is still no more than an estimated 2½% of this year's trading volume.

Your committee appreciates the opportunity to present this report and hopes it has been of interest. Respectfully submitted,

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Report of IBA Small Business Committee

Harvey B. Gram, Jr., Partner, Johnston, Lemon & Co., Washington, D. C., headed the Small Business Committee, Report of which was as follows:

During the past year your committee has continued to watch developments, legislative and otherwise, affecting small business generally but has devoted most of its attention to the Small Business Investment Company program being administered by the Small Business Administration under the law authorizing such investment companies which was passed by the Congress in 1958. Because of the widespread interest in this new financing tool, the public offerings of stock of SBIC's, and legislation pending before the Congress to change the 1958 Act, we held an open meeting of our committee at the Spring meeting of the Group of Governors at White Sulphur and invited all those present who were interested to participate in the consideration of this subject. We were fortunate in being able to get Mr. Phil David Fine, Deputy Administrator of the Small Business Administration, and who is in charge of the SBIC program, to address the meeting. At that time he gave an admirable summary of the background of the program and its progress to that date and discussed in some detail the legislation then pending before the Congress which was in large part designed to liberalize the basic law and make it more effective. Following his talk there was an extended question and answer period. Subsequently, he made available to us a number of charts which he used in connection with his presentation and we made these available to members of our committee and others who were interested.

Leads SBIC Official

This open meeting of our committee at the Spring Board Meeting was so successful that we decided to duplicate it at the Convention because of the liberating legislation has been enacted in the interim and, of course, there has been other developments in the program. Again, we were successful in securing Mr. Phil David Fine, Deputy Administrator of the Small Business Administration, to address an open meeting on “Small Business Financing” as your Convention program indicates. For the benefit of those who were unable to attend this meeting a copy of Mr. Fine’s formal remarks are attached to this report. (Ed. Note: We reproduce elsewhere in this issue the text of Mr. Fine’s talk at the Convention.)

During the course of the year your committee received a number of requests for information as to services and other reports available which provide data on activities of small business investment companies and reports generally in this area. For the benefit of those interested in such matters, we listed, without necessarily endorsing, the following:

1. The SBIC Evaluation Service which is published monthly by S. M. Rubel and Associates, 33 W. Jackson Blvd., Chicago 4, Ill. This Service is what its name implies and contains a price index, data on yields, percentage of funds invested, total funds invested, etc.

2. The SBIC Newsletter, 927 15th Street, N. W., Washington, D. C., which is published twice a month and reports generally on developments in this field.


Extension of Remarks

HON. JOHN SPARKMAN of Alabama

IN THE SENATE OF THE UNITED STATES

Wednesday, September 27, 1961

MR. SPARKMAN: Mr. President, I ask unanimous consent to have printed in the Appendix of the Record the small business legislative accomplishments of the 1st session, 87th Congress. There being no objection, the address was ordered to be printed in the Record, as follows:

Year after year, since 1900, when the present Small Business Committee of the Senate was established by Senate Resolution 50, the Congress has expressed its concern for the welfare of the Nation’s small businessmen by the enactment of legislation designed to foster and promote a healthy small business community. No session of Congress in the past decade has adjourned without adding to the legislative arsenal of small business new weapons to help the Nation’s small and independent enterprises wage their continuous desperate struggle for survival on today’s business battleground.

Perhaps mindful of the growing number of small businesses going out of existence every day, even so, as with all new and original concepts, it became evident that opportunities existed for improving and expanding the SBIC program, chiefly by making the formation of SBIC’s more attractive to the investing public.

New Incentives Provided

With this as an objective, Congress passed S.90—Public Law 57 reprinted in Volume 152, page 64, and 15th Street, N. W., Washington, D. C., which is published twice a month and reports generally on developments in this field.

When Congress passed the Small Business Investment Act of 1958, it in effect added a significant new dimension to the Nation’s banking system by creating a new primary source of credit in the form of small business investment companies. The response of the public and private to the idea of small business investment companies has exceeded expectations. Today there are in existence 300 investment companies licensed by the Small Business Administration, each operating on an annual profit basis. The aggregate capital is in excess of $300 million available for loans and equity capital for small businesses and corporations so far as we know. SBIC’s also provide a unique opportunity for solving the problem of making the formation of SBIC’s more attractive to the investing public.

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Continued from page 57

87-341—the Small Business Investment Act Amendments of 1961, to offer new incentives for the formation of SBICs. These incentives took the following forms:

1. The amount of subordinated debentures in an SBIC which the Small Business Administration may purchase was raised from $15,000 to $400,000.

2. Banks may now invest 2% of their capital and surplus in SBICs. Previously banks could only invest 1% of their capital and surplus in SBICs.

3. The amount of section 303(b) loans which SBA may make to an SBIC is set at 50% of capital and surplus, with a limit of $4 million to any single investment company.

4. The amount of funds which an SBIC may lend to any one business firm was limited to $500,000, unless the SBA grants an exception.

5. SBA was given broad powers to investigate and issue cease-and-desist orders against SBICs.

After a hearing, SBA can suspend the license of an SBIC. Licensees, however, may not be revoked without federal court action.

6. An additional $75 million was added to SBA's revolving fund for SBIC operations, an increase from $250 million to $325 million.

7. SBICs may now cooperate with lenders and investors, whether incorporated or unincorporated, in furnishing funds to small businesses. Previously such cooperation could only be extended to other lending institutions.

Two steps were taken during the 1st session of the 87th Congress to increase the effectiveness of the Small Business Administration as the champion of small business.

H.R. 8762—Public Law 87-309—approved Sept. 28, 1961, increased SBA's revolving fund by $105 million, thus assuring the agency funds to operate its lending programs throughout fiscal year 1962.

Additional Legislative Stimulants

Additionally, Public Law 87-308 laid the foundation for a program designed to increase the role of SBA in the area of small concerns as subcontractors on Government procurements. Under its provisions, SBA, the Defense Department, and the General Services Administration must within 90 days from the date of enactment develop cooperatively a small business subcontracting program. Before any regulations governing this program are issued by the Defense Department and GSA, the concurrence of SBA must be obtained. Lacking this point of disagreement must be referred to the White House for resolution.

No summary of legislation helpful to small business concerns passed during the 1st session of the 87th Congress would be complete, Mr. President, without mention of the following enactments:

S. 2325—Public Law 87-311—should encourage small business to enter the world trade market by clarifying the authority of the Export-Import Bank to insure, reinsurance, and reinsurance U. S. exports and foreign exports doing business in the United States in an aggregate amount outstanding at any one time of $1 billion against political and credit risks of loss stemming from export activities.

S. 1922—Public Law 87-72—authorized the Small Business Administration to make disaster loans to small businesses which has suffered substantial injury as a result of its displacement by federally aided urban renewal or highway construction program or any other construction program which was financed by Federal funds.

S. 1—Public Law 87-37—Area Redevelopment Act, extended indefinitely the authority of the Small Business Administration, due to expire June 30, 1961, to make loans to State and local development companies. In commenting on this provision, the House Banking and Currency Committee's report on S.1 stated: "These loans can greatly benefit areas of substantial and persistent labor surplus and will, therefore, promote the general purposes of the area redevelopment bill. ** * Through March 17, 1961, loans totaling $13,700,000 had been made ** * under this authority. ** * No losses have been incurred to date."

Mr. President, these accomplishments of the 1st session of the 87th Congress with respect to small business legislation will undoubtedly help to improve the competitive position of our more than 4.5 million small and independent enterprises.

There remain, however, some important small business measures on which congressional action has not been completed. In the fields of tax relief and antitrust enforcement several bills that were introduced in the first session will again be considered when Congress convenes in January 1962. It is my hope that careful and prompt action on these measures next year will make it possible for the 87th Congress to go down in history as a Congress which left no doubt about its desire to strengthen our free enterprise system by fostering and encouraging small businesses to enjoy a healthy growth along with our rapidly expanding national economy.
The figures speak for themselves. They are mute evidence, from a financial point of view, of the critical nature of the railroad situation (exclusive of the Poughkeepsie roads) at the present time.

The roads operating in the Eastern District (exclusive of the Poughkeepsie carriers) seem to have suffered the most in the last five years of rising costs and shrinking volume. Nineteen—nearly 50%—of the 40 railroads assigned to this district classification reported an operating deficit for the first eight months of 1961. The Eastern District, as a whole, reported an operating deficit of $62 million for the first eight months of 1961, as contrasted with operating earnings of $49 million in the like period of 1960. Outside of the Eastern District the roads generally fared much better. Earnings were lower but the deficit was not appreciable, the greatest decline being about 26% in the case of the Pocahontas Region carriers.

Most of the Eastern District carriers are largely dependent upon heavy industry such as steel. The St. Louis Star-Telegram has suffered considerably from foreign competition while the carriers have had to compete with barges and trucks for the commodity shippers' business. Consequently, the railroads benefit not only because of a lower level of steel output but, in addition, there were loans due to competitive influences.

1961 Net Earnings at Depression Level

The year 1961 for the railroad industry, from the standpoint of rail rates, operating income (earnings derived from direct operations) appears to be quite unsatisfactory. Total operating revenues should aggregate approximately $9.1 billion, as contrasted with $9.5 billion for the 1960 calendar year. Net railway operating income probably won't exceed $600 million, or $84 million less than for the year 1960. Such a depressed level of net earnings is comparable only with the results obtained in a depression year such as 1935. However, in 1935 the combined earnings of all the class 1 roads totaled $3.45 billion, or less than 40% of the current level of revenues.

Stated another way, 1961 net earnings were equivalent to 14.5% of operating revenues for the combined group of railroads as compared with 6% in 1960, 25% in 1955, and 32% in 1950. The 1961 profit margin of 14.5% is the lowest ever experienced. Financial revenues would have produced a net operating income of over $1.3 billion; subtracting therefrom a level of earnings, the rate of return on net property investment would still be less than 3%.

Average Fixed Charges Coverage Below 1960 Ratio

Class I railways combined earnings covered fixed charges (before deduction of Federal income taxes) for the year 1961 should approximate 2.5 times, as contrasted with 2.9 times for the year 1960. These, of course, are average figures and while a number of roads will do considerably better there will also be a great many that won't do nearly as well, while in certain instances, especially in the case of Eastern lines, deficits will be reported.

Aggregate net income of the class I railways is expected to approximate $400 million in 1961, or about 10% less than the $444 million earned in 1960. The drastic reduction in railroad earnings as already produced a casualty, namely, the New Haven Railroad which was placed in bankruptcy last September, following refusal of the I. C. C. to guarantee any further borrowings of the carrier. Unless traffic recovery and cost reductions are continued, a number of roads will undoubtedly require financial assistance. Inability to obtain loans will result in financial embarrassment. The I. C. C. has been most helpful in assisting several roads to obtain the necessary capital required to forestall the threat of default.

TABLE I

<table>
<thead>
<tr>
<th>Rate of Return on Net Property Investment</th>
<th>All Railways</th>
<th>Eastern District</th>
<th>Western District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period:</td>
<td>Class 1</td>
<td>Class II</td>
<td>Class III</td>
</tr>
<tr>
<td>Year: 1961</td>
<td>3.95%</td>
<td>3.30%</td>
<td>2.86%</td>
</tr>
<tr>
<td>Year: 1960</td>
<td>3.26%</td>
<td>2.80%</td>
<td>2.11%</td>
</tr>
<tr>
<td>Year: 1955</td>
<td>2.07%</td>
<td>1.87%</td>
<td>1.68%</td>
</tr>
<tr>
<td>Year: 1950</td>
<td>2.78%</td>
<td>2.48%</td>
<td>1.56%</td>
</tr>
<tr>
<td>Year: 1945</td>
<td>1.10%</td>
<td>0.80%</td>
<td>0.83%</td>
</tr>
<tr>
<td>Year: 1940</td>
<td>1.75%</td>
<td>1.40%</td>
<td>0.93%</td>
</tr>
</tbody>
</table>

Recent traffic statistics show evidence of an improving trend and it is anticipated the recent rate of improvement will tend to accelerate at least throughout the first half of 1962.

Projected Merger Savings

Some idea of the estimated annual savings (pretax) that may be realized from current merger proposals is shown in Table III. The annual savings add up to $323 million. Since the studies that suggested these savings date back to a period when costs were at a lower level, it is reasonable to suppose that such savings are underestimated in our economics.

It is estimated railroad consolidations on a broad national basis that might reduce the number of railroads from 10 or 12 could mean savings (pretax) in transportation costs of upwards of $500 million. Continued on page 60
Continued from page 59
$1 billion annually. It is realized such a result would be difficult of accomplishment because of the many imponderables. Nevertheless, this does not alter the fact that colossal reductions in railroad costs may be derived from consolidations.

"Magna Carta for Transportation"
The Association of American Railroads plan for alleviating the serious condition of the industry is known as "Magna Carta for Transportation" and embodies a petition to Congress requesting the following "Four Freedoms":
(a) Freedom from discriminatory regulation;
(b) Freedom from discriminatory taxation;
(c) Freedom from subsidized competition;
(d) Freedom to provide a diversified transportation service.

The objective of the Association is noble. Its accomplishment will be extremely difficult because of the political aspects involved.

Although dictated to a certain extent by the flow of traffic and earnings, railroad capital expenditures continue to be made in substantial amount each year. Gross capital expenditures of all class I railways since the end of World War II have totaled in excess of $16 billion, or roughly $1.1 billion per annum. About two-thirds of this sum has been expended on equipment and one-third on roadway.

Table IV presents such expenditures for each of the last five years:

These expenditures on the part of the railroad industry are provided for from earnings, noncash expenses, such as depreciation accruals, sale of assets and borrowings. Because of the unsatisfactory earnings position of the industry and resultant poor credit status of all but a few carriers, the borrowings recently have been restricted mainly to the financing of equipment purchases.

Such expenditures have also been a heavy drain on the working capital of the carriers. For example, at the close of July, 1961, the working capital of all class I railways aggregated $832 million, a reduction of $313 million in the period of a year and almost $800 million beneath the corresponding figure at the close of 1955.

Marketwise, railroad bonds have done comparatively little during the past year, reflecting principally the changing fortunes of the respective obligors.

Dow-Jones closing railroad stock averages stood at 129 a year ago, advanced to 147 by the end of the first quarter then dropped back to 133 on July 19 from whence it rose to nearly 153 on Oct. 11. Currently it stands about 151.

Investors' Attitude

The near-term prospects are for a materially better traffic outlook throughout the first half of next year and consequently an improved earnings situation. Further consolidation proposals and progress in this connection should also be witnessed. In certain quarters corrective legislation favorable to railways is anticipated from the next session of Congress.

Notwithstanding the temporary favorable outlook for the railroads, experienced discriminating investors, so necessary to the industry if its health is to be restored, will not invest new long-term funds therein under conditions that permit earnings equal to only a small fraction of a reasonable level. They do make exceptions such as in the case of equipment loans and hold a few of the more favorably situated equities.

Until such time therefore as a proper presentation of the situation is made to Congress, and the latter enacts legislation designed to assure investors that they will be given every opportunity to conduct the business as it should be, railroad securities should prove quite volatile marketwise, following the eb and flow of earnings and consolidation progress.

Respectfully submitted,

RAILROAD SECURITIES COMMITTEE

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Report of IBA Governmental Securities Committee

George B. Kneass, Senior Vice-President of the Philadelphia National Bank, was Chairman of the Governmental Securities Committee, whose Report is reproduced hereunder.

The Governmental Securities Committee is happy to report that the new Administration of the Treasury Department has honored us with invitations to confer with them from time to time on a variety of matters with either the full committee or a sub-committee in attendance. The new Treasury "team" of Secretary Dillon and Under Secretary for Monetary Affairs, Roosa and his competent staff has been broad and constructive approach to the changing needs of the nation in financing increasing expenditures in accordance with Administration commitments. It has been aggressive in its efforts to utilize every opportunity to improve the debt structure or at least preserve the average life of the marketable debt against the relentless passage of time—by the medium of the advance refunding mechanism and through the terms of regular refunding operations.

The report of the previous year stated, "Our unfavorable balance of payments has added a brand new problem to our overall debt management and monetary policy"—the year as a whole has borne this out and it has been a factor in debt management decisions. We believe the international flow of funds, in addition to imbalances in payments abroad, can well be the product of the competitiveness of our rates on short-term debt obligations together with domestic and international thinking as to our fiscal responsibility. This increasing sensitivity must be a factor in debt management decisions.

In the face of a gradual rise in industrial activity, the Treasury has generally experienced a favorable background for its policies. There has been no change in the Federal Reserve discount rate. The activities of the Federal Reserve Open Market Committee have kept free reserves at an appropriately stable level since April. All in all, these factors have provided an encouraging atmosphere for the most part for the achievement of the Treasury's objectives.

New Open Market Committee Policy

The adoption in February by the Federal Reserve Open Market Committee of a policy broadening the maturity area of Treasury securities eligible for its operations in the market, to include notes and even the longer bonds, was received with mixed reactions. Some feared that such a policy could, under any but the most expert administration, be subject to abuses and possibly lend a 'casino' type of market support which could bring about rigidities in certain parts of the rate structure with harmful results.

It was thought by others that the abandonment of the "bills only" policy was done to prevent the short rate from declining to a degree that its relationship with competing rates abroad might tend to place renewed pressure on the dollar. The shift, at that time, by the Federal Reserve Open Market Committee to the purchase of longer securities with emphasis on the one-to-five-year and bond, to some degree, on the five-to-ten-year category may have prevented this circumstance.

It was naturally popular to try to interpret other goals or subtle influences in the new approach, as attributed to the Open Market Committee's 'wits' since February. However, those responsible for the execution of the revised policies continued to appear to have as their objectives the unobtrusive appearance to the flow of funds into appropriate domestic market areas. There is ample evidence that the record volume of private advance refunding operations during the first nine months of 1961 was facilitated by these operations. Also, the absorption of the over one year area securities liquidated by the banking system in their portfolio shortening efforts last spring was probably eased by these new policies. There is little actual reason to be persuaded that Open Market operations were directed to arbitrary alteration of any particular pattern in the rate structure other than that of the bill area.

As you are well aware, domestic and foreign developments have caused several revisions in the budget picture for the fiscal year ending June 30, 1962. The financing, in July and August followed a relatively unobtrusive exchange refunding pattern. The refunding pattern in January, however, had no major depressive impact on the market. The larger cash requirements as they developed, brought the total needed in the July-December period to the $4.2 billion level, of which nearly 1 billion represented the cash budget financing, and only a half billion, the retirement of the September Tax Anticipation Bills, and the remainder attribution on exchange refunding operations and Trust Account requirements. The most recent financing, the exchange refunding of the large $6.9 billion Nov. 15 maturity, provided some constructive interest rate maturity of the marketable debt of that date was close to 4 years, 8 months, so by the calendar yeard it should be close to the 5 year, 7 month figures of Jan. 1, 1961.

Active Year for Treasury Financing

The new Treasury Administration, as evidence of its dedication to constructive debt management, offered to its security holders two advance refunding operations this year. The first one in the middle part of March, which we speak of as a "junior leap frog" offered owners of two issues carrying 21/4% interest, maturing in 1962 and two issues carrying higher rates maturing in 1965, the privilege of extending into bonds due in November 1966 and 1967. Holders of 18% billion, securities accepted this exchange.

In the middle of September, owners of the 21/2% bonds maturing in 1970 and 1971 were offered a "senior leap frog" advance refunding with a choice of 31/2% bonds due in either 1969 or 1970 and with appropriate price adjustment. This privilege was accepted by about 50% of the holders and totaled $3 billion par value.

This has been an active year—the Treasury has arranged 16 major debt operations outside of the Treasury bill rollovers. These financings totalled $65 billion, of which $33.5 billion had a life of over eighteen months. There were also twelve increases in the bill issues. This has been an absolutely "other investors," including the whole universe industry and foreign interests, added significantly to their holdings of Treasury obligations, particularly in the 1962 area. Bills of E and H Savings Bonds have been at an encouraging rate, but maturities of other issues no longer offered for sale are becoming sizable. Nearly $1 billion of series P and G bonds mature next year. The Treasury, following its practice of the past few years, has recently announced an offering to exchange these for a marketable

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Continued from page 61

bill rates are becoming more competitive with similar investments abroad, particularly when foreign exchange is hedged against adverse fluctuation and deducted from gross interest. Nevertheless, the Treasury must sell. In the market place, a variety of securities in substantial volume. These must be attractively tailored to meet the requirements of the investor classes and also allow the Treasury to continue to pursue its effective policies of debt management. The members of your committee are instrumental in supporting these Treasury operations, either through the dissemination of information to customers or, just as importantly, the underwriting, either by direct purchase or by making ample credit available to the dealer group. Your committee has enjoyed the trust and confidence placed in them collectively and individually by Treasury officials Respectfully submitted,

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IBA Institute’s Contest Winners
HOLLYWOOD, Fla.—John M. McCarthy of Lord, Abbott & Co., New York, was named the winner of the 1961 All-Institute Essay Competition sponsored by the Investment Bankers Association as part of its annual Institute of Investment Banking, announced Robert Mason, Chairman of the IBA Education Committee. Mr. McCarthy received a $500 Award at the 59th Annual Convention and brieﬂy addressed the delegates on the subject of his paper: “Investment Policy for the Securities Investor Interested in Real Estate.”

The Institute of Investment Banking is a three-year advanced development program sponsored by the Association for partners, officers, and other experienced personnel from IBA member ﬁrms. Registrants meet for a week each spring at the Wharton School of Finance and Commerce on the University of Pennsylvania Campus in Philadelphia.

Mr. McCarthy is a senior security analyst with Lord, Abbott & Co., investment manager for two open-end investment companies (Affiliated Fund, Inc. and American Business Shares, Inc.). Prior to his present association, Mr. McCarthy served nine years as a member and an officer in the investment research department of the trust afﬁliate of a large New York City bank. He holds an A.B. degree from St. Francis College, New York, where he majored in economics, and an M.B.A., degree from New York University.

Mr. Talbott is a general partner of Prescott & Co. and specializes in the areas of corporate ﬁnance, corporate mergers and acquisitions, and initiation of new underwritings. He is a graduate of Yale’s Sheffield Scientific School with a B.S. in Industrial Administration and Engineering. He became associated with Prescott & Co. in 1956 and was elected to general partnership in 1960. He is also a director of the National Bankers Association, a part of the ﬁnance committee of The Talbott Corporation and a director of the Hufﬁman Manufacturing Company, both of Dayton. Mr. Talbott serves as a trustee of the Cleveland Council on World Affairs and is a member of the Board of Advisors of the Cleveland Institute of Art. He directed the 1961 Heart Fund Drive for the Cleveland Area Heart Society.

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Report of the IBA Research Committee

Ralph F. Leach, Vice-President and Treasurer of the Morgan Guaranty Trust Co., New York City, in his position as Chairman of the Research Committee, informed the Convention of the study of the investment banking business now in progress via a grant of $150,000 by the IBA to the Wharton School of Finance and Commerce of the University of Pennsylvania. Text of the Committee's Report is as follows:

At our Spring meeting this year it was announced that the Wharton School had been selected to conduct a three-year study of the new issue market and that a contract covering this period had been signed. It was also indicated that the study would be important to all members that this very important project will be no better than the statistical research which we will obtain from all of you. I ask therefore that each of you take the responsibility to stress cooperation with others in your own firm and to other firms in your area.

We will be working through regional groups to elicit as close to 100% response to these questionnaires as possible.

Following the collection of data in the first quarter of 1962 the all important third phase of the program, data collection and analysis, will be under way by mid-1962. In this time we expect to call on some of the leaders in various fields to assist in interpreting some of the basic materials. Following that a series of studies growing out of this project will be published. It is our expectation that all of these studies will be available by this time next year.

I think it would be well to point out how fortunate we were in starting this project well over two years ago. Having thus accepted the challenge to study our own industry, we have had the interest shown by Congress in the securities business means that we shall have prepared for the collection of some very basic material at a time when external pressures were at a minimum. Mr. Cary may have some comments on the proposed SEC study but I think it would be pertinent for us to say a little bit more about the possible relationship of our study to that which was authorized under Joint Resolution 438.

At our meeting this year it was announced that the Wharton School had been selected to conduct a three-year study of the new issue market and that a contract covering this period had been signed. It was also indicated that the study would be important to all members that this very important project will be no better than the statistical research which we will obtain from all of you. I ask therefore that each of you take the responsibility to stress cooperation with others in your own firm and to other firms in your area.

We will be working through regional groups to elicit as close to 100% response to these questionnaires as possible.

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Varying Scopes

The two studies are fundamentally different in scope, orientation and objectives but will inevitably deal with some of the same basic data. The Wharton study will be a comprehensive examination of the investment banking business with a primary emphasis upon the new issue markets. The SEC study will apparently concentrate on investor safeguards with an emphasis upon trading both organized exchanges and over-the-counter markets. Both activities on the organized exchanges will not receive any detailed examination by the Wharton group. Although the economic magnitudes of exchange activities will be included in order to provide a comprehensive picture of the economic services provided by the investment banking community.

The SEC study which is just beginning and is to be completed in about a year will undoubtedly deal at length with the special problems of regulation and supervision of the market for the sake of the individual investor. To some extent it is likely to be a legally oriented report focusing on individual aberrations. To the extent that it will have to concentrate upon limited areas and fringes operators that may require special treatment. The basic objective of the IBA-Wharton School Study on the other hand is to provide a broad background of information and analysis on the industry as a whole, studying and assessing the entire role played by investment banking in our economy.

In effect the Wharton study and the SEC study will undoubtedly cover some of the same material in the new issue markets and to a minimum there could be some duplication of data collection. It is hoped that this well be kept to a minimum. On the other hand the differences in approach and the emphasis should be able to produce a more useful, effective, valid and meaningful product from both projects.

Respectfully submitted,
Ralph F. Leach, Chairman
Morgan Guaranty Trust Co.,
New York, N. Y.

William M. Adams
Braun, Bosworth and Company
Detroit, Mich.

Aymas Ames
Kidder, Peabody and Company
New York, N. Y.

W. Yost Fulton
Fulton, Reid and Company
Cleveland, Ohio

Murray Hanson
Investment Bankers Association
St. Louis, Mo.

George A. Newton, (Ex-officio)
President of IBA
G. H. Walker and Company

Thomas M. Johnson, (Ex-officio)
Vice-President of IBA
The Johnson, Lane, Space Corporation
Savannah, Ga.

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KINSEY 6-0450

Wharton Guaranty Trust Co.
New York, N. Y.
Report of IBA Nuclear Industry Committee

Dr. Paul F. Genachte, Vice-President, Atomic Energy, Chase Manhattan Bank, New York City, again takes the Chair of the Nuclear Industry Committee and, in that capacity, presented the following Report to the Convention.

The present Atomic Energy Act was enacted in August, 1954, a little more than seven years ago. Since that time, when the government monopoly was broken and private industry and capital entered the field, atomic energy in its peaceful applications has made enormous strides.

Power Reactors: Economic Nuclear Breakthrough Against Atomic Energy Act

By 1965

Today, atomic energy is not yet competitive. The main goal has been to reduce nuclear costs to the point at which decisions to build large nuclear plants can be made on economic grounds. After 16 months of study, Pacific Gas & Electric Company of San Francisco apparently reached that goal. Toward the middle of this year, Pacific Gas & Electric announced its decision to build a 325,000 kilowatt General Electric boiling water reactor plant at Bodega Bay, 50 miles north of San Francisco. Plans call for the start of construction in 1962 and for a completed plant by 1965. Estimates of the cost of electric energy generated at the bus-bars are 11 mills per kilowatt-hour with the first core and 3.3 mills with the second core. These costs are fully competitive with the cost of conventional power that could be produced at the same site. There will be no subsidy or financial contribution from the government or from any other source. The utility company has been unwilling to release a breakdown of its costs, but we can surmise that the fixed charges (gross rate of return plus depreciation) are based on the order of 12 to 15 and the load factor, 80 to 90%. The AEC has estimated the cost at 17 other than 8.5 mills per kilowatt-hour. If that as it may, the cost is still competitive.

We can now look forward to 1965 when we will have at least one large nuclear plant which will be competitive. This is indeed an important breakthrough.

The Bodega site may ultimately take five units of the above size.

Southern California Edison has been joined by San Diego Gas & Electric, in plans for the construction of a 375,000 kw Westinghouse boiling water reactor at Camp Pendleton on land belonging to the United States Marine Corps. The plant, which requires 1,200 acres, will provide for 80% of the cost to be met by the Atomic Energy Commission. This company will also take the lead in this country in nuclear construction.

For Atomic Electric, which began full power production at a cost of about 135,000 kw in January, is now thinking of embarking on another plant with a capacity of 460,000 kw in about a year. This decision evidently results from the successful operation of the first plant. The new plant would go on stream three years or so after the earlier plant.

We estimate that the year or early next year, the large Consolidated Edi¬tion plant will come into operation, will produce 255,000 kw. The company is already planning a new reactor site at Indian Point, near Peekskill, New York. This is the site of the first power breeder reactor of the Power Reactor Development Associates (PRDA) group (the associated companies) should be operational with a capacity of about 100,000 kw.

In 1963, Philadelphia Electric Company will complete a 40,000 kw closed-cycle, gas-cooled plant. Northern States Power Company and the Carolinas-Virginia Nuclear Power Associates will complete nuclear power plants with capacities of 62,000 and 17,000 kw, respectively, in 1962.

Jersey Central Power & Light, a subsidiary of General Public Utilities Corporation, plans a 400,000 kw plant. And the list of plants built, under construction, or planned goes on. There has truly been excellent progress this year, at an even faster and more significant rate than before.

The public's past fact cannot be overestimated. We defi¬nitely believe that the list of reactor development than any other nation as exemplified by the boiling water reactor, the pressurized water reactor, the fast breeder reactor, the sodium-graphite reactor, the once-modified water reactor, etc., are the work of atomic energy manufacturing companies such as General Electric, Westinghouse, Atomic Energy Commission, Allis-Chalmers, North American Aviation, Convair, General Dynamics, Martin, Westinghouse Electric Corporation, and the like.

With such a program, we should have approximately 1.5 to 2 million kilowatts of nuclear capacity by 1965 or about 1% of the total existing capacity of the nation at that time. If, in 1965, the installed capacity was at least 200 million kilowatts. This is a very good start.

Reduction in Nuclear Fuel Base Charges

On July 1 of this year, the base charges for uranium were reduced by the Atomic Energy Commission by about 20% for highly enriched uranium, 34% for uranium containing 1% of uranium-235, and by about 40% for natural uranium. The reduction of such charges would be possible by decreased costs in the production of the fissile natural material. These new charges are based on a price of $8 per pound of fuel and $7 per pound of fuel, which is the price established by the AEC in 1956 for the contract program for the period of 1956-1957.

Simultaneously, however, the charge rate on the inventory of uranium in a reactor was increased from the previous 4% to 9%.

The rate increase, in the words of the AEC, was that the new rate took account of increases in the cost of money to the U. S. Government because the rate was first established in 1954. The combined effect of these measures has been to reduce the nuclear fuel cost from 3 to 5 mills per kilowatt-hour of basis of present burn-ups. This is a significant step in the right direction. A company recently published the results of studies of plutonium in so-called "near thermal reactors." It does appear that a marked reduction in overall burn-ups is possible, which would cut the cost of the nuclear fuel by almost 50%. Even with the present restrictions and the existing limitations in heat fluxes, important fuel savings could be achieved. This approach is being investigated.

These new developments have convinced your Committee that it would be relatively easy to have nuclear power plants that will be fully competitive with conventional power in several areas of the United States by 1965.

Ownership of Nuclear Fuels

Last May, at the time the AEC disclosed its price reductions for enriched uranium, it also indicated its intention to advocate that the 1954 Atomic Energy Act be amended to permit private ownership of enriched uranium.

In this field, the present leasing policy to outright sale would mean that the current 4% charge would jump to about 9 to 12% (gross rate of return) for private facilities that are carrying their own inventories. The net effect of such a change would be an increase in the cost of nuclear power of about one mill per kilo¬watt-hour more or less.

The first reaction of utilities was that they do not wish to own a reactor and private ownership of atomic fuels. However, the immediate switch over to private ownership would act as a brake on the growth of nuclear power. Therefore, the AEC now believes that there will have to be a lag of five to perhaps 10 years or more. Over such a period, it is certain that the higher cost of atomic energy resulting from privatization of fuel inventories would be more than offset by other cost reductions, such as lower construction costs, improvements in reactor technology and future reductions in the cost of uranium. It may be that the AEC would only have to agree to modify the Atomic Energy Act in specific periods of a prolonged legislative battle, which would last several years. Some of the tran¬sactions between utilities could be handled by the AEC include: the continued leasing of fuel inventory the time of purchase; purchase at an early date with payment in installments; purchase at an early date with deferral of payment; purchase through financial and bank loans...
Trends in the Domestic Petroleum Industry

Oil industry earnings, as measured by the Chase Manhattan Bank, recorded a further increase in earnings in 1960 to $2.9 billion, a slight gain over the $2.7 billion reported in 1959 and $2.5 billion in 1958. By comparison, 1956 was the best year in history, when $3.1 billion was reported.

The rate of return on investment, computed as before, is composite of domestic and foreign earnings. As indicated by the 25 oil companies tabulated, investment declined from 1955 through 1959, and increased modestly thereafter. Return on foreign investment has declined since 1956.

Middle management prepared to assume the responsibilities of top management; and finally, payoffs from stockholders to liquidate and thereby achieve a value for the shares far above the highest price at which the shares have traded in the public market.

Minor Role for Investment Bankers

During the 1950's the petroleum industry called upon the services of investment bankers to raise substantial amounts of outside capital to expand facilities and meet the rapid rising demands of the oil consuming public. Under present day conditions, however, oil companies have, with few exceptions, been developing more adequate cash flow to handle capital expenditure programs. As a consequence the role of the investment banker as a merchandiser of oil securities is now a relatively minor one and is likely to remain so for several years to come until demand catches up with capacity.

Financing Prospects

The most prevalent type of financial requirement of the industry this year (and in prospect for the next few years) results from the large number of companies raising large amounts of capital by large integrated companies, and the extraordinary growth of oil companies in the past year. The sale of Indiana (and Tidewater Oil Corporation's) assets to Standard Oil Company (Indiana) is a typical example; both companies involved, to about $350 million, of which $70 million was provided by privately placed production payments and about $90 million of equity provided by the two purchasers. The more recent proposed sale of Arco Oil Corporation's assets to Atlantic Richfield Company show the next step in this direction. In the present stage of development it is likely that approximately $1 billion plus the assumption of certain debts by Socony.

Aside from these substantial financial transactions, a large number of smaller transactions in which investment banks play a definite role in the marketing of securities to prospective stockholders, represent much smaller sums and in several cases, only a few hundred barrels of daily production. Nevertheless, the number of such transactions is thought to involve less than a million dollars last year, and therefore do not come to the attention of the investment banking community.

Many producing companies, both listed and unlisted, are possible candidates for liquidation through a sale of assets to a larger oil company. Reasons for liquidation are numerous. Among them are the inability to increase oil and gas reserves at reasonable cost, inability to market enough incremental oil and gas each year to permit an increase in net earnings, and in some cases, the managerial problem of exploration, field development, and selling to a public which may not be aware of the opportunity.

The Middleman.

Oil industry experience has shown that middlemen receive for their services a substantial amount of capital, the bulk can be borrowed by institutions in the form of production payments; the remaining equity requirements can usually be financed from excess cash on hand.

Stockholders of all oil companies may, in general, look forward to higher dividend income as cash generation continues to exceed internal needs. Opportunities for capital gains may be found in companies which are to be liquidated at a price in excess of the current market; in those which are adding to their base of earnings through increased production; and in those exposed to a prospective upturn in refining margins.

Natural Gas

Another year has gone by without any significant clarification of the many regulatory problems confronting the natural gas industry. The main problems of course, are regulation to produce rate restraint as discussed on page 105.

Capital Spending by Oil Industry

(Millions of Dollars)

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<tr>
<td>Production</td>
<td>$2,113</td>
<td>$2,113</td>
<td>$1,973</td>
<td>$2,324</td>
<td>$2,597</td>
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<tr>
<td>Refining/Chemicals</td>
<td>439</td>
<td>382</td>
<td>369</td>
<td>722</td>
<td>713</td>
</tr>
<tr>
<td>Other</td>
<td>666</td>
<td>664</td>
<td>660</td>
<td>614</td>
<td>614</td>
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<tr>
<td>Total U. S.</td>
<td>$3,176</td>
<td>$3,037</td>
<td>$2,973</td>
<td>$3,776</td>
<td>$3,654</td>
</tr>
<tr>
<td>Foreign</td>
<td>1,062</td>
<td>1,042</td>
<td>1,073</td>
<td>1,047</td>
<td>1,076</td>
</tr>
<tr>
<td>Total</td>
<td>$4,238</td>
<td>$4,079</td>
<td>$3,949</td>
<td>$3,823</td>
<td>$3,776</td>
</tr>
</tbody>
</table>

SOURCE: The Chase Manhattan Bank.

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Report of IBA State Legislation Committee

Robert A. Podesta, Partner, Cruttenden, Podesta & Co., Chicago, as Chairman of the State Legislation Committee, presented the following Report to the Convention.

The amount of activity in state legislation affecting the securities industry this year is indicated in the fact that there were amendments to the securities acts in the following 23 states:

Alabama
Arkansas
Illinois
Kentucky
Louisiana
Michigan
Mississippi
Missouri
Montana
New York
North Carolina
Ohio
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Utah
Virginia
Washington
West Virginia
Wyoming

I Amendments to State Securities Acts

The amendments to the securities acts in the 23 states listed above are summarized in APPENDIX A. These amendments included complete new securities acts in the following four states: Arkansas, South Carolina, New York, and Pennsylvania. The act in each of these states was drafted with the specific purpose of creating a fair, just and equitable system of regulation.

II Survey of State Securities Registrations

In June of this year IBA President John W. Newton in a letter to all IBA members requested information regarding each issue of securities since 1958 which was not qualified in certain states or failed to meet the registration requirements. It is hoped that this information will be helpful in making such qualifications in other states. The survey of state securities acts this year and the report of the year's work are now available from the IBA.

III Options and Warrants to Underwriters

Issues involving options or warrants to underwriters can be registered in all states if specified conditions are met. The statement of policy on options and warrants was adopted by the North American Securities Administrators in 1949, and it is recommended that administrators approve such registrations.

IV Real Estate Investment Trusts

One of the most interesting developments during the year has been the organization of a number of real estate investment trusts. Generally speaking, the real estate investment trust is simply a means by which investors may pool their funds for the management of real estate—hotels, stores, and other properties. Prior to change in the tax law effective in 1961, persons who invested in real estate had to pay taxes on the appreciation in value of the property. The change in the tax law has made it possible for investors to own real estate without paying taxes on the appreciation in value. This change in the tax law has resulted in an increase in the number of real estate investment trusts. The change in the tax law has also made it possible for investors to own real estate without paying taxes on the appreciation in value. The change in the tax law has resulted in an increase in the number of real estate investment trusts.

566

The Commercial and Financial Chronicle... Thursday, December 28, 1961
Report of IBA Aviation Securities Committee

Edward J. Morehouse, Vice-President of Harriman Ripley & Co., Inc., New York City, as Chairman of the Aviation Securities Committee, delivered the following Report to the Convention:

The Aviation Securities Committee of the Investment Bankers Association has now submitted its report reviewing pertinent developments in the aviation industry during the past year. The use of the word "industry" with reference to so diverse and complex a field as that of aviation as we know it today is an extreme oversimplification. The advent of the space age has served to widen even further the boundaries of an already broad and changing economy.

For the purposes of this report, however, we may divide the aviation field into its two general categories of manufacturing and transport.

Aviation manufacturing, which in recent years has come to be known by the more appropriate term, the "aerospace" industry, includes the large airframe and missile companies, the manufacturers of propulsion systems including jet, piston and rocket engines, the small plane manufacturers, and the family of other companies whose products are utilized in the manufacturing, testing and ground handling of air and space vehicles, and a number of very large corporations, which are not primarily engaged in defense business, also have large stakes in the aerospace industry. The number of companies participating in the manufacturing segment of the aerospace industry has grown tremendously in recent years.

The airline industry is comprised of the scheduled carriers, including the large, prestige trunk lines, United States flag carriers engaged in international operations, local service lines, all cargo-carriers and helicopter lines, plus the operations of the non-scheduled and supplemental carriers.

AEROSPACE

Net sales of the 12 largest aerospace space manufacturers during the first half of 1961 aggregated about $5.5 billion, compared with $5.2 billion in the same period last year. Net income of these companies amounted to $325 million in the first half of 1961, up from only $84 million in the comparable period in 1960. Year-to-year comparisons for these companies as a group have been greatly distorted in 1961 by the marked reduction this year in the amount of losses sustained by certain of the commercial transport manufacturers. General agreement among most of the major aerospace companies has been showing improved earnings this year; profit margins on defense business have continued at normal levels however. A step-up in the rate of defense expenditure during 1961, furthermore, a year which will offset the somewhat lower 1961 deliveries of the B-70 Program. The Pentagon recently announced that it would not spend funds voted by Congress to enlarge the present program for the B-70. The Pentagon, a program which is designed to demonstrate the technical feasibility of the advanced subsonic supersonic aircraft, is much more than just a development project, however. It is possible that the controversy over this and other manned bomber programs may be raised again when Congress convenes in January, 1962. Whatever the ultimate fate of the B-70 program, however, the knowledge that experience relating to large supersonic aircraft gained from this and earlier programs will be extremely helpful in the continued development of a commercial supersonic transport. In June of this year a joint report of the Aeronautics Board, the Department of Defense, the National Aeronautics and Space Administration and the Federal Aviation Agency, setting forth the conclusions that have been drawn and the principles that have been agreed upon in conferences with various industry representatives in order to provide guidance for the development of such an aircraft. The report concluded that the development of a commercial supersonic transport is now technologically feasible. The report is essential to the maintenance of this country's leadership in commercial aviation. Our national prestige is also at stake in this area. It is known that the Soviets are working furiously in this field and it is imperative that we make a supersonic airliner into service before the U. S. Whether they will be the first or second to the field remains to be seen. Their leading role in the development of their supersonic military aircraft remains to be seen.

The Federal Reserve Bank of St. Louis

Volume 194 Number 6120... The Commercial and Financial Chronicle

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The Report of IBA Industrial Securities Committee

J. Victor Loewi, President of Loewi & Co., Inc., Milwaukee, Wis., presented to the Convention, as Chairman of the Industrial Securities Committee, a Report on the WATER TREATMENT INDUSTRY.

The Committee's Report, encompassing approximately 70 pages, represents what very likely is the most exhaustive and detailed analysis of the water shortage problem, current and prospective, confronting many parts of the United States as well as abroad. It explores every facet of this vital problem, including especially new developments in progress, particularly in the area of on-the-spot ocean water conversion, companies actively engaged in the industry, the role of the investment banker and investment opportunities in the area of increasing the supply of water for individuals and industry. Reproduced hereewith are some of the highlights of the Report.

INTRODUCTION

Much has been written and said about the alarming increase in the impending water shortage in the United States and about steps that are being taken to cope with this increasingly critical problem. Most people, except those residing in arid regions, are inclined to accept the availability of water as unlimited and to take it as they need it, thinking that the inexhaustible supplies of the air and water are inexhaustible. This, however, is not the case and the problem is gradually approaching the point where the demand for fresh water will exceed the supply. If our usable water resources remain static, consumption would catch up in two decades, but pollution and erosion create new sources. The need for increased water resources is severe and the need for better water management is critical.

Much attention is being directed toward alleviating the impending water crisis through ocean water conversion. The President recently stated that the discovery of an inexpensive means of converting sea water to fresh water would constitute the greatest scientific achievement of the age. At the recently adjourned session of Congress (Bill HR-796) an additional $75 million was appropriated to fund research and development work and construction of experimental sea water conversion plants. Efforts are also under way to develop new methods and processes for the production of freshwater from salt water by means of a variety of membranes, distillation, and other processes. Much progress has been made, and many parts of the world are using fresh water supplies by distillation, evaporation, and other processes. The problem of the water shortage is being given special emphasis by the United Nations, and many countries are investing in water conservation and management projects.

The Committee's Report stresses the importance of conservation, recycling, and reuse of water resources. The report notes that recycling and reuse of water are essential to meet the growing demand for water, and that new technologies are being developed to improve water quality and efficiency.

The report also highlights the role of the investment banker in the development of the water treatment industry. It notes that the investment banker can provide the capital needed for the development and expansion of water treatment facilities, and that new investment opportunities are emerging in this field.

The full report, including all tables and figures, is available for download on the website of the Federal Reserve Bank of St. Louis. The report can also be requested through FRASER, the Federal Reserve System's online database of economic literature.
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ALBRIGHT, NORMAN J.  Texas Bank & Trust Company, Dallas
ALEXANDER, T. D.  Ayres & Company, New Orleans
ALLEN, JAMES W.  First National Bank of Louisville
ALLEN, JOHN W.  A. C. Allen & Co., Chicago
ALMON, WILLIAM E.  First National Bank of Minneapolis
ALMIGHTY, E.  Trowe Trust & Savings Bank, New York
ANESEN, EDWARD S.  William Street Bank, Inc., New York
ANASTASIA, ALBERT A.  New Jersey & Co., New York
ANDERSON, GEORGE R.  Continental, St. Louis
ANDERSON, GLENN E.  Genesco Securities Corporation, Raleigh
ANDERSON, ROBERT R.  Distributors Group Inc., New York
ARMING, ROBERT A.  Chicago Tribune, Chicago
ARNOLD, W. B.  Philadelphia
ARNOLD, R. WELDON  Philadelphia
ARNSTEIN, JR., FREDERICK A.  Sox & Co., New York
ARONOFF, HERMAN  Philadelphia
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ARTHUR, WILLIAM W.  First National Bank of Chicago
ASHBY, SHIRLEY & Co., New York
AUSTIN, EDWARD A.  San Antonio
AVERS, R. W.  Chicago
AYERS, ROBERT M.  Kansas City Bank & Trust, Kansas City
BABICH, LEO E.  Ayres & Company, New Orleans
BACH, GEORGE  Philadelphia
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BAILEY, J. CLAYDE  Chicago
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BARBER, WILLIAM  Philadelphia
BARD, J. HOWARD  New York
BARR, ROBERT W.  New York
BARR, RICHARD H.  New York
BARR, WILLIAM C.  New York
BARRON, W.  E.  Detroit
BARRON, W. E.  Detroit
BARTLETT, STANLEY L.  New York
BASSETT, RAYMOND  New York
BASSETT, ROBERT M.  Philadelphia
BASS, RICHARD  Philadelphia
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Report of IBA Federal Taxation Committee

Walter Maynard, Partner in Shearson, Hammill & Co., New York City, again headed the Federal Taxation Committee. Its report follows:

Tax activity this year began on April 20 when President Kennedy sent a Tax Message to Congress. This message first alluded to the problem of long-range tax reform, and said that the Secretary of the Treasury was directed to undertake the preparation of a tax reform program to be placed, before the session of Congress which is to begin next January. The message advanced a number of proposals for interim action.

The Ways and Means Committee promptly began hearings, which were concluded by the end of May. Finally, on Aug. 23, Chairman Wilbur Mills of the Ways and Means Committee announced on behalf of the Democratic members of the Committee that the heart of the President's program was his proposal to grant a tax credit for the amount of new investment in businesses which would invest their funds for modernization. . . . The Committee has worked diligently on the President's tax recommendaitons for four months, and now finds that it will be impossible to conclude its deliberation in the few weeks that remain to this session. It is hoped that the Committee can report to the House by early February, 1962. . . . A Committee of the 'discussion' draft (of the legislation) will be made available. . . . It is stressed that this 'discussion' draft was prepared for the use of the Committee on Ways and Means and that no part of this draft has been approved by the Committee.

The 'tax incentive for modernization and expansion,' in the President's message, frequently referred to as the 'investment credit scheme,' is in effect a cut in the corporate income tax available to corporations in a position to make expenditures for new plant and equipment in excess of depreciation reserves. This proposal is not of primary interest to our members, and therefore, your Committee did not appear in this connection before the Ways and Means Committee. Nevertheless, because the proposal is far reaching and, if enacted, would have a marked effect on our economy, we believe that the membership should follow its progress with attention.

The investment credit scheme, as first proposed by the Administration, provided for a tax credit of 15% of all new plant and equipment expenditures in excess of current depreciation allowances. The discussion draft referred to above sets the amount of the credit at 8% of the qualified investment, but not more than half of the liability in excess of $200,000. It can be seen that legislation which contains the possibility of a 50% corporate tax cut is powerful medicine indeed!

Other segments of the President's plan which fall within the scope of the study draft issued by the Committee for example, the proposed tax deferral privileges in developed countries was dropped completely. This proposal was of interest to those of our members who operate foreign affiliates or subsidiaries.

Withholding of Interest and Dividends

The study bill does, however, contain a provision for withholding of income tax at source on interest and dividends, and withholds 16%, compared with the 20% provided for in the President's Message. Your Committee believes that, although the argument for withholding of income tax on dividends income goes unreported and not reported in the net income of the shareholders is well founded, it continues to resist the withholding of income tax on interest and dividends (a) it would cause many persons to pay tax and go through a great deal of trouble to determine where, in effect, no tax is due; (b) it would create an unfair competitive burden on corporations and financial intermence to be enormous, and (c) steps are already underway to install a data processing system which should allow the Internal Revenue Service to detect and solve the problem without the drastic withholding remedy. Hence, your Committee, in article (a), the study draft provides that refund shall be allowed for amounts less than $10. This creates an obvious injustice for those receiving dividend tax and for those just beginning to save; but it does not encourage the practice of thrift.

Dividend Credit and Exclusion

Finally, and possibly of most importance, is the fact that, although the President's proposal recommended repeal of the present 4% dividend tax and exclusion of the $50 exclusion, the study draft of the bill omits the repealer. Possibly, however, we take too much satisfaction in this development. The American business and financial committee continued its efforts in the concluding phase of the Congressional session to attach a repealer of the dividend credit and exclusion to the legislative, and these efforts will doubly be renewed at the next Congressional session.

In this connection, it is of interest that several members of Congress report that the President's report brought to the attention of the greatest amount of mail from their constituents during the session were repeal of the dividend credit and an Administration proposal to change the method of taxation of savings and loan associations.

The Chairman of your Committee appeared before the Ways and Means Committee and presented testimony opposing repeal of the dividend credit and exclusion. It is the belief of your Committee that the IBA should continue to actively advocate the basic need for fair taxation of dividend income. The low rates of such tax for higher income brackets, of course, despite the minor results of realizing 4% of the dividend tax credit and the $50 exclusion, the corporate stockholder would suffer a severe penalty not imposed on any other individual. The position that corporate income is taxed twice—first by the dividend corporate, and second when received by the stockholder in the form of a capital gain or increase in the dividend tax credit to 20% (The Committee reports that we have the legal of eliminating double taxation in the lowest personal income brackets). This provision may well within the predictable future lead to the requirement of substantial tax increase. In view of the necessity that industry in the U.S. increase its ability to compete in world market, we believe it essential that such taxes, if and when adopted, be levied on consumption rather than production. The logic of this principle would call for taxes in all areas, and opposition to any kind of tax that would affect personal and corporate incomes.

Taxpayer Committee

Your Committee emphasizes very important that each member of the Association use every opportunity to make our views on all of the foregoing subjects known to householders, friends, and offices, possessable to his representatives in Congress.

Respectfully submitted,
FERDINAND TAXATION COMMITTEE

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More investment banking firms utilized IBA training programs during 1961 than ever before, reported Robert Mason, Chairman of the Education Committee, at the Fifth Annual Convention of the Investment Bankers Association of America. Mr. Mason is with Merrill Lynch, Pierce, Fenner & Smith, Inc., of Chicago. A review of the Committee’s educational activities was contained in the December issue of the IBA Educational Bulletin distributed to delegates. (This, together with the September issue of the Bulletin, constitutes in essence the annual report for the Education Committee.)

During the week of March 26-31, a total of 374 junior officers and partners of IBA member organizations attended the ninth annual session of the Institute of Investment Banking on the campus of the Wharton School of Finance and Commerce, University of Pennsylvania. This was a record enrollment for the three classes of this executive development program, which is sponsored by the IBA Education Committee, in cooperation with the Wharton School of Finance and Commerce.

The graduating class of 77 men was also a record.

From July 30 to September 2, the IBA Education Committee and the Department of Member Firms Liaison of the New York Stock Exchange jointly sponsored a concentrated summer training program of two courses for trainees in the securities business: Fundamentals of Investment Banking and Stock Exchange Operations. The program was offered in cooperation with Northwestern University in Evanston, Ill. 79 registrants completed the course in Fundamentals of Investment Banking and 85 completed the Stock Exchange Operations course. There were a total of 101 registrants representing 56 organizations in the securities business from 34 cities in 24 states and Puerto Rico. This was a record enrollment for the concentrated summer training program which has been offered the past three summers.

Major IBA Group Activities

Significant educational activities conducted by IBA Groups throughout the country were reviewed, including the following:

- **California Group Survey of Training in the Securities Industry**
  - This spring the Group Education Committee conducted a survey to determine general trends in sales selection and training methods within the securities business. Greater emphasis is being placed on proper selection and adequate training than ever before. The Committee is planning to use the data compiled as the basis for a ‘Training Standard Guide’ for the use of all members in establishing standards for training sales personnel, to encourage comprehensive and effective training methods, and to set forth typical entrance requirements for applicants for sales positions.

Central States Group 13-week Television Series, Investors’ Forum

A 13-week television series called Investors’ Forum began on October 8 and will continue to be broadcast over station WGN in Chicago from 5:30 to 6:00 p.m. every Sunday afternoon through Jan. 7. Despite competition from several popular programs on other channels, the Forum has an audience estimated at 250,000 to 300,000 each week. Arrangements are now being made to syndicate the program to channels in other cities throughout the country.

**Northern Ohio Group Participation in Junior Achievement Program**

In a fund-raising drive this past spring the Group raised approximately $1,100 for the Junior Achievement program in Cleveland. In addition a $300 scholarship was established to be awarded annually to an outstanding Achiever of the year. The Group publicizes the public offering of stock in J.A. companies being formed in the fall and purchases 5% of all stock offered by such companies. Participation in the J.A. program by the investment fraternity will help promote the private enterprise system among high school students.

**IBA Member Activities During 1961**

A separate section of the December Bulletin is designed to aid IBA members in planning their own programs by presenting a review of programs and activities being promoted by other member organizations. Activities conducted by more than 65 IBA member organizations are briefly described. Many members participate in one or more of the following programs:

- Public Lecture courses and Forums
- Radio and Television programs
- Formal internal training programs
- Junior Achievement assistance
- Cooperation with schools and universities
- Active advertising and promotional programs

**Open-house meetings for public**

**Showing of IBA Films**

- 1961 Institute of Investment Banking Essay Competition
- Harvey N. Sherburne, Chairman of the Institute Planning Sub-Committee, announced the winners of the Institute essay contest and President George A. Newton awarded the prizes for the two best essays. Mr. Sherburne is a partner and manages the New York office of Mason, Hap-ple & Co. (See page 60—Ed.)

**Editor’s Note:** Following are memos of the Education Committee:

- Robert Mason, Chairman
- Merrill Lynch, Pierce, Fenner & Smith Inc.

- Chicago, Ill.

- William K. Rock
- Newhard, Cook & Co.
- St. Louis, Mo.

- Robert W. Reck
- Dean Witter & Co.
- Portland, Ore.

- James E. Snyder
- L. B. Schwinn & Co.
- Cleveland, Ohio

- Frank E. Vossne
- Kidder, Peabody & Co.

- Wendell W. Witter
- San Francisco, Calif.

- George R. Young
- Kay, Richards & Co.
- Pittsburgh, Pa.

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The Investment Banker and Merchant Marine Financing

Continued from page 26

The result is that today all the unpaid principal and all the unpaid interest on ship mortgages and loans are insured by the United States.

Pledge of Government's Credit

In further support of the insurance, Title XI provides:

(1) That "faith of the United States is solemnly pledged to the payment of the interest on and the unpaid balance of the principal amount of each mortgage and loan insured under this title";

(2) That "each insurance contract . . . shall run to the mortgagee or lender and be for the benefit of such mortgagee or lender and the holders of the obligations secured by the mortgage or evidences of the loan, and if the mortgagee or lender is a trustee under a trust indenture, for the benefit of the holders of the bonds or notes issued under such trust indenture";

(3) That defaulted mortgages and loans may be assigned to the government without foreclosure by the mortgagee or lender;

(4) That amounts required to be paid as insurance "shall be paid in cash";

(5) That contracts of insurance entered into pursuant to Title XI are incontestable from the date as of which such contracts are entered into, except for fraud, duress, or mutual mistake of fact, and that such contracts are conclusive evidence that the mortgage or loan complies with the provisions of Title XI and that all the terms of the mortgage or loan, as well as the mortgagee or borrower and the mortgagee or lender, have been approved by the Secretary of Commerce; and

(6) That the Secretary shall find that the property or project with respect to which the mortgage or loan will be executed "will be, in his opinion, economically sound."

Benefit of Bondholders

The insurance contract is for the benefit of the holders of bonds issued under trust indentures, while in the early financings, these consisted of a single note or bond for the entire amount of the mortgage, it soon became evident that there was a much wider market to be tapped by the issuance of serial bonds in smaller denomination and in the sale of these bonds to the public. Accordingly, it was appropriate in the first public offering of Title XI bonds to give such bonds the title "United States Government Insured Merchant Marine Bonds."

The first of these bonds were issued and sold—and we believe quite successfully for a first offering—by Grace Line, in 1938. This public offering of bonds was accomplished under specific provisions of Title XI permitting trust indentures and the issue of bonds thereunder.

Since this was to be the forerunner of many similar issues, much work was required. First, many months of work by Grace Line, the underwriters, the trustees and the Maritime Administration, and their staffs and counsel, were required in the preparation of these documents. At the same time it was necessary to determine the problems inherent in a public offering and to take action to insure success. Meetings were held with underwriters and rating agencies. Prospective markets were consulted.

Attorney General's Opinion

The Attorney General also rendered an opinion stating, in part, that "contracts of insurance entered into in accordance with the title would establish a valid and binding obligation of the United States" and that "it is . . . appropriate to conclude that Congress intended to place the obligations assumed by the United States under a contract of insurance pursuant to Title XI on a parity with the obligation which it assumed with respect to its interest-bearing obligations." He also stated that the absence of a pledge of the "credit" of the United States was not significant.

The Attorney General further concluded that the obligation of the United States under insurance contracts and the pledge of faith which evidenced that obligation were not dependent upon the availability of appropriations.

Nevertheless, the Congress in order to assure the acceptability of the bonds, to produce a satisfactory interest rate, and to create an interest by investors in the American Merchant Marine, granted authority for the Secretary of Commerce to borrow from the Secretary of the Treasury moneys with which to pay insurance in cash to the extent the Federal Ship Mortgage Insurance Fund provided by statute proved to be inadequate.

The Comptroller of the Currency ruled that the limitations and restrictions contained in Section 5136 of the United States Revised Statutes, as amended, as to national banks dealing in underwriting, and purchasing for their own accounts investment securities would not be applicable to United States Government Insured Merchant Marine Bonds; and the Securities and Exchange Commission concurred in an opinion that registration of the bonds under the Securities Act of 1933 and qualification of the indentures under the Trust Indenture Act of 1938 were not required.

Pre-Financing Authorized

At a later date—in 1939—the public offering of bonds was further facilitated by an amendment of Title XI to permit the sale of bonds in advance of payment of

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The Commerical and Financial Chronicle... Thursday, December 28, 1961

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actual cost of ships on the basis of a depression in the standing of the marine insurance case with the Secretary of Commerce with regard to loan guarantees. Also, in 1959, flexibility was added by an amendment permitting a lender to change the place of mortgaging on their ships until delivery.

Notwithstanding the existence of the pledge of faith of the United States, the lender may not be subject to the principal and interest on Title XI loans and is permitted in their negotiations with Title XI applicants the following excerpt from our Title XI

"The imposition of financial conditions on the loans to the mortgage under the circumstances of the particular financing is regarded by the Secretary (of Commerce) as the initial responsibility of the lender or mortgagee."

This is not intended to suggest that defaults running to the lender or mortgagee be limited to such substantive matters as failure to pay principal and interest, or failure to carry vessel insurance, leaving to the government sufficient discretion and flexibility to cope with emergent situations and yet protect its interests without any additional risk to the lender or mortgagee. What we intend to suggest is that the lending institutions not adopt an attitude of relying solely upon the Title XI insurance, but that the transaction be regarded initially as a commercial venture and lastly as a government-guaranteed project. In this manner, the government may use the benefits of possible financial safeguards which otherwise might not be available to it, with the resultant probability that the termination of investments by reason of defaults will be less likely to occur.

The element of risk is inherent in all insurance programs, and Title XI is certainly no exception to this rule. Anything was not for the risks which are particularly prevalent in the shipping industry, with its wide fluctuations of the charter rates and peaks and troughs of prosperity and depression, there would be no necessity for a Federal ship mortgage insurance program since adequate financing could be obtained from lending institutions without government aid.

Only Three Defaults

Thus far, it has been necessary to foreclose on only three mortgages, and we have adequately demonstrated to lending institutions the stability of our insurance program by cash payoffs aggregating nearly $7,000,000 to the lenders upon default by the shipowners. The mortgage on the trailer-ships CARIB QUEEN was foreclosed and the ship turned over to the Navy, where it is being used to the government's advantage. The LEI-LAW was recently resold to American African Lines, which is being reconstructed into a first-class passenger ship for use in the transpacific trade. The freighter COAST PROGRESS is currently being offered for sale under competitive bids.

In order to avoid other potential defaults, the Maritime Administration has agreed in principle to advances to owners of six tankers and two container ships aggregating approximately $1,000,000. The necessity for making these advances arises from the seriously depressed condition of the oil market, particularly the tanker segment. Tanker charter rates, as a direct influence of the Suez crisis, plummeted from a near record high in early 1957 to a record low which has persisted with minor seasonal variations. As a result, the inde-
of the latter were generally commercial and savings banks, insurance companies, and trust funds of various kinds. A few of the private placements have been converted to notes from Merchant Marine Bonds.

To the present we have required a separate mortgage for each ship which resulted in a separate bond series for each ship. While each series might be relatively small, ranging from $44 million to $10 million, there is usually more than one ship involved, so that the total underwriting has ranged from $84 million to $202 million, in two cases representing four ships per issue.

Bond Price "Nudging"
The Maritime Administration is not unmindful of the various factors which must be considered in the pricing of these Government Insured Merchant Marine Bonds and the significance of these prices to the promotion of a market. It may also be said that we have at times taken the initiative at "nudging." I have borrowed this word from responsible sources, having noted in a recent issue of the First National City Bank of New York Monthly News Letter that it had been added to the lexicon of the capital market. This same article commented upon the indicated interest of President Kennedy in his initial attempt at nudging the capital market through his economic message of Feb. 2, and the President since then has consistently focused attention upon the need for lower long-term interest rates as a means of stimulating economic growth and recovery.

Our nudging has been sincerely intended to be constructive. In it we have had but one desire and that to assist the underwriters and the shipping industry in developing the appropriate market which would reflect the lowest costs in recognition of the many attractions inherent in these bonds.

Up until a most recent date the nominal interest rates have ranged from a low of 4.25% to a high of 5%, except for the most recent issue which included $6 million of serial bonds maturing in from one to eight years, with the nominal interest rates ranging from 2.85% to 4.5%, respectively. The long-term portion of this issue carried a rate of 4.5%. At the same time these interest rates ranged from 45 to 89 basis points over long-term government. We believe that the litter recent issue was an extremely good one. At the same time these issues exceeded triple A corporate rates by from 3 to 55 basis points. We believe that these differences are also too great. In fact, we believe strongly that Merchant Marine Bonds should not be compared with or related to corporate bonds.

Not In Category of Corporate Bonds
While Merchant Marine Bonds are secured by the ship itself, second by the general credit of the company, and third by U.S. Government guarantee, it is obvious that the last named is the really significant element and the one which makes these bonds unique. This is the reason that we believe that Merchant Marine Bonds should be classified as quasi-government bonds and compared with U.S. Government Bonds and not corporate bonds. We further believe that there is adequate evidence to support a conclusion that whereas in the immediate future these Merchant Marine Bonds would most likely realistically be priced in the interest rate band between Gov-

ernment Bonds and Triple A Corporates: there is likewise adequate evidence to support a conclusion that these bonds should ultimately more closely approximate the interest level of long-term U.S. Government Bonds.

Because of the requirement that these bonds be sold at par on original issue to meet the guarantee qualifications, the nominal interest rate is more significant than with other bond issues. The U.S. Government insurance virtually guarantees that the purchasers of the bonds will be paid in full. Because of the possibility of default by the borrower, the repayment of the proceeds may occur prior to maturity. This is a factor which cannot be ignored but which, relatively, is not very material. Therefore, we believe that we are now at a point where Merchant Marine Bonds should, in general, not yield at original issue more than 50 basis points higher than outstanding long-term government. This aim has already been reached with two issues and been beaten in one of them.

We further believe that, after more education of the investing public and further seasoning, this point differential can be reduced. We recognize that many other factors enter into the pricing of all securities, but we are convinced that this aim is a reasonable one.

Future Bond Issue Prospects
What is the future of U.S. Government Insured Merchant Marine Bonds? There are 15 steamship operators in the foreign commerce of the United States who are performing under operating-differential subsidy contracts with the Maritime Administration. By the terms of these contracts, most of which are for 20 years, the operators are required to replace their fleets with new ships built in American shipyards. Currently, these subsidized operators are scheduled to contract for 214 ships within the next 15 years.

The estimated cost to construct these ships in American yards is $2,664 million. The difference between that and $1,379 million, representing the estimated cost to construct these same ships in foreign yards, will be eligible for payment by the United States as construction-differential subsidy. The $1,297 million must be supplied by the subsidized operators from their own or borrowed funds.

Under Title XI the owner of a ship built with construction-differential subsidy may borrow on a U.S. Government insured mortgage up to 75% of the owner's cost. There are some relatively insignificant differences between actual cost for Title XI insurance purposes and capitalizable cost. Consequently, it can be said that approximately 75% of the owner's cost, or $1,297 million may be borrowed by the means of U.S. Government Insured Merchant Marine Bonds over the next 15 years to carry out the requirements of the subsidy contracts.

The combined net worth of the 15 companies at Dec. 31, 1960 was approximately $757 million and they had on deposit in their stau-

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tory reserve funds as of June 30, 1961 approximately $310 million in cash and readily marketable securities. The entire $310 million is not available for ship construc-
tion because of various contrac-
tual restrictions and because of the need to retain funds adequate to meet current amortization of mortgages on their presently owned ships. But the greater por-
tion of it will be available for this purpose.

In addition to the subsidized operators, there is considerable interest in Federal Ship Mortgage Insurance for other types of ships. These include coastwise operators, roll-on roll-off and container ships, and applicants for operating-differential subsidy. There are applications on file with the Maritime Administration for approxi-
mately $57 million in mort-
gages over and above the subsi-
dized operators potential. These applicants are, in general, somewhat less strong financially; how-
ever, it is safe to presume that Merchant Marine Bonds of these operators issued under Title XI Insurance would receive a triple A rating, as have others in a similar category.

With outstanding insured loans and mortgages of $356 million, commitments for an additional $102 million, applications on hand for a further $57 million, and a potential borrowing of $1,034 million, it is obvious that the present statutory ceiling of $900 million may not be sufficient. Should this prove to be the case, the Maritime Administration would most cer-
tainly give consideration to pro-
posing to the Congress that the ceiling be raised.

To sum it all up, there appears to be a very sizable potential future requirement for borrowed capital in the form of U.S. Gov-
ernment Insured Merchant Marine Bonds, and the Maritime Adminis-
tration is going to be looking to Investment Bankers to develop a supply of capital at reasonable rates.

In consenting to advances and deferments and in settling the problems which have arisen be-
tween the owner, the lender, and Maritime, we have accomplished a very close and satisfactory rela-
tionship with the lending institu-
tions. We are confident that we have a program which is daily becoming more attractive to lenders throughout the country. Adequate evidence of this fact has been disclosed by the entry of new lenders into this field. We have a large program for the future which we feel will be attrac-
tive throughout the broad spectrum of investing groups, and we believe that the securities are of such soundness as to be vir-
tually without risk to lenders. On these grounds, we anticipate a most favorable response from all facets of the lending market. If short- and long-term loans, fully insured by the government, can be obtained by shipowners upon reasonable terms and conditions, we do not foresee the return of the Maritime Administration to the role of lender or mortgagee in competition with commercial lending institutions.

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MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION
Dilemma Confronting U. S. Regarding Latin America

Continued from page 17

his true colors: Brief military mock trials resulted in mass execution. Freedom of the press vanished. The lucky ones in opposition to him were banished; most were jailed or shot. Property was seized, without compensation. Callously, he began purging the very Cubans who had helped him attain power.

Communists Took Over

Then Castro-communism became evident. The Communist party of Cuba, which once had supported Batista and dismissed Castro as of no importance, became the sole political party of Cuba. Communists took charge of the armed forces and of all economic and social planning. Trade unions, university faculties, professional groups, civic and farm organizations, were remodeled to harmonize with the communist pattern of central control and rigid adherence to directives.

This betrayal of the announced goals of the revolution amazed and shocked the people of the United States.

We broke relations and suspended nearly all trade with Cuba. This reduced Cuba’s national income by half a billion a year, even after allowing for the modest amount of trade which Castro developed with the Soviet Union and her satellites mostly in military items on the import side.

Meanwhile, Castro seized a billion dollars in private and public United States assets and characteisticly boasted that there would be no compensation. The reaction among United States private investors was immediate, and it affected all of Latin America. The flow of private capital, which had reached a total of $600 million a year in 1958, dropped to less than half that amount.

It was at this stage that opinion in Latin America became antagonistic. The great sea of underprivileged, with no vested interest in the established orders of their own countries, continued to seize the Cuban revolution. They believed they were witnessing a repetition of the Mexican revolution which began in 1910. It, too, had had its years of extremism, but eventually smoothed out into a program of moderate and continuing economic development with considerable justice for all classes of the population. The masses of Latin America concluded that extremism was an incapable phase of any movement to change an historic system that had yielded them to their own countries nothing but illiteracy, poverty, and hopelessness. They overlooked the fact that leaders of the Mexican revolution sincerely sought to create a democratic society. Expropriations of property were accompanied by compensta-

There was never even a hint of the imposition of an international authority on Mexico; indeed, no country is so wedded to the concept of independence and non-intervention by any external power as is Mexico.

Fortunately, most Latin American Presidents, cabinet ministers, and other knowledgeable leaders saw Castro-communism for what it is. Many who at first were sympathetic soon became disillusioned. Half of them withdrew recognition from the Castro regime. At San Jose, Costa Rica, in August 1960, they joined in condemning foreign intervention in the affairs of the hemisphere. But these same leaders have hesitated to take collective action against Castro, for they know that in their own countries there exists the grave danger of uprisings by the oppressed. They know that the problem confronting them is as dire and as simple as this:

Either they will bring about, by peaceful means, rapid social reform that promises justice for all classes, or they, too, will face violent revolutions which could easily result in communist dictatorships. This would be catastrophic for them and for us. If indeed, no country is so wedded to the concept of independence and non-intervention by any external power as is Mexico. This has been the heart of our Latin American policy from the time the last of the Latin republics became independent in 1824, and the policy has, since the Good Neighbor concept was proclaimed in 1933, led us into more and more programs of assistance.

In August, 1961, President Eisenhower took action which significantly changed our approach to this vexing, complicated problem. It was obvious at that time that merely putting more private and public funds into Latin America would do little good, if such aid only succeeded in strengthening the prevailing order with all its injustices. He therefore asked the Congress to authorize an initial appropriation of half a billion dollars for what, in verbal shorthand, I shall call social loans — loans for land reform, schools, low-cost housing, and other developments which would have an immediate and visible impact on the welfare of the submerged masses of Latin America. It was understood that the loans were to foster self-help projects, with the recipient governments and individuals meeting a high percentage of the cost from local funds. It was also understood that the new loans would be conditioned on the Latin governments’ proceeding promptly to make changes in their laws and structures which would permit the new funds to have a genuine impact on the key problem.

The intentions of the Latin American leaders were made clear a few days after Congress approved the President’s plan. At Bogota representatives of most of the Latin nations — the Cuban foreign minister being a notable exception — declared their firm intention to bring about an equitable distribution of the ownership of land (for in some countries today 2% of the people may own half of all the land, and the workers of that land may receive little if anything in wages); they agreed to revise their tax systems to obtain local capital to promote economic and social development and as a means of overcoming flagrant injustices; they laid plans for the rapid construction of self-help, low-cost housing; and said they would develop local savings institutions as a means of obtaining much of the capital for this purpose; they expressed their determination to foster methods of mass education for the eradication of illiteracy, and institutions for improving the health of all their peoples. In short, they promised to carry forward, by peaceful and democratic methods, rapid social change which would avoid bloody revolutions and would achieve goals which we of the United States long ago had attained.

This was the situation when President Eisenhower and President Kennedy assumed the Presidency of the United States. Shortly after he took office, President Kennedy summoned the diplomatic representatives of the Latin American nations to the White House, and proposed the Alliance for Progress. The Alliance is, in effect, the implementation of the Congressional Act of September, 1960, and the Act of Bogota. Then, in August of this year, Ministerial
representatives of the Latin American nations met at Punta del Este, Uruguay, and spelled out in greater detail the steps they would take to enact the declarations they had made at Bogota. It was at the Punta del Este Conference that the United States guaranteed that Latin America would receive from external sources $2 billion a year for the next ten years to help with the social revolution envisaged by the Act of Bogota and the Charter of Punta del Este.

Two Critical Questions

Two critical questions must now be raised: First, will the Latin American countries actually carry out the promised reforms, save freedom and democracy in this hemisphere, and thus give us justification for the sacrifices the United States is expected to make? And, second, can we carry out our commitment without adversely affecting the financial position of the United States, both domestically and internationally?

As to the first question: The answer patently depends on the outcome in each country of struggles among forces of communistic imperialism, domestic reaction, and democratic liberalism.

In Latin America are 280,000 dedicated communists with about $100 million dollars a year at their disposal for subversion, cheating, lying, infiltration, and adroit efforts to promote discord. They are organized on the Leninist principle that only the most dedicated and trustworthy may be members of the party. Others may be their fellow-travellers. Fortunately, communists and their followers constitute a small minority—but it is a sly and a disproportionately influential minority.

The communists and fellow-travellers are bitterly opposed to the Alliance for Progress. Through some 300 of their own publications and on purchased radio time, they are attacking the Act of Bogota and the Charter of Punta del Este with un inhibited violence. They do not want peaceful change. They want revolution, they want bloodshed, for in violation they believe they will have their greatest opportunity to seize power, as they did in Cuba where only 25,000 belonged to the communist party.

Communists in Latin America have succeeded in infiltrating a good many trade unions and university student groups. Laborers, in Latin America ordinarily do not make wages sufficient to permit them to pay union dues. The trade unions therefore turn to others for financial help. The communists give it—for a price. Today, they control unions with a total membership of 1,000,000, which, again, is a minority. The technique with university students is different.

In most Latin American universities one may remain a student, even without attending classes, so long as certain modest annual fees are paid. And it is easy for a so-called university student in his 30s, 40s, or even 50s to achieve prominence in the student body and carry on subversive activities, thus creating the impression that young intellectuals of Latin America are anti-American and pro-communist. This is a false impression, as I shall indicate in a moment.

The Other Extremists

At the opposite extreme from the communists are the Latin American oligarchists—the latifundistas who own vast empires of land on which workers are held in feudalistic misery; the military elite who have been given every privilege by those who wish to retain power and the very rich who often send their surplus wealth to the United States and Europe for investment rather than keeping it at home where it could contribute to industrial, agricultural, educational, and social development. Some of these extremists are, like the communists, opposed to the Alliance for Progress. They want no change from the privileges they and their families have always enjoyed.

These are the elite who for generations have permitted palace revolutions, dictatorships, democratic regimes, and changes of uniforms—their only requirement being that inherited privileges not be disturbed. However, some of the elite realize fully that the stratifications of the 19th and 20th centuries cannot be sustained in the world and that they must therefore foster democratic development or suffer as have the former privileged of Cuba.

Between these two extremes are the democratic groups ranging from some of the military and financial privileged and highly educated, through nearly all of the middle classes, to the desperately poor and illiterate. If these groups were in the United States we would call some of them conservatives, some middle-of-the-roaders, and some leftists. They cover a broad political spectrum. But, as with most of our people, they want to preserve democratic institutions. They want nothing more extreme than the type of social justice we ourselves are fortunate enough to enjoy in our mature and successful society.

Political leaders in this democratic category include such intelligent men as Beltran of Peru, President of Argentina, Alessandri of Chile, Lleras Camargo of Colombia, Belaunde of Venezuela, Lopez Mateos of Mexico, and others.

Masses Without Spokesman

The submerged masses, however, have few spokesmen. They are not articulate. If they speak, they may in some countries be suppressed by their landlords of their huts and what little land they now occupy. They have as yet little organized power. In general, the masses are silent, suffering, angry. Into this vacuum, the university students have moved as a potent political force. By one example, I can perhaps

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haps show the flavor of the student movements.

In Santiago, Chile, a little more than a year ago, I spoke with the President of the Chilean Student Federation. The Federation has a membership of 25,000 drawn from seven Chilean universities. The leaders were elected by free and secret vote, and represent a wide range of political views. The student president stated, however, that all of them are Christian, anti-communist, pro-democratic, and liberal in their outlook.

The leader asked this question: "Has the United States become a satisfied nation, one which fights for the maintenance of the prevailing order in Latin America? This dangerous image is being accepted more every day. If this is true, we must respectfully say to you that the United States will have little or nothing to offer the younger generation and the immense multitude of the poor who compose 90% of the Latin American population."

The Choice: Work and Bread or Communism

In the United States and Western Europe, he went on, it made sense to fight for the prevailing order, because social order represented values widely shared: Personal freedom, social justice, equality before the law, high cultural, scientific, and technological levels, and satisfactory standards of living for all who were willing to work. But to defend the existing social order in Latin America meant only maintaining the privilege of a thin layer of the population which controlled the power and wealth, surrounded by an ocean of poor people to whom the existing social order meant nothing. Two out of five were illiterate. Two-thirds lived in a state of chronic malnutrition. The average income was less than $270 a year each.

The students were bitterly opposed to communism. "There are," he said, "impassable barriers separating us from communist ideology and methods, but no one should be deceived: The West has been successful in spreading throughout the world a certain scale of values that symbolizes modern civilization. If Christianity and democracy fall in the coming ten or fifteen years in giving work and bread, dignity and security to the poor, then the fiery breath of communism will cover the earth."

This moving statement by a university president should not be passed by lightly. University students in Latin America may not speak for political leaders. I think they often do speak for humanity. My own assessment is that the democratic forces in Latin America can prevail. But they must move rapidly and they must have our active help. This brings me, then, to the second and final question I posed a moment ago.

What U. S. Must Do

Difficult choices and actions must be taken. In my judgment we must insist that other industrialized nations of the world assume a substantially larger share of the free-world burden of economic and military assistance. Their present unprecedented prosperity is partly a consequence of our assistance to them following World War II. They must now match our generosity. We must be even sterner than we have been in having the highest possible percentage of aid funds spent in the United States so that loans and other assistance represent exports of goods and services, not an outflow of dollars. All nations in Europe and the peripheral of the Soviet Union and Communist China must carry a greater share of the military burden, thus gradually reducing demands on us. Concern is justified for the overseas expenditures of Americans who are travelling abroad in tremendous numbers. We obviously must do all we can to increase our export of agricultural commodities and manufactured goods; this profound obligation upon labor and management alike to keep our prices competitive with those of other exporting nations. We must constantly re-examine what we are doing in the whole realm of foreign aid, eliminate the least essential activities, and concentrate on the imperative. We must keep

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The Commercial and Financial Chronicle... Thursday, December 28, 1961

Thy Neighbor’s Dilemma

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fluctuated between 15 and 25% of Canada’s GNP.

Trade Imbalance Must Be Corrected

Obviously, it’s imperative that Canada bring its trade, particularly with the United States, into better balance. Prolonged trade imbalance for a country leads to the same result as prolonged imbalance does for a tight rope walker. Canadians are becoming realistic enough to see that the compensating capital inflow will not continue forever. And, in fact, they are disturbed at what this capital, mainly employed in equities, could mean in terms of self-determination. Another alarming factor is that the servicing of this investment means a growing tide of outflow payments of interest and dividends.

This aspect, I would suggest, is one of compelling self-interest for the American investor as well. The only real way that this mounting debt can be serviced is through a favorable Canadian balance of trade. There are limits to which Canadians can go and are willing to go in selling assets to pay for interest, dividends, and debt retirement. Beyond, only goods and services and returns on Canadian investment abroad can earn the foreign exchange necessary to discharging Canadian obligations. Thus, I suggest, it behooves American investors in their own interest to strive for policies, within their own spheres of influence and in government, that will make this possible.

A number of short-term measures to alter the trading pattern could be implemented by Canadians themselves and, indeed, some have been. That which has received greatest prominence has been the devaluation of the Canadian dollar. This has given Canada some slight trade improvement, but nothing substantial. While I believe this has been a useful and a necessary step in view of Canada’s critical trading position, it is only a partial and minor answer to the problem. In fact, there are limits to which devaluation can go as much as the cheaper the Canadian dollar becomes, the more direct investment it encourages and, of course, the greater the upward pressure on its value. It is equivalent to a tariff on all imports and an incentive on all exports and with no selectivity whatever.

We still hear the suggestion, which I consider to be about two decades outdated, that we settle all this by relying on balanced multilateral trade. I was once a proponent of the General Agreement on Tariffs and Trade and Canada has been GATT’s best friend and most loyal supporter. And, in fact, it did work for a while in the immediate postwar years but has since failed, from lack of adherence to its principles by nations other than Canada. The trading blocs being formed in various parts of the world attest to GATT’s passing. And there has been other evidence in individual actions by member countries.

% Balance of Trade

In view of GATT’s approval of the European Economic Community, Professor Johnson of the University of Chicago says: “GATT embraces the self contradictory principle that discrimination in international trade is immoral unless it is 100% discrimination.”

The European members of GATT have openly barred entry of Japanese goods although Japan is also a member. Perhaps this is one major reason why, as I sense it, there is more concern over the Japan-U. S. trading position than the Canadian-U. S. trading position. This is exemplified by this press dispatch in the Wall Street Journal dated Nov. 6, 1961, from Hakone, Japan:

“Both Japan and the U. S. are deficit countries,” commented Walter Heller, President Kennedy’s top economic advisor. “Let’s export our goods and our problems to third countries.”

May I remind you that Canada has been on the receiving end of such a philosophy for decades and that Canada’s current concern is, to say least, overdue. Incidentally, Japan’s current payments deficit is the equivalent of $700 million, that is, $6 per capita. Canada’s is $1.1 billion, or $60 per capita.

Unless Canada is to attempt to “go it alone” it must accommodate itself either to an American trade bloc or to a European trade bloc. Any one of these three possibilities is bound to inflict an economic upheaval upon her. “Going it alone” would perhaps call for the greatest sacrifices. It would insure maintaining her separate identity but at a terrific price. She is approaching the crossroads on the horns of a dilemma—and that is an uncomfortable position to be in.

Joining the EEC, as currently operated, would mean producing goods at American costs to sell at European prices. The “free movement of labor” clause in the EEC charter at the end of Canada’s long standing policy of selective immigration. It would mean transferring from the first fiddle desk of the Commonwealth Symphony to the second piccolo spot in the EEC band. Such is not true in the case of Britain’s application to join the EEC because Britain can hope to play a leading, perhaps dominant, role in European economic affairs. Incidentally, I have heard countless complaints in the past about that Commonwalth Symphony and its old theme song “Empire Preference Forever,” written in Ottawa in 1922.

Over the years, the U. S. has complained about the system of Commonwealth preferences. It is true that the chief advantage of Commonwealth preferences was to give Canada and other members an edge over U. S. and continental European competition in United Kingdom trade and trade between Commonwealth countries. In fact this has worked to the U. S. advantage. It has resulted in a very favorable balance of Canadian trade with the U. K., and the excess so created has permitted Canada to withstand in part the weight of the unfavorable balance of trade with the U. S. The disappearance of Commonwealth preferences and the almost inevitable balancing of Canada-U. K. trade is bound to dictate to Canada a closing of its trade gap with the U. S. Forming a trade bloc with the U. S. is not regarded with any favor.

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enthusiasm in Canada. As a dis-
guished former deputy min-
ister of trade and commerce re-
cently said: "In a free trade
arrangement with the U. S., Can-
da would be submerged without
a trace." Canada is looking for a
50-50 deal and sees none on
the horizon; she must join some club,
and she is looking for one where
membership offers the same privi-
leges to all members.

Even Britain decided she had to
belong to a club, and initially de-
cided to form her own. But then
she changed her mind and de-
cided to apply for membership in
the already established one. It
circumstances forced the U. K. to
abandon any thought of "going it
alone," much more do they
force Canada to do the same.

If a country, any country, had a
choice of economic affiliation it
would be inclined to give primary
consideration to that economy
which offers the biggest market
and the best chance to be compet-
tive. For this reason, there are
some influential Canadians who
would favor economic affiliation
with the U. S., where a tremen-
dous market has tariffs higher
than Canada's and where all
countries in the world, wage
rates and economic power, are
to those prevailing in Canada.

More Exports Not the Answer

In order to correct our imbal-
ced trade, we must have more
exports. Our neighbors, we
hear much from Ottawa about in-
creasing Canadian exports by
vigorous selling methods abroad.
Certainly, this idea has great
merit and great limitations. To
count exclusively on increased
exports to correct the situation
would be highly unrealistic. As

I see it, this is like asking the
Sales Department to solve the
problems created by the Manu-
facturing Department, the Finance
Department and the govern-
mental taxing authorities. Sweep-
ing these problems under the
Sales Department's rug never has
solved anything, nor is it going
to do so.

By my calculation, it would
take an increase in exports of
8.6% per year to balance imports
and to eliminate the balance of
payments deficit by the end of
five-year period, without allow-
ing anything for retirement. To
understand the magnitude of this
task, contrast this 8.6% with the
old fact that Canada's average
annual increase in commodity
exports was only 4.5% in the
decade of the Fifties and has
fallen to 2.3% per year during the
last five years. This will not be
easy to counteract in view of the
small rise in commodity exports
throughout the world. We are coming to real-
ize that foreign markets, particu-
larly for manufactured goods, of-
fer little hope of expanding our
industry to optimum levels.

Thus, we must more and more
set our sights on the home mar-
ket, where almost 40% of com-
modities are used. The

diculty of this is that it is
incidentally, 12%.

A growing number of Cana-
dians, and many of their elec-
ted representatives, are swing-
ing their minds to the idea that a
selective and con-
structive use of tariffs will be
further Canada's interests at this
time. They believe this will
be the most effective way of discour-
ging some imports and of boost-
ging domestic production to eco-
nomic levels in our most highly
productive industries and thus, of
reaping the benefits of lowered
production costs.

How are tariffs to be set?
The first decision to be taken
would be whether a given prod-
uct should be produced domesti-
cally or imported. The idea
is not that we might grow bananas
or orchids in Canada but that we
improve our yardsticks for deter-
mining the products that can be
produced economically there. The
main criterion would be making
the fullest and most effective use
of the tariffs as a means of
advancing our economic growth.

Because of the crying need for
an adjustment mechanism, I think
the U. S. should get set to see a
more protectionist attitude taken
in Canada in the period ahead.
I believe it will be a necessary re-
exercise as long as we are in an
economic self defense. It will be
no more anti-British in spirit than
will the protectionists be who are
seeking erected in Europe. It will be
just as American-Canadian exercise
to survival.

Some joker says that a tariff
described national financing as "one
year generating the last gen-
eration's debts by issuing bonds for
the next generation to pay.
In Canada, as in most other coun-
tries, the situation is far more serious: we are not only financing
our deficits by borrow-
ing, but also by selling the
ownership of our natural re-

sources, our living capital,
our future. We are in effect living off
capital and, in the process, seeling
Canada's future, the

in Canada. Therefore, the

of Canada's largest enterprises
go beyond its borders.

Many of our American friends,
who do not fully appreciate the seriousness of this situation, chide
Canadians for being unduly wor-
ried about it. In their
they show that they broadly misunder-
stand Canadian motivations and
feelings. Let me state most ex-
plifically that Canadians ac-
knowledge that the U.S. and other
American (and other) capital has
stimulated Canadian growth and
development to a tremen-
dous extent. Canadians fully
realize what this has meant in
terms of jobs and living stan-
dards. They also acknowledge
with ambivalence that in the
main, this financing and control,
where it is not, they consid-
erate and state manlike.
But, like any self-respecting
man—and American, American
ruggedly independent people—the
country wants to be reason-
ably self-sustaining and reason-
able to develop, direct and
manage its own affairs.

Frankly, it is tiresome to Ca-
adians when our American con-
mentators still insist on draw-
ning a parallel between our
vestments in the United States in
this early stages of development
and U.S. investments in
Canada today. There is little
basis of comparison.

a. First, a qualitative distinction:
most British investment in the
U. S. was bond money or mort-
gage money. When that was paid
d of U. S. citizens owned the in-
dustry. By contrast, U. S. invest-
ment in Canada is mostly in
Equities, which control the indus-
tries more or less indefinitely.

ost difference. And the control
is extensive. Latest figures show
that U. S. interests control 51%

Canada's mining and manu-
facturing.

To cite a few examples: our
auto Industry is 97% controlled
from the U. S.; our rubber goods
industry about 96%; petroleum
and natural gas, 71%; and our
electrical Industry, 69%. How
would Americans feel if this were
the situation in the U. S.? I am
sure you, too, would be anxiously
considering proper counter steps,
and justifiably so.

A second distinction, which
is a quantitative one: foreign invest-
ment in the U. S. at its peak, be-
fore the First World War, only
amounted to about 15% of Gross
National Product. Currently it is
down to about 3%, or about $13
billion. Foreign investment in
Canada is now 62% of Canadian
GNP or, about $22 billion. Look-
king at it another way, U. S. in-
vestments are about 20 times
equal to total foreign investment
in the U. S., although Canada has
only one-fifth the population
and one-fourteenth the U. S. GNP.

Canada, has, of course, compen-
sated for, and in a manner hidden,
the heavy negative balance in con-

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Canadian subsidiaries of U. S. firms to abide by U. S. trading restrictions based on world political considerations. Such action Canadians would regard as violation of their sovereignty.

One of Canada's leading statesmen suggested a few years ago that friendly relations between Canada and the United States could not be expected to come easily or automatically. That is true of any good relationship; it requires constant attention and consideration. This is particularly so at the present time when both countries are faced with challenges at home and both are seeking the best long-term solutions.

Critical Days for Canada

These are particularly critical days for Canada, which feels increasingly that its problems are not transitory but indeed are becoming chronic, and that they call for bold and imaginative thinking and action. Canadians in large part feel that measures taken—or not taken—at this vital stage in their history will determine their whole socio-economic future. And they look for and hope for the understanding and co-operation of their powerful neighbor. In the case of the trade imbalance, for example, they feel that U. S. policies contribute significantly to the problem. In that foreign control of Canadian industry, they simply intend to remain masters in their own house.

I would suggest that co-operating with Canadians in the attainment of their aspirations would be clearly in your own self-interest. In international politics, a good friend is a valuable asset indeed. Especially so in today's increasingly bitter and emotional political arenas where the emerging nations often look to neutralist middle powers for their cues.

Even more important, the United States vitally needs Canada as a strong military ally, especially when it is considered what a large hunk of geography Canada owns. Strategically, it is essential that this vast territory separating the U. S. from the Soviet Union continue to be an example to the world of international friendship and of joint co-operation in defense measures. To do this effectively, Canada must have the proper motivation, based on friendly understanding and economic vitality.

Finally, a solidarity-based, healthy Canadian economy is the best guarantee of security for the billions in American capital now invested there. It is a matter not only of the protection of this investment but the servicing of it and over the decades to come the repayment of it in large measure. This will only be firmly underwritten when Canada gets back on a sound trading and operating basis.

Our continued friendly co-operation, based on mutual respect and consideration, will provide enduring grounds for our mutual advancement. The only possible drawback is that this will probably also underwrite a billion more speeches about our neighborly bliss.

*An address by Mr. Lask before the 56th Annual Convention of the Investment Bankers' Association of America, Hollywood Beach, Fla., Nov. 27, 1961.

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"Peace or War?"

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into plowshares, most people believe peace would be greatly advanced. In the interest of its own security, the United States has therefore been engaged ever since the end of World War II in an effort to find a sensible means of bringing about the reduction of the control of arms. It has itself set some imposing examples, all so far, however, with little success. I am not going to give an account of all the efforts which have been made or all the failures. I was part of a serious effort and a serious failure this last spring and summer to make some progress. I had unjustified hopes that with serious preparation and goodwill a far-reaching agreement on the banning of nuclear tests could be reached. I felt that if we made this significant first step, other constructive programs could be expected to follow. I am forced now to admit that disarmament, and indeed the cause of peace, receive a severe setback from the manner in which those negotiations were conducted at Geneva. It was my understanding that the Soviets during the full course of the negotiations from seeking an agreement were simply awaiting the proper moment to test. Their subsequent tests were of such a nature as to prove that intensive and far-reaching steps have been under way during the whole period of the negotiations, if not before. Kremin's Duplicity Magnifies

Indeed I think the duplicity which marked those negotiations was not only a setback for disarmament hopes, but it has cast a dark cloud over any renewed United States-Soviet exchanges. And if it be contended, as the Soviets have been during the course of the negotiations and that we likewise in bad faith, the answer is that on three separate occasions —once to Mr. Zorin, once to Mr. Gromyko, and once to Mr. Khrushchev himself, I made the proposal that we undertake a mutual inspection of our respective proving grounds to determine what, if any, preparations were being undertaken. I believe Mr. Dean also made the same proposal. In each case I was told that it was not practicable, Why it was not is now apparent.

All this presents a most discouraging prospect, yet thegrim urgency is still with us and in view of the character of the risks we run. I suggest that no one of us is performing his full duty if he is merely complacent or resigned. The matter is far too important to leave the entire subject of avoiding a thermo-nuclear disaster to the imagination and energy of the diplomats and the soldiers. Behind their decisions and actions is a body of knowledgeable public opinion to support and stimulate government action. I thought out methods of dealing with this vital subject, a whole host of frustrations and distrust, the search for the means of honorably avoiding war in the settlement of our international disputes must go on for some reasonable alternative. And the fact is it will go on unless there is a war. It is for this reason the Congress passed the Arms Control and Disarmament Bill at the last session because it saw the necessity for continuity of effort and application in connection with this problem. Republicans and Democrats alike joined in passing the bill with very substantial majorities.

Disarmament, of course, is nonsynonymous with peace and it must be recognized by ourselves and by the Soviets that if any hope for a general and complete disarmament program can be entertained, some better methods of settling our disputes without force or threats of force must be developed in parallel with progress on disarmament.

United Nations No Hope

Today, unfortunately, the United Nations does not afford much hope for constructive action, particularly after the disappointing spectacle which took place among the so-called non-aligned or neutral nations as they shrank away from any definite response to the Soviet's resumption of testing in outright violation of the moratorium. This spectacle was unfortunate for there is a great need for the existence of a moral opinion or standard in the world if progress towards disarmament is to be made, but all pressure to such authority must be abandoned if criticism is only to be directed against those who are not to be feared and moderated towards those who are. Nor is any moral restraint likely to follow if these nations seek only to evade responsibility where there is no equation. The abdication on the part of the non-aligned nations at Belgrade and to a large part in the Sixteenth General Assembly of the United Nations must be treated as another real setback to the program towards peace. I shudder to think what the resolutions would have been at Belgrade or in the General Assembly had we been the first to resume.

The chief need is to find and put to better and more frequent use an accepted means of settling our international disputes by the arbitration of reason and law rather than war. Unless we do, we shall, as I say, never have full or perhaps even significant disarmament. We may have some forms of arms control which may be beneficial, but these will be too soon swept away if we do not find a more stable means wherein our procedures for settling international disputes are maintained and effectively used.

World Court Impotent

The World Court has not been used to any appreciable degree. Too many reservations have been tied to its jurisdiction and few important matters have been brought to it. We have our own Connolly Amendment which would restrict our recourse to the Court, and others have expressed even more definite refusals to put their disputes before its jurisdiction. A good bit of study and thought has been given to the necessity for setting up new institutions of a more far-reaching character to settle disputes, but none at the moment appear likely of early adoption. We must, I feel, continue to do all we can to eliminate the arms race, not because this in itself would insure peace, but because an arms race, in itself, so frequently constitutes a threat to peace. I do not despair of establishing a program of disarmament and arms control in which the Soviets would participate and which would advance the cause of peace. I believe many of the same considerations which weigh upon us must weigh upon the Soviet Union as well, and I have met among the Soviet officials some whom I was fully convinced were both sincere and
eager to conclude effective agreements. I partly attribute this particularly in the light of this summer’s experiences to the fact that I am a sincere, but not an idealist. I am willing to work for the best, but I do not expect that many of the early results will be achieved.

What I do not deny is that this issue of war and peace, of which disarmament is but one aspect, is the greatest we face today for it is no less than the problem of survival. As such I suggest to paraphrase Lloyd George’s remark about the generals in war, it is too important to leave entirely to the government.

The Russian Threat

I believe the problem must be attacked on very broad lines. We must not only give thought to disarmament and arms control plans including a better means of settling our international disputes, but we must also give serious thought to new political forms of meeting some of the newer challenges which the last part of the Twentieth Century have thrown at our feet. We all realize we are now going through a profound scientific revolution, one of the most far-reaching in history. We have found ourselves stimulated or compelled to adopt many new and radical approaches to all of our problems. The emphasis on research, on new mathematical and art forms, on the speed of communication—all make us realize that our horizons have been expanded to a degree comparable to the great reaches of the Renaissance. We see it on all sides of the world— in the new methods, the new services, the new approaches. I suggest we must also examine new economic and political forms in order to meet the new demands.

A part of this great phenomenon of our times is that we are faced with the new expression of force and thought arising out of the emergence, at long last, of the great continent of Russia into the place that Tocqueville so long ago prophesied. This movement, held back by oppressive and inert governments over centuries, with a political and social concept borne of revolution, has come into coincidence with the new demands of large areas and has proved living conditions. A dictatorship more powerful than any heretofore established has extended its influence over China and large portions of Southeast Asia and is threatening India. Asia and Russia in North America. Though its efforts to seize Europe failed, the intent to dominate is still there.

All this transcends national boundaries, and it challenges all those nations and peoples who, after long periods of development and reform, have arrived at a representative form of government. In the great standard of living based on the free choice of the people and the free expression of their views. It is an old struggle in a new form, but it is commonplace as never before by the existence of these mass destruction weapons which, if lost, would substantially destroy the people and the economies of those areas.

Challenge to Free World

It is clear that at this juncture of history the Free World cannot remain static and hope to OFFSET the forces which now challenge it. The Free World cannot fail to take the steps which would enable it to present its strength and form and possibly, so far as events go, to reach and express its full potential. It is a reflection upon our own capacity that its own strength and limits its strength at a time when so many demands exist throughout the world on its leadership and the contributions which it can make to less favored nations and peoples.

With the speed of communications which exists today, when one can be in London and San Francisco on the same day, we should begin to realize that our national boundaries cannot long continue to serve as barriers to common policy.

For far too long a period, Europe has been emphasizing its weaknesses. The time has clearly arrived to emphasize its strength. Something over 500,000,000,000 people—industrious, skilled, cultured, experienced—in a splendid system of communication, striking a blow against the combination of coal and iron, a steel capacity greater than that of the Soviet Union, combined, a depository of what may still be the finest managerial and technical skills that exist—all these things suggest its strength and its power. Already some radical steps have been taken to integrate this strength along economic lines and the results have been close to spectacular. They lie not alone in the economic sphere for the rapprochement between, France and Germany has already given an indication of what might be accomplished along political lines. Great Britain is now examining the prospect of joining the Common Market and what its implications are, with the real likelihood that the formula will be found to enable this impressive integration with the European Community to take place. If this composite of Great Britain and Europe could in due course be joined with the resources and strength of the United States and the Americas on the basis of a common economic interest and a solid political purpose, I suggest many of our present problems would fall into place. The Sino-Soviet mass, in the face of such a combination of strength and ideology, would immediately be reduced to a more reasonable perspective. The accumulation of capital, skills and markets, whether for raw materials or finished products, which such a community of interest would represent, would so far outdistance any similar accumulations in the Communist world, that the approach to the problem of the under-developed world from the Free World would be made immeasurably more effective.

The issue of war and peace would stand on a much easier way of solution. No matter how great the ambitions or how +sizeable the forces of any group with a bent for world domination, it could not seriously contemplate an attack on such a combination of strength. The prospects for a true era of co-existence would be greatly advanced. The knotty problem of the United States balance of pay...
CHALLENGED SERIOUSLY IN THE ECONOMIC FIELD BY THE PROGRESSIVE ADOPTION OF THE SOVIET UNION AND ITS SATELITES.

Our political position demands it for all these reasons; it creates crises, it is a very sensitive issue. It affects the welfare of the world, and it must be faced seriously.

I have considered this problem extensively, and I am convinced that the only way to ensure peace and security is through a common approach. The United Nations, which represents the strength of the world, has a role to play in this aspect. Its effectiveness is crucial.

Now I have covered a rather broad area, perhaps rambling a bit. I started out by referring to our balance of payments problem, trying to emphasize its relationship to our general position in the world, and to the matter of peace and war. I have urged the interest of investment bankers as dealers in values, as well as responsible citizens, in the consideration of these problems. We have moved rather far away from the market place wherein most of us have to make a living, and the market place is traditionally a place of dispute and conflict; it is a tolerant part of the community. If those in it and those who do not come to look and view the outside world from time to time, who else will be disposed to do it? I have already suggested that Dr. Thomas Carlyle made when he was informed that the famous lady philosopher and critic of his day, Margaret Fuller, had finally decided to accept the universe. "By god, she'd better," said Carlyle, and I think you investment bankers get the point!

*An address by Mr. McCloy before the American Petroleum Association of America, Hollywood Beach, Fla., Nov. 29, 1951.

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OHIO'S LARGEST BANK
Continued from page 84
Philadelphia, Pa., a subsidiary of
Houdry Process Corp.
Wrightsville Beach, North
Carolina will be a 250,000-gallons-
per-day-capacity plant for sea
water conversion by the freezing
process. In this approach sea
water is turned into a slurry of
ice crystals and brine either by
cooling with flash evaporation in
a high vacuum chamber or by
evaporating a hydrocarbon sol-
vent in contact with the sea
water. The ice crystals are then
removed mechanically and melted
into fresh water. Engineering for
this plant will be done by The
Lummus Co., New York, N. Y.
Construction contracts have not
been let as yet, but Carrier Corp.,
and Blaw-Knox Co. are con-
sidered likely candidates.
Other communities needing ad-
ditional water facilities which
ranked high on the list of appli-
cants for a demonstration plant
were: Brownsville - Port Isabel,
Texas; Tampa Bay area, Florida
(Bradenton); Key West, Florida;
Elizabeth City, North Carolina;
Virginia Beach, Virginia; Atlantic
City, New Jersey; Suffolk County,
New York (Long Island); Wichita
Falls, Texas; Alamogordo, New
Mexico and Oklahoma City, Okla-
lahoma.
Research and Development
The Office of Saline Water has
been very interested in research
and development work in the
field of saline or brackish water
conversion, although its efforts to
date have been primarily con-
fined to engineering development.
It hopes to devote more emphasis
to basic research in contrast to
applied research. Low cost saline
water conversion is a challenge
which has not been satisfactorily
solved to date. New ideas and
new processes are needed and can
be achieved only through fund-
amental research. Exi sting
processes can be improved upon,
but are probably not the best that
can be developed.
The big problem in this area is
not to convert the water to fresh,
but how to do it at low cost. This
presents many chemical and
mechanical problems of con sider-
able magnitude. The end re-

data are: 1952 and 1953
laws, $8.4 million has been spent
for this purpose. Under the 1958
law providing for demonstration
plants, appropriations totaling
$6.6 million through fiscal year
1962 have been received.
A part of the spending for re-
Continued on page 88
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In a recent talk by the president of Ohio Water Service Company reference was made to a report of the Ohio Division of Water stating that water has too long been undervalued under the halo of being regarded as a cheap utility. A more realistic appraisal suggests that water is going to cost more money or there will be growing problems of so-called water shortages. Ohio is a state enjoying ample water resources. The principal point out that the water supplier is not selling water but water service. With an expanding population and usage of water and attendant water service problems, this service becomes more costly and requires higher water rates. Without them either subsidization is necessary or the water service will become inadequate.

A private water consultant has estimated that at conversion costs of $1.00 per thousand gallons, some 11,000 communities in the next 15 years will find it cheaper to convert saline water than to pipe in fresh or otherwise boosting supply.

Water for irrigation is generally available at per thousand prices perhaps in the area of 15c per thousand for agricultural water measured in terms of acre-feet. There are 62,000,000 acres in Ohio. It does not now appear that any presently used water price is high enough to be able to provide water for irrigation at less than $1.00 per acre-foot. This compares with the highest prices now being paid in the United States of $55 per acre-foot for special crop purposes. Normal prices run from $1.50 to $4.00 per acre-foot. Thus at this point conversion for water for agriculture does not appear economically feasible in this country.

**Contracts Let by Office of Saline Water**

Perhaps the most important contribution of the Office of Saline Water thus far has been to stimulate the interest of industry in developing low cost saline water conversion processes. Through funds at its disposal, it has let contracts to a large number of private corporations as well as research organizations for work in various phases of this field and for the construction of demonstration plants. In addition it has participated in technical meetings and activities of the American Chemical Society, American Institute of Chemical Engineers and American Water Works Association.

**Principal Conversion Processes**

The Office of Saline Water has been responsible during its existence for a number of improvements in existing processes for saline water conversion and has explored new ones. There are at present four principal processes for conversion of saline or brackish water. These are distillation by boiling, solar distillation, membrane and ion exchange and freezing. Much more research and development work is needed. Different processes have been and will be developed having advantages for particular applications. Some processes are best for sea water conversion, others for treating brackish waters. Some are especially adaptable for use in household type units or other small installations, others are most economically feasible in million gallon per day capacity plants. Additional factors determining suitability are associated with location, such as fuel costs, weather conditions, waste disposal costs, and product purity required.

**Principal Commercial Installations**

There are a number of saline water conversion units now in commercial operation in this country and other parts of the world in addition to those already mentioned. Most of them employ the distillation process. Among these are the following:

- **Location and Manufacturer:**
  - Aruba (Caribbean)
  - G. & J. Weir
  - Kuwait (Persian Gulf)
  - Weir & Westinghouse
  - Nassau, Bahamas
  - Curacao (Caribbean)
  - Curacao (Caribbean)
  - G. & J. Weir
  - Eilat, Israel
  - Gulf of Guaynabo
  - Griscom-Russell
  - Kuwait (Persian Gulf)
  - Griscom-Russell
  - Marcus Hook, Pa.
  - Weir & Westinghouse
  - Mexico City, Mexico
  - Griscom-Russell
  - Virgin Islands (U. S. Govt.)
  - Aquachem
  - Kinnick Air Force Base (Bermuda)
  - Aquachem
  - Aircraft Carriers (U. S.)
  - Aquachem
  - Ablech Engineers
  - Gibralter
  - Aquachem
  - Bahrain Air Force Base (Arabia)
  - Aquachem
  - Pacific Gas & Electric
  - Lumhuss Company
  - Buenos Aires, Argentina
  - Escher-Wyss
  - Thule Air Force Base
  - Mechanical Equipment
  - Govt. of Ecuador (Salinas)
  - Aquachem
  - Arrowhead & Puritas Co.
  - Southern California Edison
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  - Youngstown Research & Development

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**Global Importance of Conversion**

Most interest in the water situation is in our own country, of course, but in today's world foreign affairs and policies are of vital importance. The immense proportion of the subject of saline or brackish water is perhaps brought into better perspective by recognizing the fact that it concerns 80% of the Earth's surface. Nearly three-quarters of the globe is covered with salt water, and of the remaining quarter some 60% is dry land. Most of the countries whose territory encompasses this dry land can be expected to experience increasingly disturbing social problems to which a rising need for greater supplies of fresh water for agricultural and many other needs will contribute. Few of them are in a position to help solve their own difficulties. Here then is an area of foreign aid in which our assistance would be invaluable and at the same time highly beneficial to us.

In a statement by the Managing Director of the United Nations Special Fund regarding the International importance of saline water conversion, the following comments were made: "The growth in the absolute and per capita demand for fresh water is not alone a U.S. problem; it is also an international problem of challenging proportions. Indeed, grave forecasts are concerning the adequacy of present and future supplies of fresh water in the United States, when compared to the quantity of water available on a per capita basis in most other countries of the world, the United States is one of the water-richer countries. At least 60% of the 100 underdeveloped countries and territories associated with the United Nations face forms of water shortage which in time can only be met from non-traditional sources; that is, from brackish and salt water sources.

"For this reason, saline water conversion projects of the United States are of great interest to the United Nations. It is no exaggeration to say that what the United States may accomplish in solving this problem, whose significance is growing in America, could have tremendous impact in other parts of the world—in Africa, the Middle East, Asia, and Latin America. In many countries in these areas the pace of economic development is strongly influenced, if not controlled, by the development of techniques to obtain large quantities of essential water at a reasonable cost. Some of the countries are already experiencing rationing and price control of water; and in certain of the arid and semi-arid areas the key to political stability and progress is tied to their obtaining substantial amounts of drinking water, and water for livestock and agricultural purposes..."

**Continued on page 49**
Continued from page 88

culture required by their rapidly growing populations.”

** **

Privately Owned Water Companies

There are approximately 18,000 water plants in the United States of which over 70% are privately owned. It has been estimated that about 20% of these water systems have supplies that are inadequate for dry year demands. Most of the water companies have bacteriological laboratories engaged in a constant check on the water supply and in research to improve methods of treatment. As a result epidemics from use of tainted water which used to occur are now rare. In addition to filtering to eliminate foreign matter and bacteria, other forms of treatment of raw water are included, such as use of alum, lime and iron to aid sedimentation, chemicals, mainly chlorine, as disinfectants.

List of Leading Publicly Owned Companies Active in the Water Treatment Field

Research and Development

Aqua-Chem
Blow-Knock
Carrier
Chance Vought (new Ling-Tenno-Vought)
Curts-Wright
Dow Chemical
E. I. du Pont de Nemours
Etun-Hokin & Gaynor
Electric Storage Battery
Flore
FMC
General Electric
W. R. Grace
Griscum-Russell
Jonics
Koppers
Monsanto Chemical
Struthers Wells
Westinghouse Electric
Whiting

Saline Water Conversion Devices

American Machine & Foundry
Aqua-Chem
Bendix
Bethlehem Steel
Fairbanks Whitney
General Electric
Griscum-Russell
Jonics
North American Aviation
Westinghouse Electric
Water Conditioning & Treatment
Cranes
Collins
Fischer & Porter
General American Transportation
Hagan Chemicals & Controls
Naxon Chemical
Plauder Permutit
Union Tank Car
Wallace & Tiernan
Water Softeners
Collins
Hagan Chemicals & Controls
Naxon Chemical
Plauder Permutit
Union Tank Car
Sewage and Waste Disposal
Dow Chemical
Dravo
B. F. Goodrich
Sterling Drug
Union Tank Car
Construction
Flour
Allied Equipment
Allia-Chalmers
American Meter
Badger Meter
Chain Belt
Dor-Oliver
Link-Belt
Rockwell Manufacturing
Worthington

Financing Saline Water Conversion Facilities

The problem of financing saline water conversion facilities contemplated by states, municipalities, agencies or other bodies or organizations is one that should be considered, particularly from the standpoint of the role the investment banker may be able to play. It has been mentioned previously that many applications were made for the saline water conversion demonstration plants authorized by the Secretary of Agriculture. The applications were largely determined by the rate at which the Administrator can lend money which as recently reduced is as low as 3%. These loans may be made to cities of any size for any type of public works except those already receiving federal aid. Whether they would be available for saline water conversion facilities remains to be seen.

The Congressional Bill extending the Saline Water Act and appropriating appropriations contemplates extensive research and development work and construction of additional pilot plants. It also provides that construction and operation of demonstration plants or participation in their construction and operation must be authorized by separate legislation upon recommendation by the Secretary of the Interior to Congress.

Federal Government Financial Assistance

Originally the bill carried provisions for loaning money to municipalities and others for the construction of plants to be used as supplemental fresh water sources. These loans as well as grants were to be on very liberal terms and in amounts up to 90% of the total cost. The thinking behind this financial assistance was that even the most advanced of presently known saline water conversion plants were considered best partially experimental.

Therefore any organizations finding it necessary to turn to converted water as a source of supply might have difficulty obtaining financing in the open market and would probably have to pay high interest rates.

The final bill contains no provisions for loans or grants. Rather all funds are to be used for broad based projects with the objective of attaining low cost desalination. There will be, therefore, opportunity for banking institutions to arrange private or public financing. The Government has declared an approach to this problem is not from the standpoint of getting into the utility business, but rather to stimulate, encourage and direct the development of economically feasible saline water conversion processes and to, in effect, "get the ball rolling" in their practical, useful commercial application.

Federal financial assistance may be available through other agencies of the Government. The Community Facilities Administration makes loans to municipalities to finance public facilities if the financing is not otherwise available on reasonable terms. That constitutes reasonable terms is largely determined by the rate at which the Administrator can lend money which as recently reduced is as low as 3%. These loans may be made to cities of any size for any type of public works except those already receiving federal aid. Whether they would be available for saline water conversion facilities remains to be seen.

Role of the Investment Banker

When it is demonstrated that economically competitive plants can be built, many organizations are likely to become interested in constructing and operating such facilities for their own use. This in turn will permit industry to profit from work in this field even aside from Federal contracts. Eventually the Government may be expected to gradually withdraw from the program turning it over to private corporations for further advancement of the work. Investment bankers can assume an important position in arranging to raise necessary funds for plant construction and other applied uses of conversion processes. This is likely to become a ballooning development in the face of rising interest in conservation and attend.

Continued on page 91

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Continued from page 49

Investment Opportunities

Many attractive opportunities ex¬
ist in companies now actively en¬
gaged in various phases of the wa¬ter treatment industry. These in¬
clude companies producing com¬
mercial applications of water con¬
version equipment, those heav¬
ily involved in all aspects of the
current research and develop¬
ment work in newer areas of con¬
version and refinement processes. It
will be worthwhile to look at those
involved in the diversified facets of
softening and purification for dom¬
estic and industrial usage and those
involved in the conversion of
water to usable forms. We can also
undertake a survey of companies
providing important processes for
swimming pool treatment and dis¬
posal and purifying of waste. These
are a large number of companies on
the fringe of this field, manufacturing
mechanical equipment, chemicals,
appliances, doing construction
work or researching or making
studies in a limited area.

In general it would appear that
the greatest investment rewards
may come in the smaller compa¬
ies and those whose business is
largely confined to their water treat¬
ment activities. Pre vided their ma¬
agement is capable of better
showing pattern may very
sharp growth pattern may very
well unfold.

There is always the possibility of
some sort of scientific break-
through from development of manufac¬
turing techniques in conversion pro¬
cesses, which might invalidate
existing methods. This is one of the
risks involved in investments in
companies committed to acceler¬
ad processes. As they are all con¬
ducting their own research, it also
offers substantial rewards.

The future burgeoning of this
industry seems undeniable. It will
likely gain momentum rapidly,
and new vistas of development and
emphasis may open up. In this en¬
vironment many companies now partaking in the field will
surge forward. New ones may come to the fore. Selected in¬
vestments in this area could well
reward the investor handomely
for many years to come.

Respectfully submitted,

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Report of IBA Nuclear Industry Committee

Continued from page 64
guaranteed by the Government,
purchase by fuel fabricators, who
would be in the position, to re¬
sale to reactor operators. The Atomic
Industrial Establishment of which
the manufacturers of most of the equip¬
ment manufacturers and utilities, is
now studying their reaction. We can
expect that in the near future
some of these manufacturers will be
able to produce reactors. This will
undoubtedly be along the same lines
as the production of water con¬
trolled reactors which have already
led to the development of the
thorium reactor.

The Uranium Industry

Up to this time, we have
placed the emphasis on the
reactor itself. Uranium, of course
is the starting point of atomic
energy. The mining and milling
industry, it is assumed, is in pri¬
ivate hands today, has performed
better than expected. As you
know, there was a rush some 10
years back for contracts for
uranium before we realized how
much we had in this country.

After we had entered into con¬
tracts with South Africa and Can¬
ada, we soon began to find better
and higher grades of ore in this
country. Today, Canadian con¬
tracts can be extended beyond 1960
without increasing the total world
uranium purchases, except in the
event of an emergency. We can
expect that the demand for ura¬
nium will increase in the future
and that there will be a market
for our uranium.

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Continued on page 52

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capacity is added each year. It has certainly a matter of eco-
nomics.

Today, we are adding about 11 million kilowatts capacity to our
electric utility systems in this country annually. This amount of
power is matched by an almost equal amount for the rest of the
Free World. That makes a total of 20 million kilowatts of new
capacity each year. In another 10 years, this amount in the Free
World will certainly have grown to 30 million kilowatts of new
capacity each year. At that time, a fraction of at least 10% of that
additional capacity will be nu-
clear, and the percentage may
grow to 25% after a few years.
Some time between 1970 and 1980, we will have to think of expand¬
ing our milling capacity.

Let us again emphasize that if there has been no stockpiling of uranium so far, it is because most of it has gone into weapons.

Military demand will undoubtedly taper off well before the present uranium contracts expire. There is no point in building atomic
weapons for all time to come. The planet can be erased once.

The atomatic experience has also dispelled the com¬
mon belief that the conversion of our present nuclear power will
take care of our future needs in the near future. A number of
submarines and other weapons can be built even before the
consumption of 1,500 tons of uranium oxide is used.

If only three things will defini-
tely absorb our future uranium production the peacetime use of
atomic energy in the production of electricity. Other future appli¬
cations such as reactors for

Continued on page 53

1930

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2. The stock market is open to the public, and anyone may buy or sell securities.

3. The price of securities fluctuates, and investors should be prepared to sell or buy securities at a price that is competitive with the market.

4. Securities are subject to taxation, and investors should be aware of the tax implications of their investments.

5. There are a variety of securities available, and investors should consider their investment goals and financial situation before making a decision.

6. The stock market is regulated by the Securities and Exchange Commission (SEC), and investors should be aware of the SEC's regulations and guidelines.

7. Investors should be aware of the risks involved in investing in securities, and should be prepared to lose money if the market or economy experiences a downturn.

8. Investors should be aware of the securities they are buying or selling, and should be familiar with the company or entity that is issuing the securities.

9. The stock market is a complex system, and investors should be prepared to work with investment professionals to make informed decisions.

10. The stock market is an important component of the economy, and investments in the stock market can be a valuable tool for individuals and businesses.

In conclusion, the stock market is an important component of the economy, and investors should be prepared to work with investment professionals to make informed decisions. Investors should be aware of the risks involved in investing in securities, and should be prepared to lose money if the market or economy experiences a downturn. The stock market is a complex system, and investors should be prepared to work with investment professionals to make informed decisions.

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process industries will come about only after atomic energy becomes competitive in electrical nuclear power plants. In the course of the year, several companies expressed interest in the AEC's demonstration process heat reactor project. The capacity would be between 30 and 45,000 kilowatts of heat.

Uranium oxide produced in this country is sold to the Atomic Energy Commission. The prevailing price between 1962 and 1966 will be $8 per pound. It is very likely that these mills having sufficient ore reserves will be called upon to continue operations after 1966. It is still too early to determine at what rate production will continue and at what price.

However, with respect to the future price of uranium oxide produced in this country after 1966, it will be interesting to follow present developments in Canada. Last March it became known that Canada has a commitment from Great Britain, dating back to 1957, to purchase 12,000 tons of Canadian uranium from 1963 to 1966. With the extension of U. S. purchases in Canada, Canadian miners are keenly interested in ensuring the sale of their uranium concentrates to Great Britain by means of a contract. The price agreed upon in a letter of intent is $8 per pound, which is below the price of $10 or $11 per pound being quoted to Canada. There are strong indications that the $8 price may be lowered during negotiations which are presently taking place between Canada and Great Britain.

The point we wish to stress here is that the assumption that a price below $8 may be established for an "incremental" production of uranium oxide in Canada by no means signifies that this will be the price of uranium oxide produced in Canada after 1966. A number of small "incremental" sales to Japan have already taken place at around $5, and even less, per pound from this country and from Canada. But this certainly should not be taken at face value as an indication of future prices in either country after 1966. Although it is likely that the price of uranium oxide may be lowered after 1966 as a result of improved milling technology, we should stress that the mining and milling costs account for only a moderate fraction of the total cost of the nuclear fuel cycle. Unduly low prices would hurt this industry and have only a small impact on the ultimate cost of nuclear fuel.

Chemical Reprocessing

The industrial steps which follow milling and milling are known as the feed materials plants, the gaseous diffusion plants (or possibly gas centrifuge plants), fuel preparation, and nuclear core manufacture. We have referred to these in previous reports and have explained the role of the gaseous diffusion plants. Here, the uranium oxide produced in the mills is converted into uranium hexafluoride (a gaseous compound of natural uranium), which is then pumped through these plants in order to achieve the separation of the two isotopes of natural uranium. These plants are located at Paducah, Kentucky, Plymouth, Ohio, and Oak Ridge, Tennessee. There is nothing special to report this year on any of these industrial phases of atomic energy.

The reactor operation is directly dependent on a number of industrial steps which either precede or follow the actual operation of the reactor. Chemical reprocessing and the waste disposal that goes with it take place after the fuel has been used in a reactor. As detailed in last year's report, these operations are still in the hands of the AEC because there are not yet enough private reactors for any company to build an economic chemical reprocessing plant of sufficient capacity.

One important development this year was the creation on June 1 of a new company, United Nuclear Corporation, which was formed by the merger of NDA (Nuclear Development Corporation of America) with the nuclear divisions of Ohio Mathieson and Mallinckrodt. This new company has the joint capability of designing and building complete reactor cores. Furthermore, in October of this year it appeared that First Energy-Piren and United Nuclear might merge, subject to the approval of shareholders of both companies. Sabre-Phin, through its partnership with Homestake Mining, produces about 10% of the uranium concentrates purchased by the United States in this country. This new merger would give the combined companies a nuclear fuel capability right from the ore, while still dependent on the AEC for enriched uranium. It would appear that in time such a company might go into chemical reprocessing and enrichment. The enriched uranium could be used in energy projects which deal with hot chemistry (radiochemistry, chemistry, and biology) of the nuclear and medical chemical and others have also been exploring this area of reprocessing for a number of months. The problem is, however, that in the early years it would be difficult to visualize more than one reprocessing plant with the economical capacity to handle 500 tons of irradiated fuels per year. The State of New York has been very active in this area and a waste disposal site has been chosen in the northern part of the State. Such a site would be ideal for the installation of a reprocessing plant.

In the meantime, work on the Eurochemic reprocessing plant at Mol, Belgium, continues, and it will be the first internationally-owned fuel reprocessing plant in the world. Its shareholders come from governments and industries of 13 European nations.

Atomic Energy Abroad

The Commission of the European Atomic Energy Community (Euratom) and the U. S. Atomic Energy Commission announced in September that private and governmental organizations within the Community have been invited to submit so-called "second round proposals" for the construction of large-scale nuclear power plants to be brought into operation no later than Dec. 31, 1965. The member countries of Euratom are the same countries that form the European Common Market. The cut-off date of June 1, 1962 has been established for the submission of proposals.

Under the first Euratom invitation issued in 1959, one proposal only was accepted, that of the Italian utility SEINN calling for the construction of a 100,000 kw. plant with World Bank assistance. It is likely that this time a number of proposals will be forthcoming. For one thing, the new invitation provides for fuel lease option while acknowledging the present AEC study of possible private ownership of reactor fuel. It is specified that if lease is converted to sale in the U. S., the Euratom lease will have to be converted to new conditions in this country.

The U. S. Atomic Energy Commission has confirmed the other conditions professed under the first invitation: sale (or lease) to the Community of a new amount of up to 30,000 kilogrammes of contained U-235 for a 20 year period.

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Continued...
The supply to foreign nations will be made either directly in the case of Euraatom or through the International Atomic Energy Agency in Vienna.

Dr. Arne Sigvard Eklund of Sweden was sworn in as the second Director-General of the I. A. E. A. last September. He succeeds Herbert Cole of the United States, who led the Agency under sometimes trying conditions during its first four years.

October 17, 1961 was the fifth anniversary of the official opening of the first reactor of the Calder Hall plant in the U. K. Today eight similar reactors in operation in the U. K., four at Calder Hall itself and four at Windscale with a total capacity in excess of 200,000 kw. Orders for new plants in future years will be at the rate of roughly one every year. Gas-cooled reactors remain dominant in the U. K. planning. As the capacity of individual stations will increase, the U. K. should have an installed nuclear capacity of 5 million kw. by 1968. The U. K. Atomic Energy Authority agrees with Eklund that the cost of nuclear power in many areas, including the U. K., have fallen below the cost of conventional power by 1970. It appears likely that the large industrial break-through in Europe may be near.

France's goal of 850,000 kw. of nuclear power by 1968, double that 1958, will be achieved. Nuclear power plants are under construction in Italy, Belgium and West Germany. Nine foreign firms are planning to build a 300,000 kw. nuclear plant near Bombay, India. Brazil is seeking bids for a 200,000 kw. nuclear plant to serve the Rio de Janeiro-Sao Paulo area.

The atom abroad is burgeoning.

Radioisotopes

In the United States, there are 400 industrial firms licensed to use radioisotopes for a wide variety of purposes. Suffice it to say that radioisotopes are put to beneficial uses in hundreds of other industries. With our satellite program, the use of radioisotopes as a heat source for small-scale electric power generation has received considerable public attention this year. "Isotopic power" consists in converting the heat of radioactive decay. Radioisotopes have the discovery of the principle of this conversion goes back to the early 1800's. What is new is the use of radioisotopes in space purposes.

The first satellite carrying out its mission by means of nuclear power was launched in June by the Navy, TRANIT carries an atomic battery that converts the heat energy of decay of plutonium-238 into 2.7 watts of steady power for the transmitter. This achievement is symbolic of the marriage of Space and the Atom. Only nuclear power can supply the propulsion and power needs of satellites, space platforms and stations on planets.

The transmitter generator in TRANIT is a nuclear heat source at the end of the "Special Nuclear Auxiliary Power" or "SNAP" system. The United States expects to have an operational TRANIT system in service by late 1964. Four satellites will give accurate navigational information for mapping the globe.

Outside of thermoelectric SNAP systems, the ABC is also studying thermionic SNAP devices with curium-242, liquid hydrogen and a power output of a few hundred watts. Reactor temperatures of 3,500 degrees F are needed for thermionic systems because of the electron emission characteristics. So far, it has been difficult to maintain these temperatures for any length of time because of the limitations of present structural materials.

Beyond a few kilowatts, electrical power generation can only be accurately satisfied by a nuclear reactor. SNAP systems use clear reactors for power up to 50 or 60 kw. are being developed in a joint ABC-Naval effort.

The ROVER nuclear rocket program is being pushed vigorously. Such a rocket will not be fully developed until 1966-1967. In time the nuclear -propelled rocket will carry heavier payloads much farther than chemical rockets. The technology is quite new and much developmental work is being carried out.

The field of radiation applications using decaying radioisotopes or particle accelerators is growing fast. Radiation brings about substantial changes in chemical products, often improving their qualities or bringing about new properties and new products. Irradiation machines and devices are now supplied by several companies. In line with ABC policy to make moves for private industry wherever the latter is ready to take over any of the duties of the shuttering of atomic energy, during the year the ABC announced the routine production and distribution of cobalt-60 had been ended. Westinghouse and General Electric test reactors are now producing sufficient quantities of cobalt-60 for ordinary demands. The ABC will still provide material in quantities greater than 100,000 curies to those who use ionizing radiation as a major processing tool.

The radiation applications include upgrading of plastics, cold vulcanization of rubber, sterilization of surgical and hospital materials, an acceleration of foods and processing of petroleum products. In solid state physics, radiation also plays an important part because of its impact on alloys, semiconductors and polymers. An almost pure research field until the present time, radiation is now being introduced in industry and is becoming an indispensable tool in a new relation between science and industry.

Conclusions

Your Committee would like to conclude by expressing its firm conviction that the cost of one million KWH of coal, oil and natural gas energy will continue to rise everywhere because of inflationary pressures and the Free World. Through increases in thermal efficiency and size of conventional plants, utilities have succeeded in paring down the cost of the electrical kilowatt-hour. The trend is likely to change in the future, mainly because it will be extremely difficult to increase rather than decrease the cost. On the other hand, the cost of nuclear power does not appear to be running in spite of inflationary pressures.

The construction of large size reactors and their standardization will tend to reduce capital costs. The trends of these factors appear to be achieved in this direction. Many improvements in the reactor cycle, which we have referred, will further contribute to the reduction of the fuel cycle cost.

It is encouraging to see that developments in Great Britain, the European Common Market and Japan parallel and supplement our own experience. The close intercountry relations between these countries is likely to result in a decrease in the cost of nuclear power. Meanwhile, radiactive isotopes are finding a growing usefulness in industry. Radiation is moving from the laboratory to new research areas in industry. In the field of space technology, it becomes increasingly clear that atomic energy will pay the leading role.

Respectfully submitted,

NUCLEAR INDUSTRY COMMITTEE

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Report of IBA Aviation Securities Committee

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service, or on order, British and Canadian equipment and one of the trunk lines recently placed orders for a new, short-range British jet. Two of the local service airlines have also shown interest in this jet.

Earnings Decline for Smaller Plane Companies

Two of the three principal small plane manufacturers in the field of general aviation reported lower sales, and all three reported lower earnings, for the nine months ended June 30. General aviation includes all civilian flying except that of the scheduled airlines and the large non-scheduled carriers. These declines were primarily due to the effects of the recessionary conditions existing throughout the economy during the latter part of 1960 and early 1961. A drop in their volume of military business also occurred this year, further affecting sales. Unusually high inventories carried over from last year, plus costs involved in the introduction of new models this year, have affected margins and although sales volume picked up toward the latter part of the year, earnings for fiscal 1961 will be below those of 1960. Export sales, particularly in European markets, have shown substantial increases this year, however, and continue to represent a strong factor in the industry. The Export-import bank has been giving considerable support to the financing of light aircraft sales abroad. Foreign manufacturers of light aircraft have begun to look with interest upon the United States market and, although their penetration to date is minor, they can be expected to increase their efforts to secure a share of this and other export markets.

The sales and earnings decline this year appears to represent only a temporary interruption of the growth trend which the industry has been experiencing for some years. The Federal Aviation Agency has estimated that the number of general aviation aircraft in the general aviation fleet will increase by more than 50% by 1970.

Profit Margins in the Aerospace Industry

Perhaps the major problem which has continued to plague the aerospace industry is the constant pressure on its profit margins on defense business, which constitutes by far the largest portion of the industry's volume. One of the reasons for the narrowing margins is the increased competition within the industry, which today includes a substantial number of companies not heretofore identified with aerospace activities. Generally speaking, to the extent that such increased competition represents that of qualified entrants into the field, it is a healthy development from the nation's standpoint. However, margins on defense business are being squeezed by other and, in many ways, more rigorous forces than those of free competition. In general such forces reflect the need for an updating of the procurement practices and policies of the contracting authorities, policies which are to a considerable extent still geared to the days of long production runs in spite of the fact that today the emphasis is increasingly on large research and development contracts and small production runs. Insistence by the government that the industry finance an over increasing portion of vital research and development work, disallowance of interest charges and other legitimate costs of doing business, confiscatory use of the renegotiation process; these are but a few of the methods employed to whittle away at the underpinning of the industry, its earning power.

As taxpayers, none of us can quarrel with the government's basic desire to get the most, and the best, out of every dollar spent for the defense of the nation and for the myriad, costly projects into which the "space race" has led us. It should be obvious to all, however, that the steady erosion of this vital industry's profit-making ability, particularly in the face of the greatly increased risks inherent in the complexity and magnitude of the projects it is asked to undertake, may in the long run result in the frustration of this country's efforts to forge maximum protection against the powerful forces which are arrayed against it. There appears to be a growing attitude of suspicion in many areas of government that profits are somehow, of themselves, wrongful. The insuperable fact remains, however, that the profit incentive is a cornerstone of our system of free enterprise, a system which has, even in other perilous times, proven its basic worth.

Emphasis on Incentive Contracts

Recent statements by government officials have expressed concern over the quality of work and speed of delivery relating to various items of defense equipment. There have been indications that greater reliance is to be placed upon incentive contracts rather than the cost-plus-type which have been used with increasing frequency in recent years. It is proposed that from now on incentive contracts will contain features whereby good performance will be rewarded and poor results will be penalized. It is obvious, in view of the life or death struggle in which the U.S. is engaged, that mediocrity cannot be tolerated in our defense and space effort. It is our belief, however, that the greater use of incentive contracts of the type referred to above is precisely what responsible members of the industry have been urging for some time and that, if properly designed and administered, they will be welcomed by the industry as a means by which it may realize profits which are more commensurate with the risks undertaken.

It is to be hoped that the renegotiation procedures will also receive more enlightened administration so as to ensure the retention of any higher profits which may be received in reward for superior performance.

Generally speaking, there appears to be a need for a complete re-evaluation of the attitude of government toward the industry. A prominent industry member has recently stated that in view of the continuing demands for heavy contributing to

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acquired may be expected to provide large amounts of cash to meet interest, rents and debt amortization schedules, it is obvious that such cash throw-offs do not necessarily occur unless depreciation and amortization charges are earned.

Airline Fares

It is clear that the industry must be assured of attaining and maintaining a reasonable level of earnings if air airline equities are to be capable of attracting and holding investors. The relative unattractiveness of most airline stocks has been one of the principal reasons why the airlines have resorted to debt financing. There have been comparatively few periods in recent years when airline stocks have sold much above their book values. As of a recent date the shares of all but one or two of the ten domestic trunk lines (excluding Northeast, which shows a deficit balance sheet position) were selling below their book values.

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out broad new authority for the airlines to obtain a large portion of new mail carrying business. The final decision as to whether the carriers will be able to avail themselves of this authority must be made by Congress however and it is expected to take a year at least before a decision will be forthcoming.

With respect to air cargo the CAB has been urging the Military Air Transport Service to continue its airlift business to the private carriers on a more realistic basis. Also, the revocation by the CAB on Oct. 1, 1961 of its 15-year-old minimum air freight order may be considered as evidence of the Board's willingness to allow more

rate-making flexibility to the industry.

The Board has indicated its concern over the Administration's proposal to retain the 19% transportation tax on air fares, increase the aviation gasoline tax and add a two cent per gallon tax on jet fuel. Stating that addition of the fuel tax would cost the industry $34 million in 1962, the CAB has urged that any additional fuel tax be conditioned upon removal of the 16% transportation tax. Industry estimates as to the cost of the jet fuel tax are considerably higher. Congress did not remove the 10% transportation tax this year and the jet fuel tax question has been put off until next year.

It is difficult to comprehend the thinking behind this proposal which would add such a staggering burden to an industry that is already in far from robust financial condition.

Mergers the Solution?

Airline mergers have for some time been widely discussed in government, industry and financial circles as offering logical solutions to the problem of excess competition in the airline industry. The major development in this area in 1961 was the United-Capital merger which represented the first merger between major elements of the industry in a number of years. The CAB has made it quite clear that its approval of this merger should not be taken as a "green light," emphasizing that such action was literally the only practical course available in view of the critical financial position of Capital. However, CAB Chairman Allen C. Boyd has gone on record several times in the past as favoring mergers.

In a recent statement, Mr. Boyd spoke out very strongly on this subject, indicating that "mergers probably present the best solution" for easing the plight of several of the financially weak lines. He stated that if merger studies are not undertaken promptly by the lines themselves, he personally feels that the CAB should initiate such studies for the purpose of arriving at recommendations as to which lines should merge. Mr. Boyd mentioned that as criteria for CAB approval a merger must be in the public interest, providing better service to more people, and it must result in the continuation of effective competition between airlines. The action of the CAB with respect to the decisions which it will be required to make in the relatively near future when it completes its Cleveland competitive service investigation will afford observers both within and without the industry an excellent opportunity to judge whether the seemingly more sympathetic attitude of the CAB toward the problem of excessive competition is real or illusory. Purpose of the investigation is to select carriers to operate in competition with United Air Lines in four markets (three of them involving Cleveland) and with Capital Airlines in one new airline competitor due to its merger with Capital Airlines. Most of the carriers would be seeking authority to operate in certain or all of the four markets have also asked the CAB to include in the investigation route applications involving new through-plane service to markets other than the four directly involved. If the CAB acquiesces to the latter requests it may well result in the introduction of considerably more competition into the four markets, and into other markets, than was present prior to the United-Capital merger. As previously mentioned, Project Horizon has recommended that the CAB refuse to certify new competition except where justified on economic grounds. Final decision of the CAB in this particular proceeding should be indicative to the industry whether such recommendation will be heeded.

International Air Transport

Turning to the field of international air transport we find that excessive competition is the dominant factor here also. As more and more carriers join the ranks of international competition, and as additional jet aircraft are placed in service, capacity continues to increase faster than the growth in traffic. There are more than 200 turbine aircraft in international service today and the number is increasing constantly. For prestige reasons many of the smaller nations, including a number of the newly independent ones, are entering the international transport market. There are now 18 scheduled airlines, including the two United States flag operators, flying the North Atlantic routes and all but one of them are equipped with jet aircraft.

Although passenger traffic in this market during the first nine months of 1961 increased by about 8% over the comparable period last year, seat capacity expanded by about 41%. As a result of this imbalance, average load factors over the North Atlantic have been adversely affected. Load factors during the four peak months June through September averaged

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about 53% this year, down from 68% in the 1960 period.

Even more so than in the domestic market, air travelers on the international routes are favoring economy class accommodations over first class. With the great increase in available space the average traveler seems more interested in the factors of speed and economy than in the glamorous features of first class travel. Economy class accounted for 90% of the North Atlantic total in the third quarter this year against 84% last year.

U. S. Flag Carriers Continue Losing Ground

The past year has seen a continuation of the decline, which commenced in about 1960, in the relative position of the United States flag carriers on the international air lanes. During the last ten years their participation in the trans-Atlantic market has dropped from about 63% to about 40%. United States flag lines carried about 55% of the traffic between the United States and Latin America in 1940, down from about 90% in 1925. Their percentage of the Pacific business has recently been about 63% as compared with almost 79% in 1953.

It has been a logical expectation that the United States international air transport, which carried the preponderance of post World War II international air traffic up to and including the early 1960's, would tend to decline as other countries strengthened and expanded their own air operations in world markets. However, the rapidity and extent of the decline in recent years have been such as to raise serious questions as to the basic concepts of competition in these markets.

Beginning with the so-called Bermuda Bilateral Agreement which was entered into by the United States and the United Kingdom in 1947, this country has concluded some 40 additional bilateral agreements with foreign nations with respect to air routes between such nations and the U. S. All of these agreements have been founded on the principle that each country should be allowed to schedule sufficient capacity to adequately service the traffic flow from or to such country. The U. S. flag carriers, however, are faced with an obvious problem in connection with these agreements in view of the fact that this country generates so much more international traffic than any other single country. Thus the United States offers far greater profit potentiality to a foreign airline which is granted access to our market than is available to American flag carriers through a reciprocity agreement with the foreign airline's particular country of origin.

Furthermore, most aviation authorities feel that, for diplomatic and other politically inspired reasons, the United States has been inclined to be overly generous in granting so-called "third country" or "and beyond" rights to foreign lines which enable them to carry traffic between the United States and other foreign countries in addition to the particular line's homeland. Most foreign governments have tended to be considerably more restrictive in granting such rights to the U. S. flag carriers. Also the degree to which foreign carriers have been allowed...
Continued from page 102...

allowed to extend their routes into U. S. cities beyond their gateway points of entrance into this country affects not only the U. S. international carriers but also creates additional competition in the domestic trunk line markets.

New Concept May Be Needed
There is a difference of opinion within our government today as to whether a solution to these problems can be arrived at within the framework of the principles of the Bermuda Agreement or whether some entirely new concept must be developed. The problem is obviously a very complex one, involving not only the economic positions of many nations, but also the delicate areas of diplomacy and politics-economic. The ability of U. S. airframe manufacturers to continue their export sales of commercial jet transports in certain markets could be affected by our actions in dealing with the problem. The importance of a strong and vigorous U. S. international air transport system both from the economic and the military standpoint, however, demands that some equitable solution be evolved.

One of the recommendations in the Project Horizon report is that comprehensive study of U. S. international aviation relations be undertaken to "review existing practices in the field of international aviation in terms of an opportunity for profitability for our carriers and assurance of the availability of the best possible air service at the lowest feasible price." Project Horizon suggests that such study should include a review of all rights which have been exchanged with foreign nations since World War II, including the basis of the policies determining such exchanges and probable future trends. It is encouraging to note that a steering committee, including representatives from the CAB, Department of Defense, Department of Commerce and other governmental agencies, has been named to supervise a study of international air transportation which is to be made by a private consulting firm. The CAB is currently carrying on an investigation of the terms, conditions and limitations of foreign air carrier permits. Public hearings are scheduled for later this year.

Local Service Airlines
A significant development in this comparatively little known segment of the air transport industry occurred this year when the 13 local service airlines began operating under the CAB's new class mail rate system of subsidy. Unlike the old system of individual subsidy, which was based primarily upon the size of operating losses, payments to individual carriers under the new system are based upon a formula which tends to reward those lines which operate most economically and efficiently.

Several of the local service carriers reported profitable operations during the first half of 1961 and virtually all have shown substantial improvement over the 1960 period. Broadly speaking, equalities of the local service lines have shown price appreciation this year, in line with the downward trend in airline stock prices generally, which commenced in mid-year, has also been reflected in many of the local service stocks.

It is much too early to judge whether the new system will accomplish the objectives of the CAB to stimulate the more efficient operation of these carriers, to develop more rapid traffic growth and to increase the ability of the industry to re-equip itself.

However, it is encouraging to note the progress which is being made, not only through the efforts of the regulatory authorities but also through the industry's own attempts to solve its cost problems through self-imposed efficiencies.

At least two of the members of the industry have progressed to the point where they have seen fit to order small turbo-jet equipment which is expected to be introduced into service beginning in 1965.

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The three U. S. certified helicopter carriers, operating in the Chicago, Los Angeles and New York areas respectively, passed the 500,000 mark in passenger traffic for the first time in 1960. Traffic patterns this year have been somewhat conflicting, with gains in the Los Angeles area tending to offset a substantial drop in the Chicago airport complex. New York traffic has remained at about the same level.

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Report of IBA Oil, Natural Gas Securities Committee

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sufficient to produce a rate of return of 10%-11% on the common stock equity component of the company's capitalization without regard to the degree of leverage in the particular company's capitalization. Such a policy, if it is a policy, completely ignores the differences in risk to the common stockholder which result from differing degrees of leverage.

Investor reaction to the pattern of these recent decisions has been noticeably one of discouragement, as evidenced by the fact that mutual funds have, on balance, been sellers of pipeline securities during the 12 months which ended June 30 of this year, the latest date for which figures are available at the time of this writing. The new Commission will have an opportunity to regain investor confidence when it comes to decide several cases which are now in progress. It is fervently hoped that, in the interest of consumers and investors alike, the Commission will not come forth with "too little too late."

Economic trends in the natural gas industry have continued to show up well. In the year 1960 new records were set in the consumption of natural gas with an increase of 5.7% over 1959. Transmission main showed an increase of 4.4% to 183,850 miles of pipe; distribution main increased by 5.4% and field and gathering facilities were up 4.9%. Residential gas consumption exceeded 30 million in number for the first time. Proved recoverable reserves of natural gas reached a new peak of 263,3 trillion cubic feet at the end of 1960 in spite of record net production during the year.

Canadian Developments

The Canadian oil and natural gas scene in 1961 has been marked by three major developments. First, there has been a substantial improvement in both actual and anticipated crude oil production. There has been logical working out of the implications of the improved outlook for natural gas resulting from the granting of the 1960 export permits. And third, there has been a continuation of poor operating results in the refining and marketing sector of the oil industry stemming from over-capacity and intense competition.

The most important new development in the Canadian oil industry in 1961 has been the enactment early in the year of the National Oil Policy. The background to this is significant.

New National Oil Policy Enunciated

In 1960, Canadian production of crude oil and natural gas liquids averaged some 549,000 barrels per day against a production capacity well in excess of one million barrels. This situation was reflected in a strong agitation for governmental measures designed to increase oil output, and toward the end of the year it became known that a thorough study of the entire situation was being undertaken for the Federal Government by the National Energy Board. Speculation as to possible government action finally ended with the announcement by the Federal Minister of Trade and Commerce on Feb. 1, 1961 of a National Oil Policy. This policy was designed to use persuasion rather than coercion to produce a substantial rise in Canadian Oil and natural gas liquids output.

The industry was expected to arrange for an increased use of products in Ontario refined from domestic crude by the elimination of direct imports of crude oil into Ontario refineries and by displacement of products refined from imported crude oil and shipped into Ontario from Montreal. In addition, the industry through its U.S. connections was expected to secure materially increased export markets, particularly on the U.S. West Coast where other imported crude, not U.S. domestic production, would be displaced. The entire National Oil Policy was designed as an alternative to more stringent measures involving the capturing of the Montreal refining market for Canadian crude through tariffs, quotas, or other arrangements. Target levels for Canadian Production established under the National Oil Policy were 625,000 barrels per day by mid-1961, an increase from the previous levels.
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average of 640,000 barrels per day over the whole of 1961, and an average of 800,000 barrels per day in 1963.

Favorable Reaction

The initial reaction within the oil industry to the announcement of the National Oil Policy was generally favorable, the targets being regarded as stiff but within the bounds of possibility. While many smaller independent production companies were disappointed at the failure to initiate construction of a new oil pipeline from western Canada to Montreal, most major companies were pleased to avoid the rigors which such a move would have imposed.

During the course of 1961, the progress made in meeting the National Oil Policy targets probably was surprising even to its warmest advocates. In June, production averaged some 653,000 barrels per day against the target figure of 620,000. Toward the year end it became apparent that the over-all target figure for the year of a 640,000 barrels per day average would likely be exceeded by a small margin, while the outlook for meeting the 1963 target of 800,000 barrels per day was encouraging.

Progress made in 1961 reflected to some extent an increased use of Canadian crude in Ontario, but this increase was limited by the complexity of the supply rearrangements necessary and will be restricted in the long run by available refinery capacity. Thus perhaps the most important development in Ontario was the announcement of new refinery construction to be undertaken in the province and completed within the next two years, aggregating some 55,000 barrels per day. The real area where progress was made in 1961 was the export field. Exports to the U.S. West Coast rose from some 30,000 barrels per day in 1960 to an indicated level for 1961 of some 93,000 barrels, the increase representing a greater use of Canadian crude by previously connected refineries. Exports to other U.S. areas, notably the Midwest, rose from some 85,000 barrels per day in 1960 to an indicated level of some 91,000 barrels in 1961, the increase stemming primarily from the entry of Canadian crude for the first time into the Detroit-Toledo-Buffalo refining area.

The initial U.S. reaction to Canada’s National Oil Policy was cautious, and repeated warnings were forthcoming that Canada should not force the pace of growth of exports to the U.S. beyond reasonable levels. Toward the end of 1961 concern was expressed in some quarters at the rate of growth of Canadian exports to the U.S. Midwest, and U.S. Interior Secretary Udall was quoted as saying that the rise in Canadian oil flow to that area had gone much faster than had been anticipated. While no actual backlog in levels of Canadian exports to the U.S. is currently expected, some easing of their rate of growth seems likely; this, however, will probably represent no more than a normal leveling off of exports into the newly penetrated Detroit-Toledo-Buffalo areas after the initial buildup period.

New BC Pipeline Nearing Completion

An interesting side development in the 1961 Canadian oil scene has been the commencement of the construction (due for completion by the year-end) of an oil pipeline entirely within the Province of British Columbia connecting the oil fields in the Peace River area of the Province with the Trans Mountain line to Vancouver at Kamloops.

Despite arguments regarding the economic as opposed to the political justification for the project, there is no doubt that it will greatly stimulate oil exploration and development in north-eastern British Columbia. At the same time markets for Alberta oil will to some degree be cut back by the new and unappropriated British Columbia production which will acquire a direct pipeline connection with markets.

The outlook for Canadian oil producers has been improved in 1961 not only by the success to date of the National Oil Policy in increasing production, but also by an improvement in the well-head price of crude. This improvement, 10 cents per barrel for light grades and up to 18 cents for some medium gravity crude, has stemmed primarily from a reduced exchange value for the Canadian dollar brought about by Canadian Government action during the year with a view to improving Canada’s international trade position.

The 1960 Report of this Committee referred to the approval in that year of three major new Canadian gas export projects and to the greatly improved outlook for the Canadian gas industry consequent on this approval. Some of the implications of the approval have been worked out in 1961.

One of the three export projects approved last year was in operation throughout 1961 while the other two had facilities in the course of construction during the year but were not in operation.

Thus natural gas production, ranging from 1,238 million cubic feet per day in 1960 to an estimated 1,700 million in 1961, only began to reflect the increased export demand for that product. Construction activity in the natural gas industry was at an unprecedented level, not only in connection with the construction of the main trunk lines involved in the Alberta to California export projects and their related gathering systems, but also in connection with gas processing facilities in gas fields throughout Alberta.

The bulk of this construction was running substantially on schedule as the year drew to a close, and will result in the operation of...
Continued from page 107 for the full year 1962 of the remaining authorized export projects.

Controversy in Alberta

Probably the most interesting by-product of the activity in the Canadian gas industry in 1961 was the cute controversy which came to a head in the Province of Alberta over the disposal of natural gas liquids. In view of the very substantial increases in production facing the industry, much of it coming from wet gas fields in the Alberta foothills, it became evident some time ago that a surplus of natural gas liquids beyond Canadian prairie requirements would likely arise. Just how substantial this surplus will be is a matter of wide disagreement. This year and in 1960 the Alberta Oil and Gas Conservation Board had before it applications from six groups designed to deal with natural gas liquids surplus in varying ways.

The most extensive project was that of West Atlas Products Pipe Line Ltd. and Foothills Pipe Line Ltd. (both associates of Pembina Pipe Line Ltd. and the Standard Oil Company of Indiana) which wished to construct a grid system in Alberta designed to collect products for shipment through a proposed new U.S. line to Chicago. Two other rival companies, Provincial Products Pipelines Limited (a subsidiary of Canadian Husky Oil Ltd.) and Hydrocarbon Pipeline Limited (a subsidiary of Canadian Hydrocarbons Limited) advanced more modest proposals involving the construction of grid systems in Alberta and the utilization of existing pipelines to eastern Canada. The British American Oil Company Limited, through a subsidiary, sought to construct two short products lines into the Alberta refining centers of Calgary and Edmonton, and Hudson's Bay Oil and Gas Limited asked for a permit for a short line from certain southwestern Alberta fields to the U.S. border where products were to be exported into facilities of the company's parent, Continental Oil Company. In addition, Royalite Oil Company Limited also asked for a permit for a short line into Calgary. It will be seen that the proposals ranged from the most ambitious to long-term integrated projects to a series of smaller measures of only partial applicability to the industry, most of them designed to fit into wider overall schemes at a later date.

In June of 1961 the Alberta Oil and Gas Conservation Board made a recommendation, later accepted by the Alberta government, indicating that in its view it was still early to launch an overall integrated plan for disposing of the province's surplus natural gas liquids, and favoring a step by step approach. The Alberta oil and gas companies that requested grid systems was rejected; no doubt the feeling that U.S. producers might object to a sudden shipment of substantial additional quantities of products into the heart of the Midwest market played some part in the Board's thinking. In addition, the two proposed Alberta-only grid systems were rejected, along with one of the two short lines proposed by the British American Oil Company Limited. The remaining applications were approved.

Toward the year-end the other B.A. project and the Royalite project had been proceeded with and were substantially complete, while the Hudson's Bay Oil and Gas Limited project still sought Federal approval from the National Energy Board.

Overall drilling in the Canadian oil and gas industry in 1961 lagged some 6% behind 1960 levels. The decline was concentrated in the development sector and reflected a lack of major new discoveries and a trend toward wider spacing in existing fields. Exploratory drilling was well maintained and statistics indicate no slackening in the search for new reserves.

While Canadian gas utilities continued in most cases to have a good experience in 1961, the refining and marketing segments of the oil industry continued in the doldrums. Most observers feel that several more years must yet elapse before surplus refinery capacity in many areas of the country is again fully utilized.

International Oil Industry

With free foreign areas displaying faster economic growth than the United States, the growth in energy requirements is expected to outpace that of the domestic economy. Over the next decade, energy consumption should increase at an annual rate of 3½% in the United States and 4½% in the free foreign area. Despite the large growth potential which exists for hydroelectric facilities, the bulk of the prospective worldwide gain in energy demand will be satisfied by petroleum and natural gas. In 1960 petroleum and natural gas supplied approximately 44% of free foreign energy requirements, and the Chase Manhattan Bank, in a recently published study entitled "The Future Growth of the World Petroleum Industry," estimates these two sources will account for 57% of total energy requirements in 1970. In certain areas, notably Western Europe, oil is still in the process of displacing coal as the primary source of energy.

Per Capita Consumption Increasing Abroad

Anticipated population growth rates for the free foreign part of the world are almost identical with those of the United States. However, since foreign population is almost 10 times greater, the prospective growth in absolute numbers of people is considerably greater.
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Reserves Unevenly Distributed
There is little doubt that crude oil reserves are more than ample to support the estimated growth trend over the next 10 years. However, these reserves, currently in excess of 230 billion barrels, are unevenly distributed in relation to consuming areas. The United States presently accounts for more than 50% of free world demand but has only 19% of reserves. In sharp contrast is the Middle East with 68% of reserves and less than 1% of consumption. In fact, Middle Eastern reserves could satisfy all of the world's needs for petroleum during the next decade if adequate producing and transportation facilities were provided and political stability maintained.

During 1960 free world consumption of petroleum products totaled 19 million b/d, a gain of 7% over 1959. Usage of petroleum products in the United States advanced only 2.4% to 8.7 million b/d, while an increase of 12.4% was recorded by all other free world countries. At the same time production of crude oil in the free world averaged 177 million b/d, an increase of approximately 6% over the 1959 figure. During this period Eastern Hemisphere production increased 15.8% while Western Hemisphere production increased 14%. Thus the pronounced trend of recent years continued with the United States discovering a decline as both a consumer and producer of petroleum products, relative to the rest of the free world.

Competition for "International" Market
Until the past two or three years most growth outside of the United States was almost completely dominated by the major international and national producers. Through increased competition with low cost, capital expenditures, these companies were able to show a steady return on capital and foreign invested capital through 1954 when a figure of 3.25% was reported. Other United States companies, observing the increasing earnings of the internationals, were determined to participate in this bonanza. Consequently they invested heavily in new Venezue- lana concessions in 1956 and 1957. The existing internationals, in order to maintain their dominant position, bought their share of these concessions. When oil in January 1960 was driving prices to $1.50 per barrel, Middle Eastern oil producers continued to hold their prices in order to market their output.

More recently, sizable reserves have been found in North Africa and other American companies, as well as government-owned companies of consuming nations, have taken promising concessions in the Middle East. Over the next several years these potential producers will be actively seeking markets for their reserves which may result in severe competition at the marketing level and consequent pressure on prices. Accordingly, the major international companies will be forced to share future foreign demand growth with some of the newer participants in this exploration.

Furthermore, exports of crude oil to the Soviet Union are continuing and the development of the worldwide price structure but are still very unimportant volumetrically. Within the past month Standard Oil of New Jersey began shipments of crude oil to its Zelten refinery in Libya. It is presently shipping 60,000 b/d of Libyan crude for consumption in Western Europe. And early in 1962 the pipeline being constructed for Oasis Oil Company (Amerada, Continental and Ohio) will be completed. Initially shipments through the latter will approximate 100,000 b/d with 60% of this for the Oasis group. Within the past year, Ohio Oil has completed negotiations with the Spanish Government for the construction and operation of a refining complex in that country and has recently announced that a similar type of arrangement is being considered in West Germany. Also, Continental Oil has signed in the acquisition of marketing companies in West Germany and Great Britain.

Production Increases Projected
During 1960 production in the Middle East once again forced the market higher, and in 1961 is also somewhat ahead of the previous year. Despite the entry of Libyan crude to world markets, further gains in Middle Eastern output were anticipated during 1962. Venezuelan output has failed to show any appreciable gains in the past few years since the imposition of higher income taxes by the government, which have forced prices up to...
Middle Eastern oil competitive in any part of the Free World,

Capital expenditures in the Free World for petroleum facilities approximated $10.7 billion in 1960, somewhat less than the $11.1 billion expended in 1959. At the end of 1960, 55% of the petroleum industry’s gross fixed assets of $108 billion was located in the United States and 45% abroad. Capital expenditures outside of the United States are likely to remain at about the present levels for the next several years as the newer foreign producing companies seek to build up their productive capacity. Also, the constant growth in Western European demand requiring the construction of new refineries and the expansion of existing ones, as well as the rapid growth of the petrochemical industry in that area, will keep capital expenditures at high levels. Furthermore, the trend toward locating refineries inland near consuming centers involves larger initial capital outlays as these refineries are served by pipelines running from deepwater terminals which are served by tankers.

Despite the larger volumes of crude oil produced and refined products sold, profits of the major international oil companies during 1960 were little changed from the previous year. This is the result of the substantial deterioration in foreign crude and product prices that has occurred abroad since 1955. Moreover, weakness is likely to continue over the next couple of years until at least part of North Africa is reepted into world markets.

Over the past two or three years, the United States major international refineries (Standard Oil of New Jersey, Texas, Standard Oil of California, Gulf and Socony Mobil) have to varying degrees increased domestic earnings as a percentage of total earnings. In 1960 this group derived 48% of its profits from the United States versus 43% in 1957. Management of these companies have devoted considerable effort to achieving a greater degree of integration within the United States and further efforts along this line may be anticipated. These companies have been active bidders for the purchase of domestic crude oil reserves as well as refining and marketing properties. Two illustrations of this are the purchases during the past year of the Socony Oil Company by Standard Oil of New Jersey and Standard Oil of Kentucky by Standard Oil of California. They have also spent huge sums on internal growth, notably on the drilling of favorable properties and the expansion of marketing facilities.

OIL AND NATURAL GAS SECO, Texas, TEL COMMITTEE Respectfully submitted, L. Emery Kastenbach II, Chairman

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This act has now been adopted in the following 35 states and the District of Columbia:

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- Idaho
- Illinois
- Indiana
- Kansas
- Louisiana
- Maine
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- Michigan
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- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Texas
- Utah
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

Particular credit for the work on this act is due the Association of Stock Exchange Firms and the local members of its committees.

The key provisions of this act provide that:

(a) A corporation or transfer agent registering a security in the name of a person who is a fiduciary or who is described as a fiduciary is not bound to inquire into the existence, extent, or correctness of the fiduciary relationship, and thereafter the corporation or transfer agent may assume without inquiry that the newly registered owner continues to be the fiduciary unless the corporation or transfer agent receives written notice to the contrary.

(b) The corporation and transfer agent may assume without inquiry that a transfer is in the authority of the fiduciary and is not in breach of fiduciary duty, even though the transfer is to the fiduciary himself or to his nominee. They may assume that the fiduciary has complied with any controlling instrument and with the law, including any law requiring court approval, and they are not charged with notice of court records or other documents even though in their possession.

(c) No person (including a bank or dealer) who participates in the acquisition, disposition, assignment or transfer of a security by or to a fiduciary including a person who guarantees the signature of the fiduciary is liable for participation in any breach of fiduciary duty by reason of failure to inquire whether the transaction involves such a breach unless it is shown that he acted with actual knowledge that the proceeds of the transaction were being or were to be used wrongly for the individual benefit of the fiduciary or that the transaction was otherwise in breach of duty.

VI

North American Securities Administrators Meeting

The President of the IBA this year urged chairman of group legislation committees to attend the Annual Meeting of the N.A.S.A. (whose members are the admin-Continued on page 124

Report of IBA State Legislation Committee

Continued from page 66
tate through an association or trust or corporation did not have the same tax advantage as persons who invested in an investment trust which invests in stocks and bonds because the income from real estate investment was taxed twice, once at the corporate level and again when distributed. Under Public Law 86-779, effective in 1961, real estate investment trusts are taxed in much the same way as regulated investment companies. The trust, if it needs the requirements of the tax law, is exempt from the corporate tax if the income is distributed to shareholders who pay ordinary income tax on such distribution. The 90% distribution rule does not include long-term and short-term capital gains which may be retained by the trust for reinvestment in other properties. Any ordinary taxable income retained by the trust in excess of the 90% distribution is subject to the regular corporate income tax. Any capital gains derived from the sale of any of its properties is taxable to the beneficiaries as capital gain to the extent that such gains are distributed to the beneficiaries.

The Midwest Securities Commissioners Association (including Arizona, California, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Oklahoma, Texas and Wisconsin) adopted a statement of policy regarding registration of securities issued by a real estate investment trust. A copy of that statement of policy as revised through June 26, 1961 is included as APPENDIX D. This statement of policy has caused some practical problems in qualifying securities issued by real estate investment trusts, but it is hoped that further discussions with the securities administrators will clear up the major obstacles.

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ter, or a person occupying similar status or performing similar functions.

(3) Section 4(e), which previously required broker-dealers and investment advisers to post corporate surety bonds in the amount of $10,000 and required agents to post bonds in the amount of $5,000 was amended to authorize the Commissioner to accept a blanket type surety bond for dealers and agents under a scale specified in the law. Exempt from the surety bond requirement are broker-dealers dealing exclusively in municipal or government securities, and broker-dealers registered with the SBC or who are also members of the NASD, or their agents registered with the NASD.

(4) Subsection 5(d), authorizing examination of the records of issuers, broker-dealers and investment advisers, was amended to provide that the applicant, issuer, broker-dealer or investment adviser shall pay a fee for each such examination not to exceed $25 per day or fraction thereof, that any and all examinations are to be absent from the capital building for the purpose of making such examinations, and in addition there shall pay the actual hotel and traveling expenses of such authorized examiner from Little Rock and return.

(5) Subdivision (C) of Section 6(a), regarding denial suspension or revocation of registration of broker-dealers and investment advisers, was amended to include as a ground for such action that a person "has pending against him a charge of unlawful conduct involving securities or any aspect of the securities business.

(6) Subdivision (6) of Section 11, regarding written examinations by applicants for registration as an agent, broker-dealer or investment adviser, was amended to provide that each agent taking such examination is required to pay a fee of $5 for each examination and (11) that the exemption from examination for certain persons shall not exempt them from such part of the examination as relates to the securities act.

(7) Subdivision (7) was added to Section 14(a) to provide that any issuer, unless exempted by Section 14 of the act, seeking to act or acting as a broker-dealer in its own behalf in the sale of its own securities must comply with the examination requirement, and that a single officer who shall have direct supervision of the sale of the securities shall represent the issuer for the purpose of satisfying the written examination requirement.

(8) Section 11(i), relating to the effective period of registration of securities and renewal of registration, was amended to provide that (i) a registration may continue effective only for a period of 12 months unless sooner terminated and (ii) renewal registrations for 12-month periods may be issued upon written application and upon payment of fees provided for original registration, even though the maximum fee was paid the preceding period. Also Section 11(j) was amended to provide that any registration fee of $10 with each report filed to keep current information contained in the registration statement and to disclose the progress of the offering.

(9) Section 13(1), defining "security," was amended to include "variable annuity contract" within the definition. Also the previous Subdivision (3) of Section 14(a), exempting any security issued by and representing an interest in a bond of an insurance company, was deleted.

(10) Subsections (e) and (f) were added to Section 14 to provide that before any security may be issued as an exempted security under Subdivisions (3), (4), (5), (6), (7), (8), (9) and 14(a) and before any transaction shall be executed as an exempted transaction, the Commissioner, by order, must be filed with the Commissioner, containing as a part thereof the grounds upon which the exemption is claimed and a declaration of the subdivision under which the exemption is claimed.

(11) Section 21, relating to criminal penalties, was amended (i) to cover willful violations of any rule or order under the act and (ii) to declare that persons who willfully violate the act shall be guilty of a felony.

Colorado adopted a complete new securities act effective July 1, 1961 based on the Uniform Securities Act, with modifications.

CONNECTICUT

The Connecticut Securities Act was amended effective October 1, 1961 (a) to authorize the bank commissioner to make, amend and rescind such regulations as are necessary to carry out the provisions of the Connecticut Securities Act and (b) compiling into one section provisions relating to denial, suspension or cancellation of registration of any broker, dealer, salesperson, investment counselor or investment counsel agent.

FLORIDA

The principal amendments to the Florida Securities Act were as follows:

(1) Subdivision (9) of Section 517.05, exempting negotiable promissory notes or commercial paper was repealed.

(2) Subdivision (5) of Section 517.06, exempting the sale, transfer or disposition of stock or securities of publicly held domestic companies.

Continued on page 126
Continued from page 125

er or delivery of securities to a bank, savings institution, trust company, insurance company, corpo-
ration or to a broker or dealer "by the issuer, trustee or by the duly authorized representative of such issuer," was
amended to include a pension plan among those to whom exempt sales may be made and to elimi-
nate the provision which limited the exemption to sales by the is-

uer or the representative of the issuer.

(3) Subdivision (7) of Section 517.06, exempting bonds or notes secured by mortgage upon real es-
tate or tangible personal property where the entire mortgage-to-
together with all the bonds and notes secured thereby are sold to a single purchaser at a single sale, was amended by adding the fol-
lowing proviso:

"provided, however, that such bonds or notes are not offered for sale in this state without expres

express recourse agreement or guarantee or to the repayment of principal or interest, or both;

provided further that such bonds or notes shall be exempt if they are fully insured by an insurance company authorized to do business in this state under chapter 635, Florida Stat-
utes, or issued or guaranteed by an agency of the federal gov-

ernment."

(4) Section 517.08 (relating to registration by notification) was

amended (a) to eliminate Subdi-

vision (g) which authorized registra-
tion by notification for bonds or notes secured by a first lien or privileged collateral and (b) to

eliminate Subdivision (h) which authorized the commissioner to receive registration by notifica-
tion of securities which are sub-

stantially of the same quality and description as one or more of the specified classes.

(5) A new section was adopted to provide that if a person simul-

taneously holds securities license and a life insurance license, he shall prepare and leave with each prospective buyer a written propos-

al, on or before delivery of any investment plan. An investment plan shall mean a mutual funds pro-

gram, and the proposal shall con-

sist of a prospectus describing the investment feature and the full illustration of any life insurance feature. The proposal shall be prepared in duplicate, dated, and signed by the licensee. The orig-

inal shall be left with the prospect and the duplicate retained by the licensee for a period of not less

than three years of, in lieu of a duplicate-copy a receipt for stand-

ardized prospectus and copies of the prospectus and statements of the commissioner may be obtained and held by the licensee.

GEORGIA

Section 6(j) of the Georgia Secu-

rities Act (exempting the sale of securities not involving an outer-

writ to not in excess of 25 persons provided such securities are purchased for investment), was amended effective April 5, 1961 to provide that, in addition to the required affidavit signed by each proposed purchaser stating his intent to purchase for invest-

ment, the commissioner is author-

ized to require from the issuer and affiant such additional informa-

tion as he deems necessary relative to such securities and the sale thereof.

INDIANA

Indiana adopted a complete new

securities act effective July 1, 1961 based on the Uniform Secu-

rities Act, with modifications.

KANSAS

Section 17-1252 of the Kansas Securities Act (definitions) was amended by including in Subsec-

tion (j) defining security, "thrift certificates or investment certifi-

cates or thrift notes issued by in-

vestment companies" by adding as Subsection (1) a definition of "investment company"; and by

adding as Subsection (m) a defi-

nition of "investment certificate."

MAINE

The Maine Securities Act was amended effective 90 days after

adjournment of the Legislature by

inserting a new section 241-a provi-

sional committee.

MICHIGAN

The Michigan Securities Act was amended effective Sept. 8, 1961 as

follows:

(1) Subdivision (n) of Section 431.106 (exempt transactions) was amended by adding the under-

lined language to read as follows:

"(n) The offering and sale by an issuer of its securities pro-

rate to its stockholders, and the subsequent offering and sale within 3 months after such offer of any unsold portion of such securities to 1 or more stockholders upon terms not less favorable to the issuer than those on the previous offering, the issuance and trading of subscription rights issued in connection with the foregoing, and the sale of securities to the holders of such rights in the exercise thereof. Exemptions under this subsection shall be subject to such conditions and prohibitions as the Commissioner may impose by regulation for the protection of investors."

(2) A new Subdivision (o) was added to Sec. 431.106 to exempt:

"(o) The sale of securities as contemplated under the Act of Congress entitled the "Small Business Investment Act of 1958," approved Aug. 21, 1958, where such sale consists of (1) the sale of securities to the Federal Small Business Administration, or (2) the sale of securities by a small business investment company or to a small business investment company to a small business concern as a condition to providing the latter with equity capital or loans."
shall not apply to the securities of a small business investment company, but the securities of such companies shall be registered with the commissioner of securities by qualification, coordination or notification, whichever is applicable.

NEW YORK
Section 35, 104-4(2) of the New York Law relating to real estate investment trust, was amended effective May 1, 1961 by adding a provision that no offer advertisement or sale of such securities shall be made in or from the State of New York until the attorney general has issued to the issuer or to the offerer a letter stating that the offering has been filed and that the attorney general will not later than 15 days after such filing, issue such a letter or, in the alternative, a notification in writing indicating deficiencies in the offering agreement or prospectus.

NEVADA
Although Nevada has no state securities act, sections of the Building and Loan Association Law require the licensing of investment companies registered under the federal Investment Company Act of 1940. Amendments to Section 673.260 effective April 8, 1961 (a) impose a license fee of $100 for each branch office and (b) provide that if the commissioner finds that moneys in the savings and loan fund will be insufficient for operation of the department he may annually levy and collect an assessment from each company, the total of which shall not exceed 3c per $1,000 of gross assets as of Dec. 31 of each year, the assessment to be prorated among such companies on the basis of their gross assets.

NORTH DAKOTA
The principal amendments to the North Dakota Securities Act were as follows:
(1) Section 10-04-04, making it unlawful to sell nonexempt securities unless they are registered in the state, was amended to make the filing of an advertisement matter regarding registered securities (a) be unlawful to “offer for sale.” Section 10-04-08.2 (requiring the filing of a prospectus) was amended to include a provision that nothing in that section or in Section 10-04-04 shall be construed to prohibit the publication or distribution to the public of preliminary prospectuses or preliminary summary prospectuses under the Securities Act of 1933, provided no solicitation is made or order or conditional delivery for consideration accepted prior to registration in the state, and provided a specified legend appears on each such prospectus.
(2) Subdivision (3) of Section 10-04-05, exempting policy contracts of an insurance company subject to supervision by an agency of the state of North Dakota, was amended to exempt also variable or fixed annuity contracts of such companies on the basis of their gross assets.
(3) A new Subsection (12) was added to Section 10-04-05 to exempt unsolicited agency transactions by a registered dealer, provided such dealer delivers to the purchaser a written confirmation of the order which clearly identifies the commissions paid to the registrant.
(4) Subdivision (8) of Section 10-04-06 (exempting secondary market transactions by registered dealers in securities about which specified information is available in a manual) was amended by adding a proviso that the exemption shall not apply to securities of open-end management companies, mutual funds, unit investment trusts, contractual plans and face amount certificate companies.
(5) Subdivision (9) of Section 10-04-06 (exempting pre-incorporation subscriptions if certain conditions are met) was amended by adding a proviso that no money shall be received by the solicitor prior to incorporation or registration of said securities with the Commissioner.
(6) A new Section 104-06-07.1 was inserted to authorize registration by “announcement” for securities which have been outstanding in the hands of the public for not less than one year as the result of prior original registration in North Dakota or through S.E.C. registration. Registration by announcement may be made by registered dealers, and becomes effective automatically 48 hours after filing unless advised to the contrary or advised to furnish additional information and require a $10 fee.
(7) Section 10-04-08 (relating to fees) was amended by adding a subsection (b) regarding registration fees for open-end management companies, mutual funds, investment trusts, unit investment trusts, contractual plans and face amount certificate companies.

OKLAHOMA
The principal amendments to the Oklahoma Securities Act were the following:
(1) Section 2(b), defining “principal,” was amended to exempt individuals representing an issuer in effecting transactions in securities exempt under Subdivisions (A), (5), (6) or (7) of Section 401(a).
(2) Section 2(1), defining “security” was amended to exclude certificates of interest or participation in an oil, gas or mining title or lease. Section 2(6), defining “issuer,” was amended to eliminate references to an oil, gas or mining title or lease. Section 2(9), defining “dealer” was amended by eliminating Subdivision (4) which subdivision amended Section 4(b) which subdivision extended the definition of “dealer” to include, in addition to persons defined as such, a person being solely engaged in a securities business in the state, pass a written examination as evidence of knowledge of the securities business. All salesmen currently registered on June 30, 1961 who have been continuously registered as securities salesmen in the state since July 1, 1958 may have their registration renewed without passing such written examination. Such examination shall be given once each month in the capital city and at least once each quarter in other locations in the state.
(3) Section 10-04-03 (1), regarding registration of the act was amended to provide for administration by a securities commission who “shall be skilled in securities,” appointed by the Governor and confirmed by the state for a four-year term (previously the state examiner appointed a deputy as ex officio administrator).

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Northwestern National Bank
of Minneapolis
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cided a person who engages in the extraction, refining of oil, gas, coal, uranium, sulfur or any other minerals
and who is not principally engaged in effecting transactions in securities. Section 401(a) (1) was
eliminated, which section exempted corporate participants in an oil, gas or mining title or lease comprising a
specifically described tract of land more than one-tenth of an acre or a fraction thereof in an individual
specifically described tract with an aggregate equivalent of more than one-tenth of an acre.
(3) Section 401(a) (1), exempting corporate paper, was amended by adding a proviso that the exemption
shall not apply to any obligations to pay money, sold or offered for sale, as described in Section 401(b) (8).
(4) Section 202(b) was amended to increase the filing fee from $5 to $10 for initial or renewal
registration by an agent.
(5) Section 305(b), previously providing for a filing fee for registration of securities of one-tenth
of 1% of the maximum aggregate offering price of securities to be sold in the state with a minimum fee of $100 and a maximum fee of $300, was amended to provide the following:
fee: one-tenth of 1% of the maximum aggregate offering price of securities to be sold in the state up to $500,000; one-tenth of 1% from $500,000 to $5,000,000; one-tenth of 1% from $5,000,000 to $1,000,000; and 1/100 of 1% on the excess of $1,000,000 with a minimum fee of $100 and a maximum fee of $300.
(6) Section 265(c) was amended by adding a provision that every registration statement must
be accompanied by a certificate by the applicant or his agent certifying that he understands his
regulatory requirements under such rule as he may prescribe at any time when information contained in any
document required to be filed with the department is alleged to be inaccurate or incomplete in any
material respect.
OREGON
The Oregon Securities Act was amended effective April 28, 1961 as follows:
(1) Subdivision (1) of Section 39.170(2) was amended to eliminate a requirement that the balance
sheet and a statement accompanying registration by qualification had to be dated within 90 days of the date of filing of the registration statement. Subdivision (2) of the same section was amended so that every registration statement must now be dated as of the latest transaction of the issuer prior to delivery of the securities.
(2) Section 39.220 was amended by adding provisions that the commissioner may require appli-
cants to file as a license, including the partners of a partnership, the executive officers of a
registration by qualification, was amended to provide that registration shall be effective from one
year from issuance or as (previously provided) until exhausted by the sale of the securities so registered or until suspended, rescinded or revoked.
(4) Section 39.190 (relating to registration by notification) was amended (a) to add to the infor-
mation required to be filed a copy of the security, a current financial statement and, if required, a con-
sent to service of process and (b) to change the time at which such registration automatically becomes
effective from 24 hours to 72 hours after notice is filed.
(5) Section 39.1219, which previously required a surety bond by a broker in the amount of $5,000, was amended to provide that the exact amount of bond shall be ap-
proved by the commissioner, not less than $5,000, nor more than $15,000.
(6) Section 55.1920 (relating to fees) was amended to increase the amount of many of the fees, the
principal of which increased from $25 to $75. The minimum fee of $500,000 was increased from $10 to $25 the minimum fee on notification of intention to sell and from $100 to $200 the maximum fee on noti-
fication of intention to sell.
TENNESSEE
Item 10 of Section 48-1624 of the Tennessee Securities Act, requiring the financial statement of
balance sheet accompanying the application of a dealer for registration to be certified by an
independent certified public account
ant, was amended to permit certification by a public account
ant licensed by the State of Ten-
nessee. Section 48-1619 (exempt securities) was amended by adding a new Subsection (2) to exempt securities of corporations engaged in the co-
operative marketing law of the state.
UTAH
The principal amendments to the Utah Securities Act, effective May 15, 1961, were as follows:
(1) Section 61-1-1, relating to the organization and powers of the securities commission, was
amended by inserting a provision that the commission is vested with the power and authority to make rules and regulations as shall be deemed necessary for the administration of the Act. A requirement that the commis-
sion hold weekly meetings was deleted.
(2) Section 61-1-14(4), defining “dealer,” was amended to include every person who “holds himself out or itself as a securities invest-
ment counselor.”
(3) Section 61-1-14(6), defining “salesman,” was amended so as not to apply to a person employed, appointed or authorized by an
issuer and to eliminate the provision that the person be a partner, director,
or executive officer of a corporation or any other association registered as a dealer who shall not be deemed salesmen within the meaning of the definition.
(4) Section 61-1-5 was amended by adding a new subdivision to exempt:
(10) A joint venture of not more than ten individuals, all having the same responsibility and signing an agreement, or the incorporators signing the articles of incorporation.
(5) Section 61-1-19, relating to registration of securities by notifica-
tion, was amended by increasing from $1 to $10 the fee to be charged the applicant at the time of filing the registration statement.
(6) Section 61-1-11, relating to registration of securities by qualification, was amended to provide a filing fee of $25; to provide that
registration is granted if the applicant shall pay a fee of $1 per $1,000 of the aggregate offer-
ing price of the securities to be sold in the state (previously a fee of one-tenth of 1% of par
value) to raise the minimum fee from $30 to $50 to eliminate a provision that in case of stock having no par, the price at which such stock is to be offered to the public shall be deemed to be the par value; and to add a provision that the filing fee will be applied toward the registration fee.
(7) Section 61-1-15, relating to the registration of dealers and salesmen, was amended to exempt, from the registration of any dealer that appli-
cants pass a written examination, any issuers of securities that have been registered by qualification under the Act. This section also was amended to provide that each dealer’s license granted to any firm consisting of a partnership of more than one person or to a corporation shall be held by all members or officers of its members
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Assistant General Counsel

Robert Stevenson, III

Robert Stevenson, III

Scott & Stringfellow

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who, upon compliance with the Act and without payment of further fee, upon issuance of the license shall be entitled to perform all of the acts of a securities salesman. The person so designated must make application for a salesman’s license accompanying the application of the dealer. Further amendments in this section provide a reinstatement fee when a license is not renewed on or before Jan. 15 of each year of $10 for dealers and $5 for a salesman; increase from $1 to $2 the fee for renewal of registration of salesmen; and provide a $5 fee for each examination.

WASHINGTON

The principal amendments to the Washington Securities Act, effective June 8, 1961, were the following:

(1) Subdivision (2) of Section 21.20.005, defining dealer, was amended by deleting a provision that a partner, officer or director of a broker-dealer or issuer is a salesman only if he otherwise qualifies:

(2) Section 21.20.005 was amended by deleting a provision that registration of a broker-dealer automatically constitutes registration of any officers or directors as salesmen (except partner, officer or director whose registration as a salesman is suspended, revoked or denied) without the filing of applications for registration as salesmen or the payment of fees for registration as salesmen.

(3) Subdivision (2) of Section 21.20.180, requiring that a registration be filed with the director on file with the director for at least 10 days, was amended by making the requirement 10 full business days.

(4) Section 21.20.320, relating to exempt transactions, was amended by deleting Subdivision (16) which authorized the director to exempt certain transactions whereby securities are sold or any real or personal property are acquired by a partnership or joint enterprise.

(5) Subdivision (1) of Section 21.20.340 providing the registration for the securities other than investment trusts and securities registered by coordination, was amended to eliminate the $500 maximum fee. Subdivision (2), relating to the registration fee for securities issued by a face amount certificate company or redeemable securities issued by an open-end management company or unit investment trust, was amended to eliminate the $1,000 maximum fee but a provision was added that the issuer upon payment of a $25 fee renew for an additional 12-month period the unsold portion for which the registration fee has been paid.

WISCONSIN

The principal amendment to the Wisconsin Securities Act amended subdivision (1) of Section 21.20.06 by adding the underlined language to read as follows:

"(1) Any security issued by, or the principal and interest of which is guaranteed by, any state, territory or insular possession of the United States or by any political subdivision of any thereof, or by any foreign government, or combination of foreign governments, or any state, territory or political subdivision thereof, in each case having power of taxation or assessment and pledging the general credit thereof, for the purpose of paying such security."

APPENDIX B

Summary of Principal Problems Reported in Qualifying Securities Under State Securities Acts

Michigan: For many issues no application for registration was filed in Michigan because the Commission will not authorize the sale of any stock at a price in excess of the fair and reasonable book value, unless, if such stock is common stock, it can show average net income of not less than 5% of the proposed offering price per year for a period of five years, and not more than five years immediately preceding application.

Florida: For several issues of debentures no application for registration was filed in Florida because of a requirement that the debenture be exercisable at a price lower than the public offering price. The securities subject to such options were only about 1/16th of the total shares outstanding after the offering.

Another issue was rejected in Missouri because the Commission concluded that the company was too dependent on government business and that there were other unfavorable factors in its operation.

Another underwriter commented: "We have had several requests to qualify recent offerings in Missouri but have declined to do so because the complex filing requirements lead to larger legal and filing fees than are justified by the prospects of sales in that state."

Iowa: Wisconsin: A few applications for registration of convertible preferred stock were withdrawn after about 1/10th of the total shares drawn in Iowa and Wisconsin because the Commissions in those states have established capitalization ratios which must be met for preferred stock. It was reported that in Iowa the ratio of preferred stock to common stock and surplus may not exceed 4 or 5 to 1 and that in Wisconsin the ratio may not exceed 2 to 1.

Tennessee: Nebraska: One underwriter stated, "In the case of at least two of these states, Nebraska and Tennessee, we were required to withdraw our applications because of not being qualified under the law of the state."

Continued on page 131
Continued from page 129

statutes and regulations of these states, but rather because our appli-
cations were not acceptable to states like Illinois and Indiana. It is our opinion that these adm-
inistrations were stretching their administrative discretion. It
should be said that all state ad-
inistrations do not rely on the action taken by other states. The administrators of Georgia, New
Hampshire, North Carolina, Rhode Island and other states have
called us to inquire of the back-
ground, and after hearing an
explanation, have qualified our
applications.

One underwriter reported that
stock of a small business investment
company was denied registration
in Tennessee because it is the policy of the Com-
mission there to register any small business investment company
securities, and there was also a sugges-
tion of requiring officers and
directors to deposit stock of the
company held by them in escrow in a
Tennessee bank.

Illinois: Indiana: There were sev-
eral complaints that these states
required a special sticker to be
attached to the prospectus stating
"These are speculative securi-
ties," despite the fact that the
cover page of the prospectus car-
ried the legend required by the SEC that "These securities are of-
erred as a speculation.

Options and Warrants: There
were many reports of difficulties
in registering in various states is-
ues involving options and war-
ants. On this subject it is sug-
gested that underwriters check
the statement of policy on options
and warrants adopted by the
North American Securities Ad-
ministrators and also the report
as to which states follow all or
portions of that statement of policy.

Real Estate Investment Trusts:
Several underwriters reported dif-
ficulties in registering shares of
real estate investment trusts in
states which have adopted the
Statement of Policy of the Mid-
west Securities Administrators.

APPENDIX C

Statement of Policy on Op-

tions and Warrants of the
North American Securities
Administrators including
Standards Approved in 1959,
Revised in 1961

Warrants or stock purchase
options to those other than the
purchasers of securities will here-
after be looked upon with great
disfavor and will be considered as
a basis for denial of the appli-
cation except in unusual circum-
stances and the burden shall al-
ways rest on the applicant to jus-
tify their issuance. The number of
warrants or options sought to be
issued, the exercisable,
price, the terms in which
are exercisable and the ab-


rate in the exercisable price will
be taken into consideration.

The following standards or guides for
the issuance of warrants or options
in imposing the burden of determin-
ing whether the issuance of
a warrant or option is in de-

(2) That in those states where
it is necessary to include the
value of the options in the com-
putation of commissions the mar-
ket value of such options, if any,
be used. That in those states where
no market value exists an arbi-
trary value of 20% of the original
exercise price of options be used
unless evidence indicates that a
contrary value exists.

(3) That the same tests be
applied to options issued by "sell-
ing through an intermediary
or broker" as has been

Continued on page 132
Continued from page 131

shareholders or beneficial owners shall not be personally liable therefor. The trustees must further be required to maintain adequate insolvency provisions on the part of the trust, as detailed in (4) REPORTS.

(a) For preparation of an annual report, the trustee, in a detailed report of the activities of the trust during the period covered by the report and of a balance sheet, statement of income and expenses, and statement of assets, liabilities, and operations for the period, which shall be prepared on a basis of income and expenses and on an opinion thereon of an independent certified accountant or independent public accountant based on an examination of the books and records of the trust and material evidence of its operation, and shall be submitted to the shareholders at an annual meeting of shareholders.

(b) For filing of such annual report with the trustee, the administrator, and the regulator of a copy thereof to each shareholder or beneficial owner, within ninety days after the close of the period covered by the report.

(c) The copies of the report and the administrator shall be manually verified.

(d) For furnishing to the shareholders or beneficial owners and to those in a position to receive proper notice to the shareholders, or beneficial owners, any notices required thereunder, the annual report shall be delivered in a manner required in (a) above.

(6) SPECIAL MEETINGS.

Special meetings of the shareholders, or beneficial owners, may be called by the President, or by a majority of the trustees and shareholders, or by any officer of the Trust upon written request of shareholders holding together not less than twenty-five percent (25%) of the outstanding shares of the trust entitled to vote at such meeting. The call shall state the purpose for which the meeting is to be held and any other business which may properly be transacted and no other business shall be transacted.

(7) INSPECTION OF RECORDS.

For the inspection of the trust records by a shareholder or beneficial owner or his administrator, a reasonable time; and inspection of trust records by a shareholder or beneficial owner’s administrator or a shareholder or beneficial owner’s administrator’s administrator, if the trust is held under local law to the same extent as a shareholder or beneficial owner’s administrator’s administrator.

(8) DISTRIBUTION.

Any distributions to shareholders or certificate holders shall be accompanied by a statement in writing advising of the sources of the funds so distributed. In case there may be doubt in the matter, the communication may accompany the statement of the necessary statement shall be forwarded to shareholders, or beneficial owners, or any administrator, if the trust is held under local law to the same extent as the share of shareholders or beneficial interest.

(9) CHANCE IN TRUST.

The term of trust will be terminated at any time, by a vote or written consent of two-thirds of the outstanding shares of beneficial interest.

(10) TERMINATION OF TRUST.

The term of trust will be terminated at any time, by a vote or written consent of two-thirds of the outstanding shares of beneficial interest.

(11) INVESTMENT ADVISORY CONTRACT.

The trustees shall have absolute and exclusive control over the management of the trust and its assets. An investment advisory management shall be carried out solely by such investment advisor, subject to the approval of the administrator.

(12) PROHIBITED ACTIVITIES.

No real estate investment trust shall:

(a) Invest more than five (5) percent of the total assets in debt securities or in any other investment not specifically prohibited by law.

(b) Invest in any mortgage or any other real estate investment trust that has an investment other than a first mortgage or first trust deed on a greater percentage of value, as confirmed by a competent independent appraiser, not less than $100,000 stated or of beneficial interest.

(c) Invest in any real property which is subject to a mortgage or any other debt or lien, other than a first mortgage or first trust deed, on a greater percentage of value, as confirmed by a competent independent appraiser.

(13) APPEAL.

Any legal or equitable remedy paid for real estate acquired by the trust shall be subject to appeal.
### APPENDIX A

**Purchases of Foreign Bonds by U. S. Investors (Millions)**

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<thead>
<tr>
<th>Year</th>
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<td>1957</td>
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*NOTE: The Treasury Bulletin includes only securities purchased by U. S. corporations, or so they do the inter-company account transactions. The figures reflect only securities purchased by U. S. non-banking firms with their own foreign parent company and financial institutions. The figures are based on monthly reports to the Federal Reserve Bank of New York by U. S. foreign bond dealers and brokers and transactions with foreigners for their own account and for the account of customers. Therefore, the figures do not cover transactions in which a reporting institution is not involved. The term "U. S. Investors" covers all institutions and individuals domiciled within the U. S. and its territories and possessions, with the exception of the following: (1) banks or agencies of foreign central banks; (2) other official institutions of foreign governments; and (3) international organizations.*
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The face of America is constantly changing... and Allen & Company is proud to play a part in creating many of those changes, to the benefit of the citizens of the communities concerned.

From great highway systems in Kentucky and in Oklahoma... to a mighty bridge-and-tunnel complex traversing the waters of Chesapeake Bay... from power projects in the State of Washington... to an extensive marina harboring Florida's... constructions of many kinds, widely separate geographically and dissimilar in many ways, but having one thing in common:

All have profited from creative new financing formulas, derived from Allen & Company's long experience and soundly-based revenue financing theories.

Allen & Company acted as manager or co-manager of the bond syndicates that financed all of the great construction projects mentioned or pictured... and in every instance, Allen & Company assisted in their origination and planning. Our proven knowledge of tax-exempt bond financing has been useful to governmental subdivisions throughout the United States, in arranging, underwriting, and distributing such bond issues.

We here at Allen & Company are grateful that our record of accomplishment continues to grow—all across America.

Illustrated here are several projects financed through syndicates headed by Allen & Company:

Chesapeake Bay Bridge and Tunnel District  Mackinac Bridge Authority  The Turnpike Authority of Kentucky  Oklahoma Turnpike Authority  Bahia Mar Marina, Florida  Clark County, Washington P.U.D.'s

Listed below are a few of the many other Revenue Bond Issues by Allen & Company:

South San Joaquin Cal. Irr. Dist.  Maricopa County Arizona Water Control Dist. No. 1  East St. Louis Bridge, Illinois  Long Beach Sewage Authority, New Jersey  Long Branch, New Jersey Sewage Authority  Triborough Bridge & Tunnel Authority  Pennsylvania Housing Authority (Various)  Nueces County Causeway, Texas  Clifton P.D. No. 1, Washington  Wisconsin Housing Authority (Various)  Greater New Orleans Expressway

**Allen & Company**

Established 1922

New York 4, New York

STATE, MUNICIPAL AND REVENUE BONDS
Projecting the California high standard of life into the future

All over California, hundreds of new subdivisions are going up to house new families like this one. California communities are supplying new employment opportunities for the new generation—and all the essential services sound financing with municipal bonds makes possible.

The Bank of America knows this young family and their counterparts throughout the state. Knows them, their needs, and prospects and reflects the confidence they inspire by bidding, with associate dealers, on virtually all California State and municipal bonds.

MUNICIPAL BOND DEPARTMENT  BANK OF AMERICA  San Francisco • Los Angeles

NATIONAL TRUST AND SAVINGS ASSOCIATION