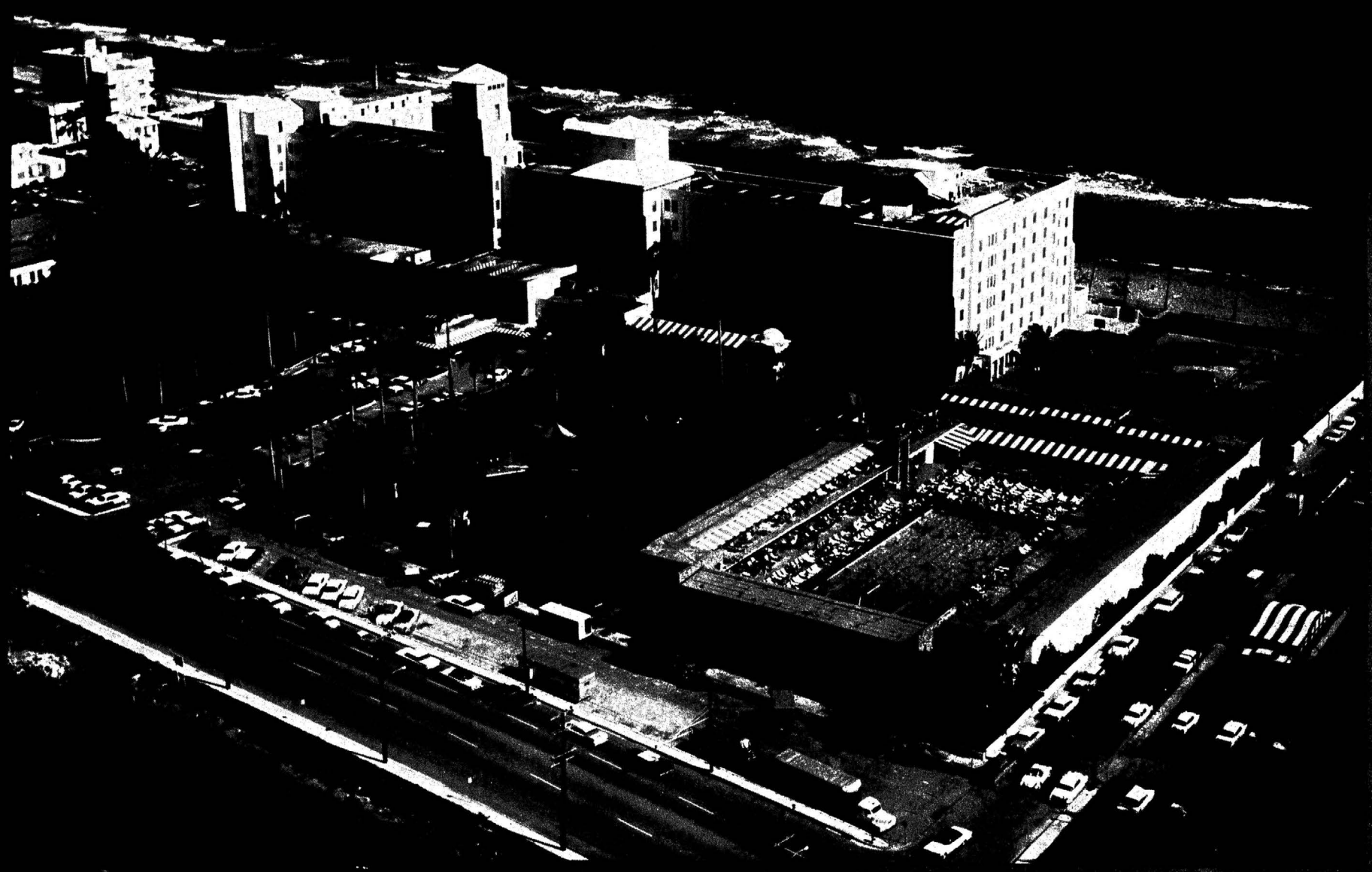

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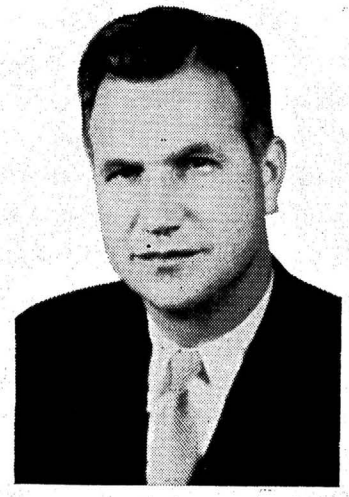

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The New President's Inaugural Address

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 1962, 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.

Curtis H. Bingham

The coming year of 1962 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 inviting 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 in European capitals, the American financial community fulfilled its role with composure and imagination. In the depression years of the thirties we were *"persona non grata"* as the diplomats say.

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," started courses at universities, including the Wharton School Institute, provided courses in management.

The Municipal Committee work since the war has been outstanding. Likewise, our progress in the fields 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 population growth and a rising standard of living are not only with us but the entire world. The Investment Banker is faced with the opportunity and responsibility of meeting our traditional needs, the needs of a rapidly changing technology, creating new companies with new discoveries but also the demands of a broadening world economy. I am confident we will do our job well.

The coming year our industry will be the subject of a broad inquiry by the Securities and Exchange Commission. Almost 30 years ago new laws were passed regulating our business. For the most part these laws were constructive. 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 reappraise our own firms to maintain our high 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, and at the same time provide liquidity and ready markets for an expanding investor population.

In the next few years we can see a few clouds on the horizon. The stability of our dollar is threatened. We can see danger in the decline of our early 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 widen 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. Economic education is essential, yet neglected in our schools. Greater economic understanding is a safeguard against fiscal irresponsibility which destroys thrift and initiative.

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 members 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 understand your work as they do the doctor's or the lawyer's?

Education is the most effective weapon against communistic propaganda and we as Investment Bankers should meet this responsibility for the preservation of our system and our country.

Be 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 50th Annual Convention of the Investment Bankers Association of America, Hollywood Beach, Fla., Nov. 30, 1961.

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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. Decrying governmental encroachment upon the economy, Mr. Newton finds singularly shocking and unnecessary government financing competition from the Federal Community Facilities Loan 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, abroad as well as at home. This is a system powered by individual initiative and based on incentive to encourage maximum performance by labor, management and capital; where, in the long run, the greatest rewards go to those who produce results.

George A. Newton

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 admit getting 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 lethargy 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 "droned" 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? Here is the industry that is the backbone of free enterprise, providing the thrifty with investment opportunity to share in the growth and wealth of their nation, channeling these funds to business and industry, so their needs may be financed with private capital, not government dole. 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 day on the New York Stock Exchange and assume a price of $30 per share (I imagine it is more) you have $90 million involved. Most of the transactions have two brokers, so that makes $180 million being handled 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 trying conditions as others move in and seek to apply their particular brand of fumigation to 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. 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 polices 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, but to do so 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 would pick up the telephone and say, "Yes, I'll take $250,000 of them. We will underwrite a half a million . . ." and then he would scribble 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 more detailed 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—

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fail to get our message across. So, emphasis on proper training of personnel and extreme care in communicating with customers, so they are sure to understand, needs the attention of 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.B.A. stands for.

Remedying the Public's Misconception

Misconception 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. Too often, it is viewed akin to "legalized bookie shops" as people are tempted to act by rumor and tip, ignoring what the I.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 best 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. How effectively it may help 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 action in promoting 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 question, 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 policy 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 "self" the final critic.

IBA's Stand on Federal Aid to Education

Willingness of the Association to make its position known on national issues was evidenced by its vigorous stand opposing Federal aid to education. Although many members shared with a multitude of others the apprehension of Federal invasion of this field, the Association avoided the "issues of emotion" and based its case on "insufficient need," using as its example the proposed program of classroom 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 76,000 were required to replace ones now obsolete. I.B.A. figures, which remain unchallenged to date, point out that for the past four years, the number of elementary and secondary classrooms constructed by municipalities, averaged better than 69,000 per year and that in 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 the college housing program. Prior to 1950, this type of facility had not 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 $1,300,000,000; and, in 1960 there was provided approximately $1,300,000,000 more, but this for only a four-year period. Thus, even the 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 great a need, especially when the performance of the municipalities and private institutions has been so outstanding?

Shocking Government Competition

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 "substitution" of government funds for private capital. The now publicized Charleston, W. Va. 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 contest 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 supremacy, if man will work intelligently, assume responsibility and have faith. Throughout history, wrong oft seems so strong. Yet, through faith, and a willingness to lead, right has turned to might!

Where is there 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 I.B.A. symbolizes "Integrity Before All."

*An address by Mr. Newton before the 50th Convention of the Investment Bankers Association of America, Hollywood Beach, Fla., Nov. 27, 1961.

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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 expectation of, the industry sketches some of the areas to be probed by forthcoming full study of the securities industry. They include questions concerning: (1) professionalism and quality of broker-dealers and salesmen besides the use of part-time salesmen and branch office multiplication; (2) over-the-counter market trading and distribution encompassing extending listed disclosure requirements to counter issues, short-swing trading, underwriting practices, and "after-market" trading pattern of such things as determinants of substantial premium over offering price; (3) American Stock and other exchanges' operations and problems; and (4) certain patterns, policies and practices of investment companies. General theme of Mr. Cary's address dwells on ethics and professionalism, and the industry is asked to share fully with the SEC the responsibility for maintaining and raising the standards of conduct. Mr. Cary does not propose delaying the Commission's work during the investigation.

Ours is a newly constituted Commission. Four Commissioners have been appointed in 1961, and one in 1960. Under these circumstances, I am sure investment bankers might seek some notion of our point of view. I might say that our backgrounds are varied. One of us is a former United States Senator and Chairman of the Subcommittee of the Banking and Currency Committee which has jurisdiction over the SEC; two are outstanding past members of the Commission's staff; the fourth was a practicing lawyer with heavy experience in corporate finance. I am a former professor and part-time practitioner.

William L. Cary

In general, I venture that I speak for my colleagues; my views, though, are in no way binding upon them. We function as a true Commission, with five voters, always independent, occasionally differing from one another, but at the same time operating in a general atmosphere of harmony and respect.

SEC's Position

First of all, let me make it clear that our position is not anti-Wall Street or any other street. Such a point of view is doctrinaire, totally undiscriminating and irresponsible. The financial centers of this country, and indeed of the world, have within them all elements and are an integral segment of American life. Personally, having spent my life in the practice and teaching of corporate law, with an address at No. 1 Wall Street, I would find it hard suddenly to regard all my past associations with rancor.

Secondly, investment bankers are the responsible leaders in the industry who — happily — are evolving the standards of a true profession. We may have occasional differences in point of view. But in essence I firmly believe that we both are aiming for the same ends, and that cooperation can and should be anticipated.

Thirdly, we believe in strong enforcement of the securities laws as they stand. It is commonplace to note that this is an era of economic "good times." The *Wall Street Journal,* with which some may be remotely familiar, had a story about some Southern Pacific Railroad detectives following a wire out to a box car and finding there a hobo sleeping under an electric blanket. Times indeed have changed when even panhandlers are not totally impecunious.

The crescendo of registration statements with which the Commission is daily confronted is testimony to the lively state of the underwriting business. This output has been coupled with very active market conditions. These factors create a greater opportunity for the development of fraudulent and manipulative practices. Responsible members of the industry, I believe, recognize the potential problems now present in our securities markets and agree with me that the climate calls for vigorous enforcement. Over and over again in New York, before I came down to Washington, I had eminent leaders in the investment banking industry take me aside and tell me that certain corrections are needed. I emphasize that action, both legislative and enforcement, will be selective, and not a broadside.

Raising Ethical Standards

Fourth and finally, I believe that ethical standards must move upward. Today anyone would be shocked with a comment attributed to a 19th Centuary railroad buccaneer: "Why buy the shares, if we can buy the directors." Thanks in substantial part to the securities laws—accounting rules, disclosure standards, and principles of fair dealing have developed almost by a process of accretion. While in law school during the early 30's I remember the overwhelming fears expressed over the 1933, 1934 and the 1935 Acts. I wonder how many today are still opposed to the disclosure philosophy—which is now gaining ground on the Continent? How many accountants and analysts would like to return to the accounting rules of the 20's? And how many people in the utility industry—comparing the jigsaw of a utility empire then with their corporate structures today—would feel that their industry is worse off? Some would say in fact that the Holding Company Act may well have saved them from wider governmental ownership.

This does not mean, however, that everyone in the financial community is benevolent. Furthermore, should we adopt an attitude of satisfaction with the status quo? In the past 6 months I have had a chance to observe the resourcefulness of the securities industry in adopting new forms of financing. Why is there not room for growth and improvement in standards as well? Ethics too, can, and should be, dynamic. As a practical as well as a theoretical matter, the basic principle underlying securities regulation is that of fiduciary responsibility. Mr. Chief Justice Stone—himself a corporate lawyer—phrased this thought some 33 years ago:

"I venture to assert that when the history of the financial era which has just drawn to a close comes to be written, most of its mistakes and its major faults will be ascribed to the failure to observe the fiduciary principle, the precept as old as holy writ, that 'a man cannot serve two masters.' More than a century ago equity gave a hospitable reception to that principle and the common law was not slow to follow in giving its recognition. No thinking man can believe that an economy built upon a business foundation can permanently endure without some loyalty to that principle . . ."

Laws are often enacted to remedy the abuses of the fringe elements of society—in our case the ethically marginal securities operator. To avoid increasing regulation, investment bankers share with us the responsibility for maintaining and indeed for raising standards of conduct.

While we are enjoying this current prosperity, we must recognize, as the President has pointed out, that we are destined to live out most, if not all, of our lifetime in uncertainty, challenge and peril; that our very system with all its virtues of freedom is at stake. Interestingly enough, only a few days ago a Polish Marxist philosopher brought to the attention of his own people that the strongest propaganda against communism today in the capitalistic world is the concept of freedom of the individual. He argued that more of it should exist within a Marxist socialist system.

Freedom Requires Responsibility Not Abuse

At the same time we must likewise recognize that freedom can survive only if coupled with responsibility. The public interest cannot permit abuse to become rampant under the guise of freedom. We can and must do our utmost to raise ethical standards in a world where all values are being questioned, lest we deteriorate to the level of our adversary. This then is competition of another kind — in the ethics of business conduct as well as in economic systems. Here is an area in which complacency may not be permitted to flourish in the glow of economic well-being.

Forthcoming Securities Markets' Study

Now, how can we carry these general principles concretely over to the study of the securities markets which Congress has commissioned us to undertake? Before going to substance, let me make a few comments on procedure. At the outset, let me assure one and all that this is not a publicity venture. There will be no midget perched upon anyone's lap. This study will be responsible, as evidenced by the choice of its director—a highly responsible lawyer. Anyone who has seen Milton H. Cohen in action is aware of his broad grasp of the securities field, both as a governmental official and active private practitioner. At the same time, even though the investigation will not be flamboyant, I would add that in our opinion some public hearings should in all probability be held.

Finally, with respect to procedure, I want to emphasize that this study will not be divorced from the continuing work of the Commission. We shall not sit and wait for the report in January 1963 if weaknesses come to light in our own administration of existing laws or in current industry practice. There is something anticlimatic about awaiting a protracted study and delaying all action until its ultimate submission and digestion. Therefore, where the need of change is demonstrated, action will be taken as soon as possible through amendment of our rules or early legislative proposals.

Turning now to substance, let me point out this is the first major study of securities practices and the market in 30 years. Much has happened in that interim in terms of the growth of the markets, proliferation in stock ownership, and changes in distribution and selling methods. The time is ripe for a new appraisal.

Study Will Be Wide in Scope

The study will be broad and inclusive in scope. Breadth of approach is clearly the dictate and intention of the Congress. As Senator Williams of New Jersey said on the Senate floor: "It is intended that this study and investigation be wide in scope; otherwise the resulting information will not enable Congress to examine the broad spectrum of the securities industry." The Commission has already been developing areas of inquiry. Lines have not been rigidly fixed as yet, but we do have some definite ideas on subject matter, I should like at this point to go over some of the areas which the Commission contemplates examining in this study.

An orderly and informed securities market depends to a great extent on the knowledgeability and integrity of broker-dealers and their salesmen. It is the salesmen who have immediate contact with the public. It is they who advise customers on the proper selection of securities. It is they who must fulfill the duty to know their customers imposed by exchange and NASD rules. It is the broker-dealers, employing these salesmen, who must bear a responsibility of maintaining the necessary standards by adequate supervision. Responsible conduct on the part of broker-dealers and their salesmen can, and should be, our keystone.

Certain factors may lead to a deterioration of standards in the marketing area. I cite by way of illustration the following:

(1) Part-time salesmen, who may operate from door-to-door and be remote from experienced supervisors.

(2) The growth of branch offices which may lead again to the potential separation of salesmen from supervisory officials.

(3) The growth of the base of stock ownership which has undoubtedly injected into the market less experienced investors and speculators.

(4) The sheer volume of activity on the market.

I do not say that any of these factors in and of themselves will erode standards. Part-time salesmen may be the most competent and ethical individuals. Professionalism, however, is harder to develop on a part-time basis.

The Commission is encouraged by the efforts of the industry to improve the standards of salesmen and broker-dealers—by any steps taken to inject a higher degree of professionalism into the securities business. We welcome the establishment of more rigorous tests as a condition to registration of salesmen. In furtherance of this goal of professionalism, we expect to determine what might be developed to improve the training, sense of responsibility, and general quality of broker-dealers and salesmen

Over-the-Counter Market

A second broad area of inquiry in the market study will be an examination of the over-the-counter market. This will encompass both distribution and trading in that market and regulatory jurisdiction over issuers. The latter poses the problem of the extent to which reporting requirements, proxy regulation, and restrictions on insider trading should be applicable to issuers whose securities are traded in the over - the - counter market. This problem has already been extensively analyzed and we do not intend to retrace our steps. On the basis of prior studies, it is difficult to avoid the conclusion that, in principle, investors in over-the-counter securities should be protected by the same type of measures governing listed securities. I believe informed judgment is the basis of a free and responsive securities market and that stockholders, investors, and securities analysts must have current information of material events affecting a company to be able to make intelligent investment decisions. Information about an issuer should not be sealed off once a company has offered its securities to the public. Nor should it be limited to officers, directors, and controlling persons, that class denominated as insiders.

Beyond disclosure there are other questions to consider. For example, should not the ethic of the office impose restrictions on short-swing trading as now imposed on insiders in companies having listed securities? Again, the argument is advanced that broker-dealers must both be represented on the board of directors and maintain a market in a company's stock. Our job is to find out whether this argument is soundly based. Thus further studies may be needed to settle some of the more controversial questions involving concrete ap-

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plication of the provisions of the Exchange Act.

Underwriting Practices

We shall also review current underwriting practices. We have noted with interest the increasing use of various forms of special underwriting compensation, such as cheap stock and options. 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—but a few is too many—we have noted public offerings of the securities of companies whose only business seems to be the manufacture of its securities. A distinguished engineer and 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 far more information from an issuer prior to underwriting its securities than will be presented in a prospectus. Should not this type of careful inquiry 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 pattern 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 or from practices which are intended to generate a certain type of market reaction. Among the practices which will be analyzed are those whose effect might be to restrict artificially the floating supply of stock in an initial distribution, such as sales to insiders or preferred customers who agree not to resell for a given period and sales to discretionary accounts where the customer has no 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 Questions

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, it is anticipated that we will take a new and comprehensive look, 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.

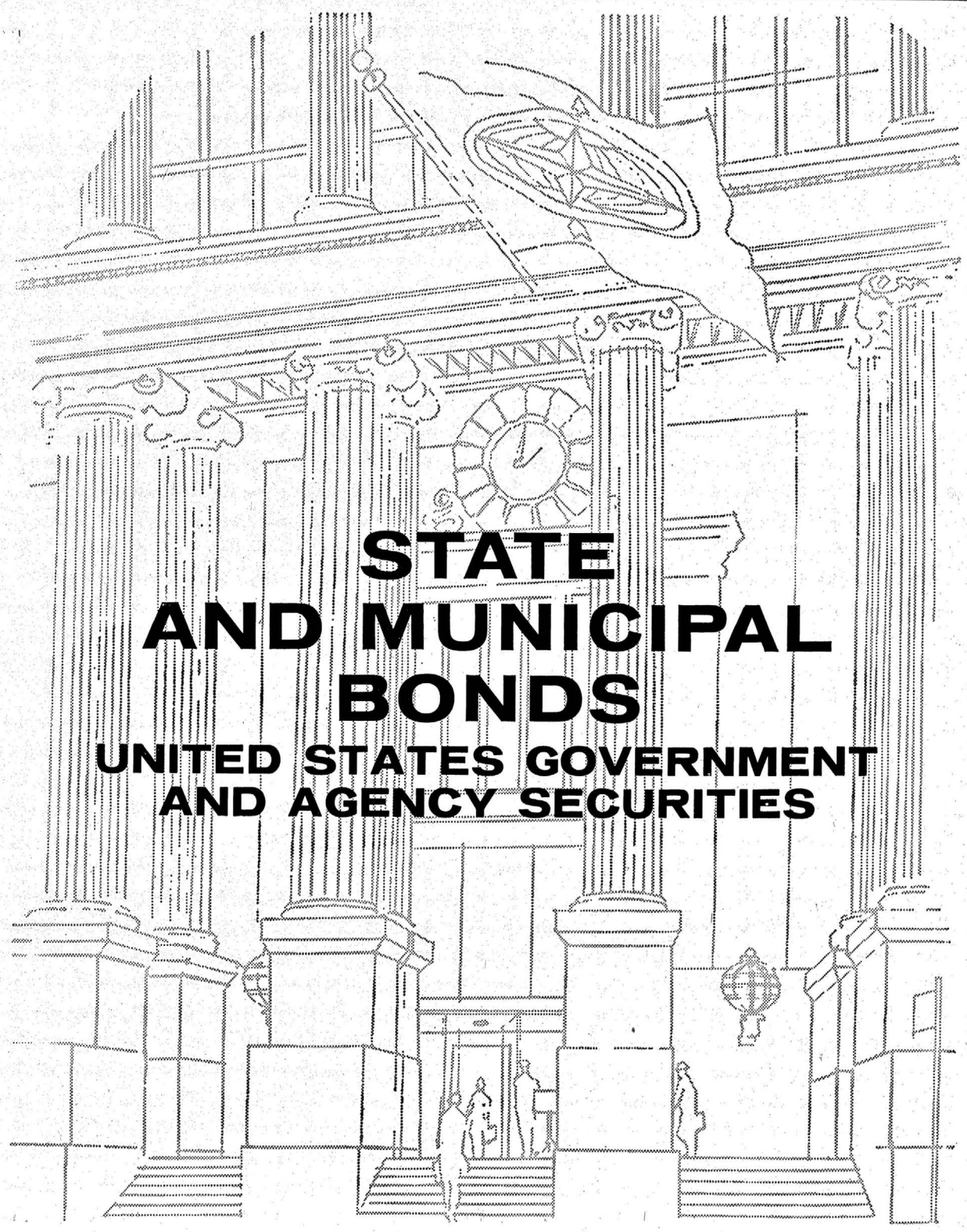
Another very important area for inquiry deals with credit restrictions on the purchase of securities. There are at present numerous gaps and inconsistencies in the margin requirements. We shall attempt to determine if there is a rational or necessary basis for allowing these to continue. At present the credit problem has gained prominence because of the insolvency of a large factoring concern which allegedly 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 does not in any way desire to impair the effective and proper operation of mutual funds, or to question the mutual fund as an important medium for public 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 such 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 reemphasize 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.

*An address by Mr. Cary before the 50th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 28, 1961.



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Shifting Gears in The Canadian Economy

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

Refusing to go along with his countrymen's dark mood of doubt, Mr. Alexander submits Canada can cope with her 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 Paley 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 Cleanup" to help the Canadian dollar and trade, and outlines what should be done for the more permanent "Operation on Course."

I would like to comment upon certain features of the Canadian economy and what is being done about them. The disappointingly slow growth in Canada in 1960 contrasted sharply with the widespread optimism expressed at the beginning of that year and may well have dictated 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.

Norman J. Alexander

Maybe the upturn has been largely masked by the interest that is directed to the "burning issues of the day" in the form of unemployment, the discount on the Canadian dollar and the building of exports in the face of Great Britain's proposed entry in the Common Market.

Nevertheless, Canadians individually are much concerned about Canada's economic feature but collective planning and action in a purposive sense has been regrettably slow 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 nations 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 our exports were 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 so much outside help eager to assist us in developing these resources.

In passing, may I point out that half the foreign investment in Canada in the past decade has been direct investment in productive resources which obviously has been good for Canada and does not leave her 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 also 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 certain 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 are 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 Paley Reporth, 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 a point where they too can compete domestically and in a very substantial manner on the world market.

Canadian secondary industry, while for the most part technically first rate, has been geared to the limited home market. It has, in varying degrees, been protected by tariffs but it has been difficult to make headway against the mass production methods and wage scales of other countries. The premium which 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 amongst 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 of unemployment which is threatening to assume ominous proportions.

Canada's resource industries such as forestry, mining, and oil today employ few more than they did a decade ago. Agriculture is actually employing less and the absorption of labor by secondary industry has not been sufficient to take up the slack in the labor force created by the normal population increases plus the crop of "war babies" that is now reaching the labor market.

In short, Canada's affairs have not been managed in a manner that has permitted the generation of sufficient business with the rest of the world to support continuation of her present high standard of living. While the obvious solution to the problems is the building of a far greater export trade there are many difficult bridges 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 secondary industry which in the past has been geared to the limited home market with the accompanying curtailment of economic efficiency and productivity.

Export Agency Created by the Government

The Canadian Government at the beginning of 1961, through its Trade and Commerce Department began a determined drive for export business. Trade commissioners in various countries were recalled to Ottawa and held long conferences with Canadian businessmen. Trade commissions are now the order of the day.

Under the aegis of the government, the Canadian chartered banks formed the Export Finance Corporation of Canada Ltd. to finance export sales for less than five-year paper while the government would take financing beyond that term.

A National Productivity Council has been established by the government. The Industrial Development Bank has been provided with additional financing capacity. In October 24 government trade commissions started out to visit overseas markets. Tax concessions have been made to promote increased research by industry and currently the government is reported 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 industry. Steps have been taken to eliminate this handicap which was 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 not designed to repel foreign capital from Canada but rather to remove special incentives to attract foreign capital that were no longer necessary. Foreign capital is still needed in Canada and will be made welcome but there is no bonus for coming to Canada. When making this change the Minister of Finance also introduced other measures in regard to investment companies and pension 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 intended to operate its exchange fund to lower the external value of the Canadian dollar. This was a complete reversal of policy. Previously 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 "talked down" to a discount as the fund actually lost U. S. dollars. Upward pressure however developed in a substantial way in October and the Canadian Government had to purchase 187 million U. S. dollars.

To the independent observer this catalogue of moves made by the Federal Government to help Canada must seem to be lacking in pattern. Because they treat with largely unrelated individual aspects of our economy, they seem to become palliatives rather than a panacea or even a collection of remedies. It is difficult to deny the accuracy of the observation but at the same time it is only fair to say in defense that many constructive proposals become trapped and die in the political jungles of Canadian constitutional federalism.

Constitutional complications, however, can be overcome by appropriate jurisprudence and cannot be permitted to stand in the way. As mentioned previously, Canadians individually are much concerned about our economic prospects, and great pressure is now being brought to bear upon the Federal Government for a review and overhaul of our economic practices, and the establishment of bold new policies designed to meet the demands of the future.

"Operation Cleanup"

I would not want to leave members of the IBA with the impression that Canada has started on a desperate "Bootstraps" recovery. I would suggest that the steps being taken might be labelled "Operation Cleanup." It is action that is being taken to adjust our affairs — cleaning up our own yard—all of which is necessary preparation for the much greater and more important "Operation On Course."

Actually "Operation Cleanup" is being successful. It now looks as if, for the first time in a number of years Canada will have a surplus in her merchandise trade. There has been a reduction in imports of capital. The GNP is rising, corporation profits are beginning to improve and with the increase in production, unemployment is decreasing.

The beneficial effects of "Operation Cleanup" however, are likely to subside relatively quickly. It must be considered as a necessary but temporary measure to give time to position ourselves for "Opeartion On Course." It is not possible at this time to detail the ingredients of this cominb operation. To be successful, however, it must embody:

(1) Courageous, determined and responsible leadership, at the highest level of authority.

(2) Co-operation and co-ordination of effort between management and labor as the two sides of industry and government.

It is often said that adversity or hardship hastens maturity. Maybe that is what has happened in Canada. Certainly we have not had hardships but the modest set backs or recessions during the past five years contrast sharply in our minds with the relatively easy and rapid growth of the first ten post war years.

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

*Remarks of Mr. Alexander before the 50th Annual Convention of the Investment Bankers Association of America, Hollywood Beach, Fla.

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Thy Neighbor's Dilemma

By Herbert H. Lank,* *President, Du Pont of Canada Limited, Montreal, Canada*

Canadian industrialist's frank-spoken address warns us not to be surprised if Canada reverts to protectionism in order to acquire the wherewithal to service its mounting external debt, to reverse its slowed-down growth, and to keep Canadians masters of their own home. Sorely beset by ECM's remarkable success, serious trade imbalance with us, and living off capital that provides for less and less native control, Canada is said to have a $540 per capita international payments deficit. This figure, in comparison, adjusted to our population would mean $90 billion instead of currently $4 billion U. S. A. imbalance. Mr. Lank opines no solution would result from a free trade pact with us or in joining ECM as currently operated. He suggests, instead, what we could do in our own self-interest to help his country, and adds that Canada would join any 50-50 club—where trade pact membership offers the same privileges to all members.

I felt highly honored when I was asked to address this gathering of Investment Bankers—that is, until it was brought to my attention what Aristotle said about your calling. He dismissed you with these words: "The most hated sort (of wealth getting), and with the greatest reason, is usury (that) which makes a gain out of money itself. . . . For money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Wherefore of all modes of getting wealth, this is the most unnatural." However, you are not alone. We Canadians seem to be regarded in some quarters of world opinion with a similar jaundiced eye.

Herbert H. Lank

In fact, things are not what they used to be north of that undefended boundary about which a billion speeches have been made. So much has been said about Canada that you might wonder if one more speech is justified. Well, if you read "Gourmet," you see every month that the humble egg reappears in some new and novel form in spite of the fact that eggs have been staple diet for countless centuries. And Canada, like the egg, will continue to reappear in some different way for a long time to come. Currently, the Canadian situation is a bit scrambled. Aside from the many things that are right in Canada, there are many things wrong. But there is nothing seriously wrong with Canada that Canadians can't fix—and I have come all this distance to suggest that they might just do that all by themselves, unless her friends quickly decide that a co-operative approach to her economic difficulties (and, yes, to her economic aspirations) would be decidedly the better path to follow, for all concerned.

Self-Analysis in Progress

Canadians are actively talking about where they are going as a country, whether they have been going fast enough and what new steps must be taken now to correct the consequences of past errors and to help realize Canada's potential. There exists a discontent with the attitudes and procedures of the past which were developed to meet the challenges of a different era and yet have lived on. There is a spirit of inquiry, of introspection and of sober review, and this can be seen in the many official studies being undertaken of economic prospects and of particular industry groups, as well as by the many pleas and proposals put forth by business and community leaders and by our statesmen.

Today's generation of Canadians, nurtured on the cry of an earlier statesman that "The Twentieth Century belongs to Canada" are bothered by such basic questions as why our per capita output last year was actually **below** that of 1956; why our trade with the United States is so seriously imbalanced; and why control over major segments of Canadian industry continues to slip away. Some thinking Canadians seriously wonder whether Canada can continue very long as a separate community unless drastic steps are taken.

Having long ago achieved nationhood and having sustained it in the face of long odds of geography, demography and economics, Canadians are not at all disposed to throw in the sponge.

Fear of Common Market

Some of the anxiety in Canada naturally arises out of the remarkable success of the European Common Market. There, in contrast to our own economy (where last winter we had 11% of our work force unemployed), there is a record of accelerated growth, rising productivity and virtually no unemployment. In the EEC, the sober setting of objectives and the existence of a common sense of purpose toward achieving them is yielding the desired results, and the average Canadian wishes there were more of this at home. In my opinion, there is as much talk in influential Canadian circles of the EEC as there is of Russia. This derives from the inescapable fact that Canada is, relatively speaking, much more of an international trading nation than is, for example, the United States.

There is, in fact, sound statistical evidence to indicate that basic re-thinking of Canada's position is urgently needed. In this respect, Canada is in ferment and one need not be surprised if—as I hope—bold proposals result.

Productivity Static

One of the darker areas in the Canadian canvas is growth. The country's historic economic growth, from 1920 to 1956, was 3.75% per year, in volume terms. Since then, it has slowed down to 1.7%. Taking into account our growing work force, productivity per worker has remained static over the past five years. If we are merely to absorb the net new entrants to the labor force and reduce our current high unemployment to more normal levels in future, with no allowance for increased productivity, the rate of growth during the next five years will have to average 3.2% per year—almost double the current rate. But actually, I believe Canada has to achieve an annual increase of 5% if it is to develop properly. What's more, I think this goal is entirely attainable.

We will have to direct greater attention to the more productive industries if we are to reach a significantly higher level of production and incomes. But it isn't at all easy. Aside from being one-tenth the size of the United States, population-wise, Canada has long been exposed to U. S. tastes and this has served to "fragment" the Canadian market.

For example, 24 Canadian manufacturers of refrigerators compete for the 340,000-unit Canadian market, whereas in the U. S. it is felt that the minimum size for an efficiently organized manufacturer is 250,000 units per year. One of Canada's large rubber companies feels called upon to turn out 600 different sizes of tires in its single plant. The majority of these Canadian companies are U. S. controlled but the barriers to trade between the two countries make rationalization of production almost impossible. This is largely due to the GATT rules and the Most Favored Nation philosophy, which would make available to all countries any U. S. concession designed to assist Canada.

We have long basked in the sunshine of being a natural-resource storehouse for the world but Canadians feel they are getting short-changed in the process. They are questioning the wisdom of having about 75% of their imports come in the form of manufactured products. They are, in short, becoming weary of providing skilled jobs, high living standards and tax revenues to their foreign suppliers in such an imbalanced manner.

There seems to be one highly complex Canadian import which the United States welcomes—that is, people. For many years, and each year, Canada has supplied the U. S. with more college graduates by far than any university in the U. S. Traditionally, Canada has been able to offset this debilitating trend by bringing in Europeans, but this year it looks as though Canada will lose more through emigration than she will gain through immigration. Last year Canada provided the U. S. with 5,400 professionally trained immigrants (out of the total of 47,000 coming to you from Canada).

Balance of Payments Deficits

And now for another problem —our large deficit balance of payments. One of the first lessons I learned outside the classroom was this: "The purpose of exports is to pay for imports." We seem to have accepted the unorthodox slogan that "Trading is virtuous—the more the better" without due regard for the nature or the balance of such trade. Such virtue, obviously, has not been its own reward.

I won't dwell on the statistics, but it's worth noting that in the last 10 years Canada has chalked up a total deficit of more than $8½ billion in commodity trade and other international transactions — about $540 for every man, woman and child in the country. Such a per capita figure, had it prevailed in the United States, would have amounted to $90 billion in total. Now some people may enjoy luxuriating in a debtor position but this has reached a perilous stage. There was great national concern in the United States last year when it was running a deficit balance approaching $4 billion and there are grounds for continuing concern. Canadians have every sympathy for you and feel that your concern is fully justified. Neither nations nor individuals can continue for long to spend more than they earn. Canada's position in this respect is many times worse than that of the U. S. proportionately.

Add to this the fact that any adverse trade balance weighs more heavily on the Canadian economy than on the American by the simple fact that foreign trade looms much larger as a fact of economic life in our case than it does in yours. Since the late 1920s, U. S. commodity imports and exports have usually been below 5% of the U. S. GNP. Canadian exports and imports during the same period have

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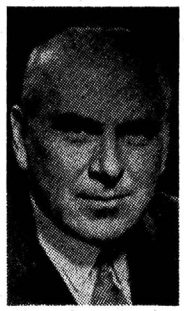
"Peace or War?"

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 by those holding responsible economic positions is the principal note struck by Mr. McCloy. It is aimed at those, here and abroad, who still propound the simple remedies of yesterday for today's problems without taking into consideration vast complicated changes and dangerous international repercussions if they are adopted. Reviewed are diverse proposals to cure our balance of payments deficit, and the difficulties of dealing with the U.S.S.R. illustrated by first-hand recollections of their disarmament duplicity. What Mr. McCloy envisions is the U. S. A. following, somehow, Britain's footsteps in joining or enlarging the "free world" membership of the pioneering ECM. This step, he says, is what is needed to—and can easily—outdistance the Sino-Soviet 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 affects 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.



John J. McCloy

Recently I happen to 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 to which we are committed. The effect that it would have on your economy could be quite drastic. What it would do to some of our growth stocks, the airplane manufacturers and many other 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 comprehensive disarmament plant, if put into effect, would require some major readjustments. They are adjustments which could be made, but they would not be minor. Or suppose the aid program was suddenly abandoned? We hear a lot about its wastage and its ineffectiveness. We do not hear as much about its successes, but we could rather rapidly calculate what effect it would have upon our exports.

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 on the part of those in positions of economic responsibility in this country. There was a time not long since when if 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 any pain involved, it was largely domestic 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 though we can't permit the deficits to persist, we do not enjoy the freedom of action to deal with them that other nations enjoy. If we suddenly applied a ban on foreign investments; if we shut off all aid; if we did not permit foreign travel; if we hoisted our interest rates and our tariffs; if we closed down on foreign investments; if we withdrew our troops from Europe and cut our military expenditures overseas, 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 imbalance to remedy them.

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 to point to their own discipline in the face of similar deficits. Some of the criticism may be justified, but more often I believe it fails to take into account the far greater complications we face, as well as the fact that not so long ago in large part it was our aid which helped and even enabled them to take the measures which brought about their improved position.

Our task of balancing payments is immeasurably complicated by the political situation the world faces. If we did clamp down in the way many advocate we should, we might well bring about a collapse of our whole world position. Other countries not in position of leadership do not have to weigh as carefully as do we the impact of what we do on the strength and political attitude of a large number of countries and peoples, including some in Europe. If they were suddenly deprived of our markets and capital, and were at the same time called upon to take up larger shares of economic aid to under-developed countries and a larger share of their overall military responsibilities, we would probably have to face a recurrence of new appeals for help.

U. S. Must Move Cautiously

Constant vigilance must be maintained to keep our currency strong but how it is to be done and the speed with which it is to be done demands a much more thoughtful decision from us than it does from nations unburdened with the rather heavy crown of Free World leadership. To put it another way, it requires more than monetary adjustments to arrive at the proper decision. It may well involve a rather agonizing reappraisal of a number of international political elements as well. This presents a rather narrow ridge along which those responsible for our financial planning have to travel compared with the paths others can choose. It has constantly to be kept in mind by all that the danger to our security and that of the Free World is located fairly close up on both slopes.

Some time ago I tried to develop this question of our international payments position in detail before another somewhat more regional group of investment bankers, and I am not going to repeat the effort at this time. The fact is that since then the world situation has become even more challenging, more serious, and accordingly any decisions we make in this field may be both more significant and more difficult in the great struggle which is now going on between the Communist world and the Free World. And I do believe that some of our European colleagues are more conscious of this fact and the mutuality of all our problems is becoming better appreciated than it has been in the past. The Monetary Fund meetings have in part been responsible for this and this points to a moral I would later draw.

"Peace or War"?

Now I should like to say something about which I believe is really the burning question of the day and that is the likelihood of peace or war in this troubled world. I often wish I had the vision to speak confidently about the likelihood of war. Others do and they, of course, are entitled to their opinions, but somehow I am rarely ever alarmed or comforted by what they say. From all the factors I can appraise I am bound to conclude that the situation is serious and the issue far from settled.

What we all know is that the Soviets and ourselves possess between us the means by which we could bring civilization as we now know it to an end—an end from which mankind might take the better part of a century to recover. After ages of endeavor mankind has achieved the doubtful success of inventing what is almost the ultimate weapon. This fact could be the starting point towards the elimination of war as a means of settling our international disputes, or it could mean the starting point of disaster. I venture to say that no one really knows what the consequence of man's possession of these weapons may be, but my belief is that the avoidance of war will not follow automatically from their mere existence. Mankind has too long a record of stupidities for us to take much comfort in the thought that because war has now become irrational, it will not occur. If war is to be avoided, it will require thought and effort rather than a mere balance of fear; it will require, as I see it, a high order of statesmanship and some good fortune; and it will also require an enlightened body of opinion behind the statesmen who make the decisions.

I think Mr. Khrushchev has demonstrated to his own and to our satisfaction that he can put up a 100 megaton bomb. If he did not explode one quite that large in this last series of tests, he made it clear he could, and I have no doubt we could explode a 100 megaton or indeed a 1,000 megaton bomb ourselves if we thought it necessary. And if war came it would really not take very many of them to bring about an entirely new and very much simplified order of things in what would be left of this world.

World Attitudes Not Comforting

We also know that the world is torn by as sharp an ideological and political schism as has ever existed in modern times. Perhaps the division was deeper and more hostile when the infidel was set against the Christian in the Middle Ages; maybe it was deeper when the barbarian opposed Rome, but whatever the historical analogy, it is clear that the pressures, the intrigues, the propaganda, the determination, the abusive interchanges between ourselves and the Communists are about as great as they can be short of war, and the combination of the atmosphere which these produce and the existence of these mass destruction weapons is, to put it mildly, far from comforting when we contemplate the possibilities of an outbreak.

I can understand people going about their business (as if their survival was not also their business) without giving much thought or attention to the international threats and incidents simply because they truly feel there is nothing they can do about them; I can also understand how they may have an opinion in regard to the likelihood of trouble over Berlin, but I do not see how within reason anyone can feel with any assurance that peace can be preserved interminably, however sharp the issues, merely by the continuity of great armed strength on both sides. I have not yet seen emerge a satisfactory answer to the Berlin problem, but let us say that by some honorable and wise action not yet recognizable, we do pass the crisis of Berlin, what about the next one, for these crises have an unpleasant record of recurring.

We can all recall how at the outset of World War II there were a succession of crises, such as Austria, Czechoslovakia. These were passed, if not without some misgivings, and then came Poland. It takes, I submit, more than a nice balance of weapons to keep the touch-off issue from arising if no fundamental change in the situation takes place. I conclude that our imperative is to do something to change the conditions under which we are now laboring, and that it is incumbent upon all those who claim to be knowledgeable and responsible members of the community to give thought as to what can be done to change these conditions.

It is considerations such as these which have caused so much attention to be centered upon disarmament in recent years. Although in itself it is not the answer to the threat of war, the concept of disarmament is strongly imbedded in people's minds as an aid to it. If we could stop the arms race and beat our swords

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Dilemma Confronting U. S. Regarding Latin America

By Dr. Milton S. Eisenhower,* *President, Johns Hopkins University, Baltimore, Md.*

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 in 1953, 1957, 1959 and 1960. Dr. Eisenhower finds we must quickly increase our aid to that area but observes that the needed, and committed, amount of $20 billion in the next 10 years comes at a financially inopportune time for us even though it will be mostly in the form of public credits. Noting that past similar aid has left us with annual imbalances and that we now have a serious international deficit payments problem, the University head ponders the disastrous threat this poses for our country and the free world. Resolvable suggestions made include: (1) more foreign aid from 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 part of the world needs our aid the most and concentrate it there.

I

Investment bankers, as leading investment counsellors and administrators, 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 leadership places increased burdens upon us. In this situation we are compelled to make choices, none of which seems to be attractive. I want to discuss this national dilemma in relation to our responsibilities in one major area of the world—namely, Latin America.

Dr. M. S. Eisenhower

I am sure we all recognize the exacting interdependence of the United States and the republics of Latin America. Our private and public investments in these countries exceed $11 billion and, save in Cuba where unmitigated robbery has replaced honesty and decency, 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 import from Latin America a vast array of primary commodities which are indispensable to the operation of our immense industrial and business complex, and we export to Latin America manufactured and processed goods that represent the entire gamut of our production.

But the economic significance of the American nations to our welfare is no greater than their social, cultural, and political importance to us. Most of the nations of this hemisphere adhere, as we do, to the Judaic-Christian philosophy which places human values above material considerations. Together, we cherish independence, freedom, human dignity, and mutuality in human relations. We seek to maintain political and social institutions which are most conducive to the enhancement of these supreme human values. Hence, we abhor totalitarianism in every form, and in most situations we find ourselves standing together in the world struggle which will in time decide whether humanity will progress in freedom or again be bound by the age-old fetters of tyranny imposed by an omnipotent state.

Revolt Against Poverty

Unfortunately, most of the nations of Latin America have not progressed economically as rapidly as they could and should. Hence, we find that economic matters dominate the thinking of our southern neighbors, sometimes to the point of subordinating concern for human dignity and individual freedom.

The average per capita income in Latin America varies from $55 a year in one nation to nearly $1,100 in another. The disparities within each of the Latin countries are even greater than between countries. It is not at all uncommon in a Latin American country for a relatively few families to be quite rich, some fabulously so. The number of middle-income families is few. The masses of the people are desperately poor.

Economic and social stratification is an inheritance which has been evident from the beginning of Latin American history. But modern communication has alerted the masses to the fact that poverty, human misery, and degradation are neither universal nor inevitable. We therefore are witnessing widespread, insistent demands for reforms — reforms which will enable productive enterprise to benefit all of the people, as it does in the United States.

Since 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 helpful. We have provided technical assistance designed to attack the problem of mass illiteracy and to improve the level of education generally; to increase and diversify agriculture; to expand health facilities, and to bring better management into governmental, industrial, business and other undertakings. We have shipped large quantities of surplus food to meet emergency situations which threatened starvation, and we have extended loans to speed economic development. In the past eight years, we have doubled the rate of public and private investment in Latin America, as compared to any previous period.

Now, under the 1960 Act of Bogota, fostered by President Eisenhower, and the Charter of Punta del Este, sponsored by President Kennedy in harmony with his Alliance for Progress proposal, we have guaranteed to provide Latin America with $20 billion, mostly public credits, in the next 10 years.

II

This guarantee poses the first part of the dilemma I mentioned.

The United States is today, and has been for several years, in serious difficulty in the field of international balance of payments. Exports of goods and services from the United States continue to exceed imports by $3 to $4 billion a year. But support of our military forces abroad, military and economic aid to other countries, including Latin America, and a steady outflow of private investment capital have overcome favorable trade balances and have yielded a deficit in international balances each year. Between 1957 and 1961 our gold reserves declined by $5.4 billion. In the same period, foreign claims against United States gold increased by $4.7 billion. Today, foreign claims exceed our total gold supply by more than $2 billion. Since more than $11 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 threatens 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 Punta del Este commitment for greater aid to Latin America said: "I wish to emphasize that it is 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 preponderant bulk of foreign aid expenditures will be made in the United States. Such expenditures, which are accompanied by American exports, have no adverse impact on our balance of payments. Our objective will be to reserve between 75 and 80% 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.

III

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 persons in the United States are mystified by the support which the egocentric, flamboyant dictator, Castro, has attained throughout the hemisphere, while we view his inhumanity as being worse than that of Trujillo, Perez Jimenez, and Peron. If we are to exercise the degree of patience required of us—if we are to be 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, four distinct issues emerged: First, was Cuba at last to enjoy democratic freedom, or to suffer still another tyranny, even worse than that imposed by the arrogant Sergeant Batista? Second, if tyranny were the unhappy lot of the people, would it be indigenous or would it — in defiance of policies to which the whole American community adheres—be dominated by a subversive extracontinental power? Third, would threatened expropriations of property be handled in harmony with international custom or would they be outright thefts? And, fourth, would Castro, either 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 peoples 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 mainly sympathetic.

This divergence in attitudes was due to a sharp change in **our** thinking, not so much in **theirs.** 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 that, when the revolutionary forces succeeded, the constitution of 1940 would become the supreme law of the land. He guaranteed freedom of information, all rights set forth in the constitution, and general elections within a year after the defeat of Batista. His propaganda continuously called for "a free and democratic Cuba dedicated to social and economic justice."

But shortly after he came to power, Castro began to reveal

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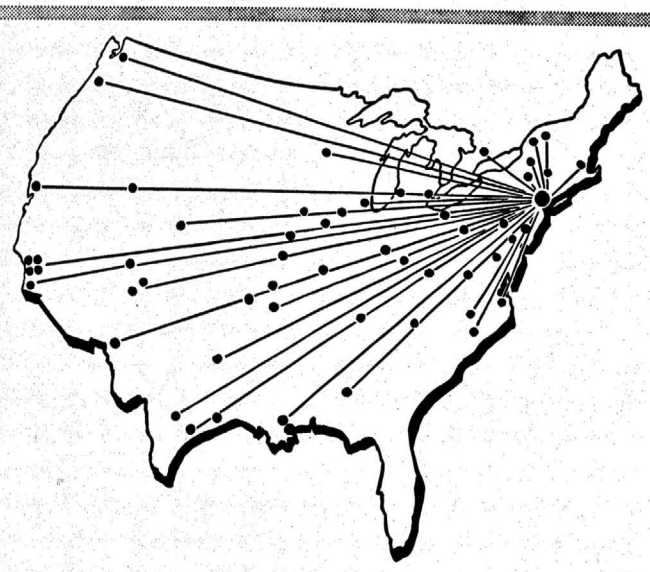

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Growing Role of the SBICs

By Phil David Fine,* *Deputy 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 said to now number 425 companies, with nearly $450 million in capital and $700 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.

Phil David Fine

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.

Prior to the SBIC a small businessman usually sought venture capital on varying terms by contacting friends, or friends of friends and any who would listen. But it was always difficult to obtain in adequate sums, and in recent years small business found it well nigh impossible to obtain equity funds.

By formalizing sources of funds for small businesses through the SBIC, the government has provided an instrument needed to meet a situation in which our economy has grown so big, in a sense, that demands for such funds had outdistanced the supply.

But the SBIC has done more than formalize the rules for obtaining equity capital and to bring the sources out in the open.

It has expanded to a tremendous degree both an awareness of and the sources of venture capital funds.

Beyond that, it has provided for small business men previously oriented toward only commercial loans, an awareness of sources of equity funds and at the same time, indirectly, directed them to people and organizations which were able to provide them with knowledge of other financing instruments beside loans, instruments of financing of which some were previously unaware.

These have been incidental developments. The primary aim of the program was to create and formalize sources of capital for small business.

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 Nov. 29 there are nearly 425 small business investment companies in business, with nearly $450 million in capital and with investment potential in small business of $700 million. 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 a direct benefit for some investment bankers as well as possible future benefits on which I plan to touch. Because 42 of these SBIC's aware 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 IBA.

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

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 than 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 had investor appeal 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 42 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 a firm indication of public acceptance of SBICs after only a year—or slightly more for a very few companies — as an investment medium.

Not "Out of Vogue"

And, I might add, it contravenes to a 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 of this 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 still another $80 million.

And it ought to be noted that more than 60 SBICs number among their principal stockholders—and in some cases the sole shareholder—more than 125 of the Nation's banks, including some of the largest in the country.

A good example of what this public acceptance—through securities underwriters—has done can be 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.

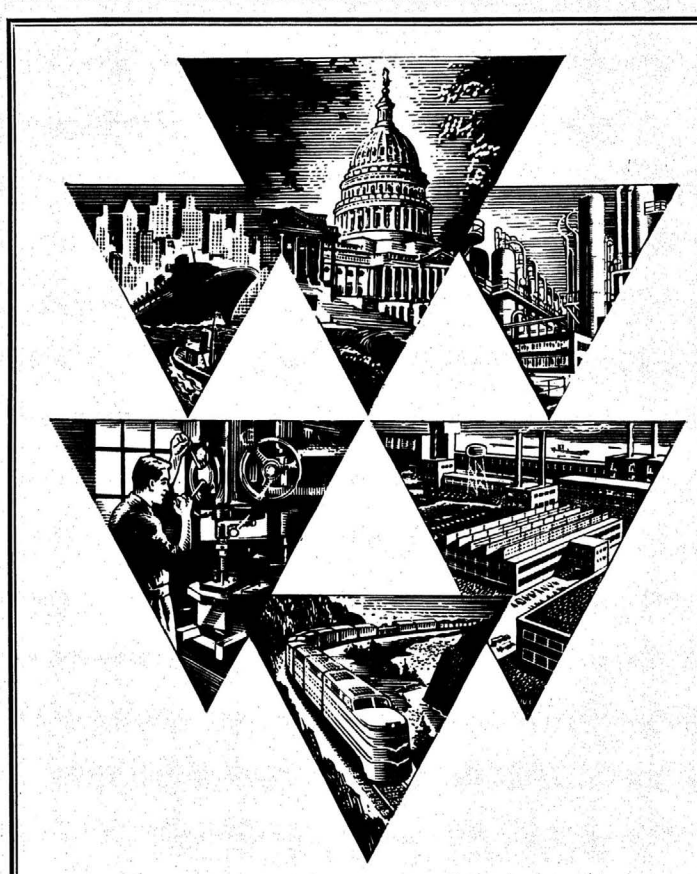
The underwriting firm undertook the sale on a "best efforts" basis.

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 for such projects, and after settling with the original underwriter, the SBIC began anew. With a complete reorganization and by enlisting the services of an established investment banking firm, the SBIC was able to complete a successful public sale amounting to more than $5 million within a few weeks.

Presently, there are in existence 425 SBICs, with total capital available or about to be available for investment in small business amounting to $500 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 their 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 groups holding hearings across the country for more than three years, the Small Business Investment Act of 1958 was born, and with it the SBICs.

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 electronics engineer with considerable 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 some 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 conditioners and 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. Paydays 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.

A resourceful SBIC studying his application for funds, saw the potential which the bank would consider as an asset.

An SBIC Entered the Picture

His annual sales of $700,000 were 350% 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, and yet, he couldn't pay his creditors and had a $26,000 installment on income taxes due in March.

His biggest single backlog was a $500,000 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.

The underwriters, after an analysis of their own, said they were unable to assure any firm commitment for the sale of equity securities.

Then the engineer contacted an SBIC.

Eventually, he worked out an arrangement with two SBICs for $1 million in capitalization whereby he would set aside 50,000 shares comprising 23% of the stock, for conversion at $4.50 a share, while the selling price would be $5 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 the business has grown tremendously and the conversion rights of the SBICs would show a realizable profit of $96,000.

However, at the rate the company is growing, they both prefer to 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 needs (and profit potentialities) of more than 150,000 of the Nation's hitherto neglected small businesses — and by small businesses I mean those manufacturing and other businesses with assets of $250,000 and upward—you will, I am sure, decide it's time you got in on a tremendous potentiality.

Let me chart such a possibility.

Let's suppose that the SBICs made the arrangements I've cited previously—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 hope that such a firm would be attracted by your reputation to come to you. You might get it. You might not.

Now let's suppose on the other hand that one of the SBICs which did supply the needed capital was a subsidiary company or affiliated with 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 guided to your parent firm for the funds it needed.

This is no fanciful idea.

Three participant underwriters already have strong financial interests in SBICs. More will follow.

When Hillon, Manley and Clair, to synthesize underwriting firms, or Widder, Beanbody, began to realize that an SBIC can perform the same function for a securities underwriter that the Richmond baseball club does for the New York Yankees, that firm will hold the same enviable spot the Yankees do in the major leagues of the investment banking field.

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 coming.

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 SBIC portfolio 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 80 SBICs showed a 12.8% 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 lack management know how. The first will be punished and the second will wither.

But 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 cupidity 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.

By 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 decision.

*An address by Mr. Fine before the 50th Annual Convention of the Investment Bankers Association of America, Hollywood Beach, Fla., Nov. 29, 1961.

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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 used to support prediction made of a growing future for and greater acceptance of these offerings. Mr. Nichols terms these issues as quasi-Government bonds; decries their present higher basis points differential over comparable securities; and opines they should now not yield at offering more than 50 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 IBA 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.

L. F. Nichols

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.

Essential to Economy and Defense Posture

This importance is recognized by no less an authority than President John F. Kennedy, who, in his National Maritime Day Proclamation, called the American Merchant Marine "a major factor in maintaining the economy of the nation through serving the peacetime commerce of the United States," and "American-flag shipping essential to the defense of this and other nations of the Free World and to the cause of freedom on every continent."

The importance of U. S.-flag merchant ships is recognized also by Secretary of Commerce Luther H. Hodges, whose efforts on behalf of increasing this country's exports are, I am sure, known to all investment bankers. But exports and imports require ships, and in this regard Secretary Hodges has said: "I believe this country needs and I believe this country should and can have a strong, vigorous merchant marine. I think that the Federal maritime programs which are adopted by future Congresses will and should take this into account."

Thus, it is on the highest authority that the Maritime Administration recognizes one of its major functions to be the maintenance of modern, efficient, U. S.-flag ships on the trade lanes of the world.

At 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 members 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 survival depended so much on ties with the outside world, and the principal commercial link in these ties is provided by our American Merchant Marine. Fast, modern merchant ships are essential not only to our military strength but to our 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 jobs, contributes several billion dollars annually to the economy, is an important customer of American farms and business, and is a substantial taxpayer. Our foreign trade provides direct employment for approximately 4.5 million Americans and indirectly benefits all workers. A further study of this Committee has also indicated that since 1946, 85% of net operating subsidy costs paid out by the government has been offset by Federal income taxes paid in by the shipping companies and their employees.

The Merchant Marine's total contribution to the economy is estimated at $5.3 billion annually. The contribution of seagoing and shoreside operations and shipbuilding activity alone can be set at $2.8 billion a year. Earnings of all employees in the American Merchant Marine, including shoreside and shipyard workers, amount to more than $1 billion annually. Another estimated $1 billion in earnings is generated by the domestic movement of foreign trade cargo — for warehousing, truck and rail movements and other handling—aside from ship loading and voyage movement. These few salient facts clearly reflect that the American Merchant Marine is an important American industry and the protector of our priceless lifeline of trade with the rest of the world.

The Merchant Marine Act, 1936, as amended, is a comprehensive Congressional enactment designed to foster the development and encourage the maintenance of an adequate and well - balanced American Merchant Marine, both for commercial and national defense purposes. As one means of carrying out such purpose, Title XI of this Act authorizes the insurance by the Secretary of Commerce on behalf of the United States of ship mortgages and loans made to finance the construction, reconstruction and reconditioning of ships. Other related promotional programs embraced within this Act are:

Operating - Differential Subsidies, designed to place qualified operators of U. S.-flag ships in essential foreign commerce on a parity with their foreign - flag competitors through the payment of part of their operating expenses (principally wages).

Construction-Differential Subsidies, designed to equalize the positions of American and foreign shipbuilders.

The Federal Mortgage Insurance Program

My remarks will deal more particularly with Title XI of the Act—the Federal Ship Mortgage Insurance program.

While this Title was originally enacted in 1938, it did not become significant legislation until 1954. The chief drawbacks were:

(1) Unworkable interest provisions;

(2) Requirements that lenders take foreclosure action and accept government debentures in lieu of cash in payment of insurance; and

(3) Provisions excluding construction loans on ships to be used in foreign trade.

In 1954, however, the Congress amended Title XI in its entirety "to facilitate private financing of new ship construction." The amendment was the culmination 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 sizeable ship replacement program facing the American Merchant Marine and the importance of providing private rather than government financing for such program—thereby conserving public tax dollars and avoiding the necessity for substantial appropriation of government funds. Since 1954 the insurance by the United States of mortgages and loans under Title XI has been the government policy for financing ship construction, reconstruction and reconditioning.

Title XI authorizes generally 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 and ship mortgages, after the ships are completed, of up to 75% of actual cost or, in a case of ships built without construction - differential subsidy and meeting certain requirements, up to 87½% of actual cost. Mortgage maturities generally run up to 25 years for all ships except tankers and other liquid bulk carriers which have a limit of 20 years. The 1954 amendment provided for 90% insurance of these loans and mortgages. However, since the risk of the uninsured portion was not acceptable to lending institutions —which required the equivalent of cash collateral for the uninsured portion and thereby imposed an additional burden on the shipping companies — the 90% limitation was eliminated in 1956 as a further move "to facilitate private financing of merchant vessels in the interest of national

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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 Convention.

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.*

A. L. Wadsworth

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, 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 600 government officials 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 arangements 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 nations 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 pre-eminent position which they occupy in the free world today.

Foreign Investment Developments In 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 recurring political disturbances in various parts of the world and these have had an adverse effect on the confidence factor which is so vital to private foreign investment. On the other hand there has been continuing rapid growth in the free economics 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 equity securities has shown an increase during the year. There was some reduction in interest during the summer and early fall but our members report a strong resumption 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 Guarantee 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 ICA guarantees against war, expropriation and inconvertibility 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 in "special" cases to write "all risk" guarantees including normal business losses. These special cases are limited to high priority projects in high risk areas among the less developed 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 in limited to a maximum of 75% of the equity or loan investment (and more commonly not more than 50% on equity investments), and to not more than $10,000,000 per investment. The specific political risk guarantee can 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 I.B.A., 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 two new plans to provide comprehensive guarantees against both political and commercial risks which have recently been

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*Full text of last year's Report appeared in the "Chronicle" of December 15, 1960.—Editor.

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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 as the successor to George A. Newton, Partner, G. H. Walker & Co., St. Louis, Mo. Mr. Bingham has devoted his entire business career to finance and for almost 40 years has been in the investment banking industry.

Curtis H. Bingham

He was born in Rockford, Ill. (1898) and received his B.S. degree from Oregon State College in 1921. Upon graduation he was employed by Southern California Edison to sell to investors the stock of that electric utility company. 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, a partnership subsequently incorporated in 1951.

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, 1958-59.

Mr. Bingham has held other positions of leadership in the industry; was District Chairman of the Southern California Committee, National Association of Securities Dealers, Inc.; was Governor of the NASD, 1958-60; Chairman of the NASD Finance Committee, 1960; and was Chairman of the California Group of the IBA, 1957-58. He is a past President of the Bond Club of Los Angeles.

His interests transcend the investment business and he gives freely of his time to civic affairs: member and past president of the Oneonta Men's Club of Pasadena; is a past member, Board of Directors, Society for the Prevention of Cruelty to Animals; member of the Board of Directors, National Travelers Aid Society. He is a member of Beta Theta Pi fraternity and Alpha Zeta honorary fraternity.

Mr. Bingham is married to the former Mary Decker of Brazil, Ind., and they reside in South Pasadena, Calif. The Binghams have two married sons, a married 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 1935, Mr. Harris went to work for Sills, Minton & Co.; he became Executive Vice-President in 1944 and President in 1945. He continued as President with its successor organizations, Sills, Fairman & Harris, Inc., and Fairman, Harris & Co., until the latter merged with Bache & Co. in May, 1956. Since then he has been a Resident Partner of Bache & Co. in Chicago.

David J. Harris

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 1956-59, 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, 1956-1957.

Nominating Committee, 1958-59.

At the regional level he was Chairman of the Central States 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-Chairman, District No. 8, National Association of Securities Dealers, 1953-55, and Governor of the Midwest Stock Exchange, 1959 to the present. He has also been a member of the Chicago Board of Trade since 1956. Mr. Harris is on the Board of Directors of the Liberty Loan Corporation and Colonial Acceptance Corporation.

His activities in local civic affairs have included membership on the Lake County District 107 School Board, 1954-57, and chairmanship of the Highland Park Community Chest Drive in 1958. Since 1958 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 two sons and the family lives in Highland Park, Ill.

THOMAS M. JOHNSON
Vice-President

Thomas M. Johnson, President of 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 where he received his B.A. degree in 1921. He then became associated with The Citizens and Southern National Bank in Augusta and later in Savannah, Ga. In 1933 he formed Johnson, Lane, Space & Co., Inc., and has served as President since that time. Mr. Johnson is a director of the following companies:

Thomas M. Johnson

South Atlantic Gas Co. (Savannah).

The Central of Georgia Railway (Savannah).

DeBardeleben Coal Corp. (Birmingham).

Cato Stores (Charlotte, N. C.).

Riverside Mills (Augusta).

Hanna Manufacturing Co. (Athens).

American Art Metals Co. (Atlanta).

Radiation, Inc. (Melbourne, Fla.).

Airpax Electronics, Inc. (Fort Lauderdale).

For more than 25 years, Mr. Johnson has been active in Association activities at both the national and group levels. He served his first term as Vice-President, 1960-61, was Chairman of the Southern Group, 1943-44, and has served on the following national committees:

State and Local Taxation Committee, 1934-38.

Private Placement Committee, 1938-39.

Convention Attendance Committee, 1939-40; 1941-42.

Federal Legislation Committee, 1940-41; 1948-51.

Group Chairmen's Committee, 1943-44.

Public Service Securities Committee, 1953-55.

Public Utility Securities Committee, 1955-60; Chairman, 1957-59.

Nuclear Industry Committee, 1957-59.

Mr. Johnson served as Chairman of the Industrial and Domestic Water Supply Commission in Savannah for a number of years. In 1947 he was awarded the Lucus Trophy for the most outstanding service performed for the city during that year because of his work on this Commission. Governor Vandiver of Georgia appointed him a member of the Georgia State Ports Authority for a three-year term in 1959; he serves the Authority as Chairman of the Finance Committee. For his services to the Georgia Ports Authority he received the 1961 William Washington Gordon Award for Business and Industry.

Down through the years Mr. Johnson has been very active in numerous civic and charitable organizations in the Savannah area: he was Chairman for both the American Red Cross Fund Drive (1945) and the United Community Services (1956-57); since 1957 he has been Treasurer and

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Director of the United Community Services. In addition, he is currently serving as President of the Bethesda-Savannah Children's Center, which supervises and administers all child care work in Savannah and Chatham County; member of the Board of the Union Society of Savannah (President, 1948-54); and Chairman of the Finance Committee for the Crippled Children's Society.

Club, professional, and fraternal memberships include: Oglethorpe Club (President, 1945-46); Savannah Yacht & County Club (Commodore, 1953-55); Century Club; Society of Colonial Wars; and Kappa Alpha Fraternity.

WILLIAM T. KEMBLE
Vice-President

William T. Kemble, Partner, Estabrook & Co., Boston, was elected a Vice-President of the Association. A native of Washington, D. C., Mr. Kemble has spent his entire career in the securities business. A member of the Harvard Class of 1934, he returned to Estabrook & Co. in 1933 where he had worked prior to college. He became a partner in the firm in 1951.

William T. Kemble

Active in the affairs of the Association since 1952, Mr. Kemble served as Chairman of the New England Group, 1953-54, Governor 1954-55, and on the following national committees:

Railroad Securities Committee, 1953-1958.

Group Chairmen's Committee, 1953-54.

Savings Bond Committee, 1953-54.

Administrative Review Committee, 1956-57.

Mr. Kemble is a Governor of both the Boston Stock Exchange and the Association of New York Stock Exchange Firms. He serves as a member of the Bank & Finance Committee, New England Council, and is a member of the Boston Chamber of Commerce.

An Incorporator of the Massachusetts General Hospital, he is also a Director of the American Professional Football Association in Boston. Club memberships include: Somerset, Myopia Hunt, and Union Boat Club — all of Boston; and Mid Ocean Club, Bermuda.

He is married to the former Madeleine Powers of Boston. They and their four children live in Wenham, Mass.

JAMES H. LEMON
Vice-President

James H. Lemon, Partner, Johnston, Lemon & Co., Washington, D. C., was elected a Vice-President of the Association. Since his graduation from Princeton in 1925, Mr. Lemon has been affiliated with Johnston, Lemon & Co. and its predecessor organizations. He is Vice - President and Director of Washington Mutual Investors Fund, Inc., and D. C. Paper Mills, Inc.; Chairman of the Board, American Mercury Insurance Co.; and a Director for a number of other corporations.

James H. Lemon

Active in the affairs of the Association since 1942, Mr. Lemon has served as Chairman of the Southeastern Group, 1948-49, Governor, 1951-54, and on the following national committees:

Federal Taxation Committee, 1942-53.

Federal Legislative Committee, 1944-45; 1953-54.

Education Committee, 1945-46.

Group Chairmen's Committee, 1948-49.

Nominating Committee, 1952-53.

Savings Bond Committee, 1952-54 (Chairman, 1953-54).

Mr. Lemon has been a Director of Children's Hospital in D. C. since 1941 and served as its President from 1948-53. He is also a member of the Federal City Council; Secretary and Trustee, Group Hospitalization, Inc.; and Trustee, Princeton University.

He is married to the former Martha McGehee and they have one son who is in the investment banking business in New York City.

WALTER H. STEEL
Vice-President

Walter H. Steel, Partner, Drexel & Co., New York, was re-elected as a Vice-President of the Association. Mr. Steel is a 1925 graduate of the University of Chicago. He joined Drexel & Co. in 1946 and became a partner the following year. Since 1940 Mr. Steel has been active in Association affairs at both the national and group levels. He served his first term as Vice-President, 1960-61, was Chairman of the New York Group, 1956-57, was a Governor from 1957-60, and has served on the following national committees:

Walter H. Steel

Convention Attendance Committee, 1940-42.

Municipal Securities Committee, 1948-49; 1957-60; (Chairman), 1958-59.

Group Chairmen's Committee, 1956-57.

Membership Committee, 1957-1958.

Federal Securities Acts Committee, 1958-59.

Municipal Division Council Chairmen, 1958-59; Ex Officio, 1959-60.

Research Committee, 1959-60.

Special Committee for Public Information on Municipal Securities (Chairman), 1959-60.

He is a member of the Municipal Bond Club of New York and was its President from 1946-47. In addition, Mr. Steel is a member of the Bond Club and The Wall Street Club in New York, and the Bond Club of Chicago.

His hobby is fishing and he is an active member of the Anglers Club of New York, the Brodhead Fly Fishers, and the Parkside Anglers Association.

The Walter H. Steels live in Morristown, N. J., and have a married daughter and three grandchildren. He is a member of the Board of Trustees of the Morristown Memorial Hospital and has been active in other local civic and charitable affairs for many years.

IBA Convention Nov. 25-30, 1962

The Investment Bankers Association will hold their 51st annual meeting Nov. 25-30, 1962 at the Hollywood Beach Hotel in Hollywood, Fla.

The Association has also announced that the Board of Governors will meet May 9-12 in White Sulphur, and Sept. 19-21 at Santa Barbara.

Are Local Units Able to Finance School Needs?

Over $1,410,000,000 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 $290 billion and rising, as compared with $66 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, 425 Thirteenth St., N. W., Washington 4, D. C.

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Report of IBA Municipal Securities Committee

Alan K. Browne, Vice-President of the Bank of America National Trust & Savings Association, San Francisco, presented the following Report to the Convention 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 and Federal legislation affecting municipal securities since the last Annual Report of this Committee are summarized below.

Alan K. Browne

I
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 $100 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 50,000 (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 3⅝% (or for communities in redevelopment areas at 3⅜%). 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 which is determined administratively as a "resonable" rate, because municipalities are eligible for a Federal loan under the programs, 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 large volume of municipal financing is unable to obtain financing at that rate from other 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 "reasonable terms," which would establish the reasonable rate monthly in a realistic relationship to current market rates at a level high enough that only a small proportion of municipal financing would be eligible under the program.

"Reasonable" Criteria Unrealistic

However, the Community Facilities Administrator adopted the following basis for 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, an interest rate is to be deemed reasonable if it does not exceed 3⅛%, if the loan is repayable over 30 years or more. For shorter terms loans, the 'reasonable' interest rate is to be reduced by ⅛% for each five-year reduction of the length of the loan, provided such interest rate is not less than 3⅝%. If the borrower is located in an area designated as a redevelopment area, the benchmark for reasonable interest rates would be 3⅝%" (i. e., 3⅝% for 30-year or longer maturities or 3⅜% 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 to yield over 4%. 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 exercise the maximum care in tightening requirements, postponing the initiation of deferable projects and phasing out any acceleration of spending which was instituted as an anti-recession measure. On Oct. 30 the IBA suggested to the administrator of the program that he could do much to carry out 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 focused on this program when all seven bids on $4 million Charleston, W. Va. sewer revenue bonds were rejected on 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 Charleston on Oct. 19, with 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 those 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 maximum 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 expansion of this program when it was under consideration this year in Congress, through a statement submitted to members of 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 in the House, and through notice to members regarding the proposal.

It is apparent that, as long as the supposedly "reasonable" rate of interest determining eligibility under the Federal loan program is set at a level too low in relationship to general market rates, the principal effect of the Community Facilities Loan Program will be simply to substitute Federal financing for financing that would otherwise be provided from other sources at rates reasonable in relation to market rates. We vigorously protest this unncessary assumption of private business function by the Federal Government.

The Housing Act of 1961 also amended the Community Facilities Loan Program by adding the following provision:

"Sec. 207. The Administrator is authorized to establish technical advisory services to assist municipalities and other political subdivisions and instrumentalities in the budgeting, financing, planning, and construction of community facilities. There are hereby 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 principally 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 in relation to current market rates for comparable maturities and types of securities (general obligations or revenue bonds), which reasonable rate would be higher than the current yield on outstanding obligations of the United States of comparable maturity.

(2) The provisions extending the application of the Community Facilities Loan Program to communities in redevelopment areas under special terms be repealed because they create an unncesary and undesirable duplication with Federal loan and grant programs authorized under the Area Redevelopment Act.

(3) The provision 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 non-rural areas and $100,000,000 in Federal loans in rural areas to aid in financing any project *for industrial or commercial usage*. Such loans may be for a period of up to 25 years and cover

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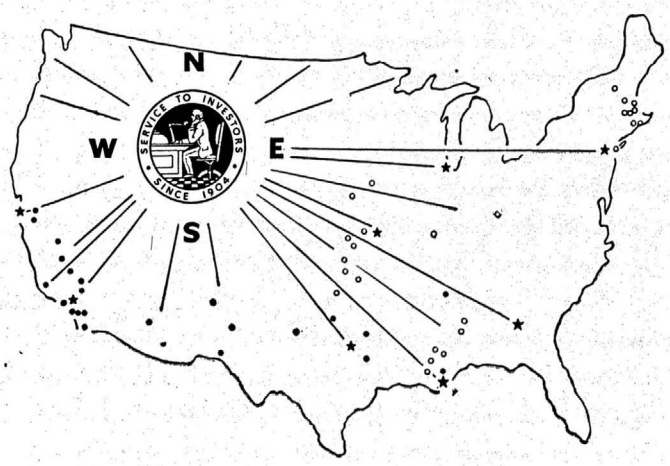

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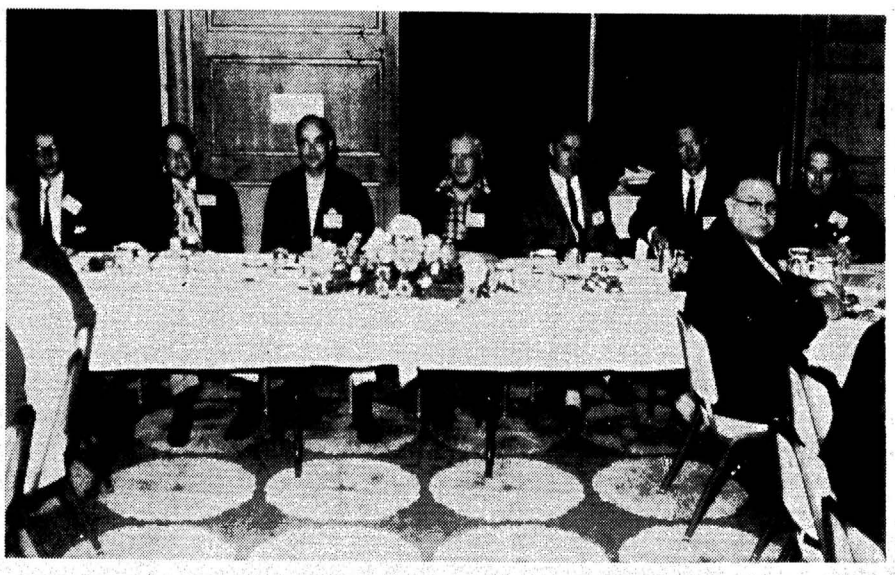
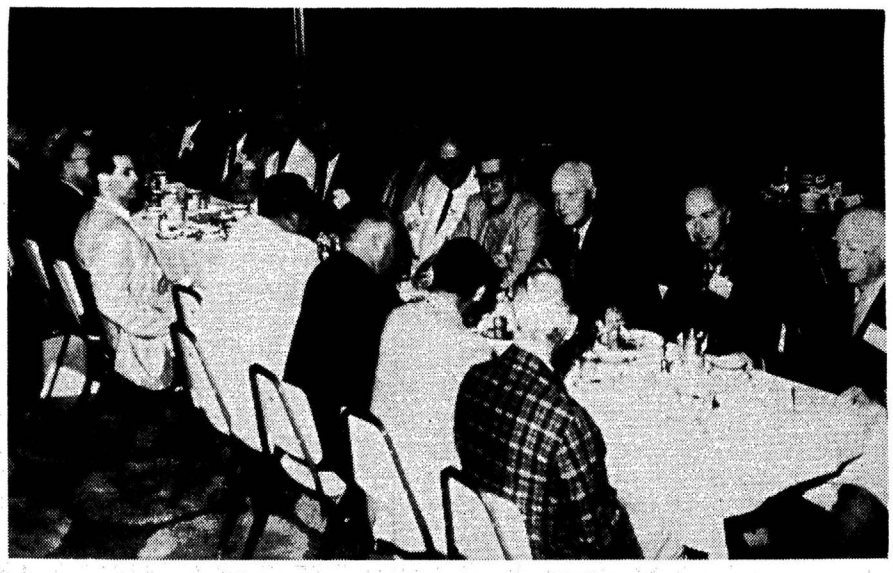


Municipal Securities Committee (Breakfast Meeting)—Alan K. Browne, *Bank of America, N. T. & S. A.*, San Francisco, Chairman



Municipal Securities Committee—Breakfast Meeting

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 nonprofit 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 3⅜%.

(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) About 350,000 new classrooms for elementary and secondary schools were completed during the 5-year period 1957-1961.

(2) The rate of growth in enrollment in public elementary and secondary schools is *decreasing*, official estimates indicating that during the 5-year period 1961-1966 the rate of growth in enrollment will be down 35.1% from the growth rate during the past 5 years.

(3) Sales of new issues of school bonds continue at record levels, with over $350 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.

(d) 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 3⅜%) with maturities up to 50 years unless the financing is available from other sources "upon terms and conditions equally as favorable." When this program was originally authorized in 1950 a revolving fund of $300 million was authorized. This lasted until 1955, but from 1955 through 1960 an additional $1.375 billion was authorized. The Housing Act of 1961 authorizes an additional $1.2 billion over the next four years, bringing the total authorization up to $2.875 billion.

(e) Mass Transportation

Identical bills introduced in the Senate and House this year would provide (a) $75,000,000 in Federal grants for mass transportation planning to states, counties, municipalities and their agencies and instrumentalities and (b) $250,000,000 in Federal loans (not to exceed $100,000,000 in such loans prior to July 1, 1962) to states,

Continued on page 26

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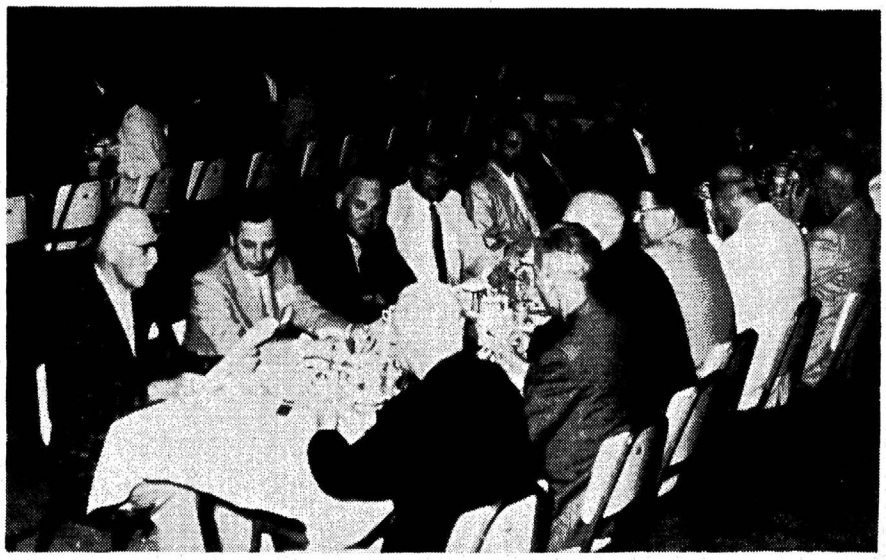

Municipal Securities Committee—Breakfast Meeting

Municipal Securities Committee—Breakfast Meeting

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 could 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 people and goods 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 Legislation Planned

We are advised that a bill will be introduced at the next session of Congress to provide "The Transit Revenue Bond Guarantee Act." The proposed Act would authorize the Administrator, upon application of a local public tranportation agency, to guarantee (by a pledge of the faith and credit of the United States) the payment of interest on and the unpaid balance of the principal of the revenue bonds of such agency in an aggregate principal amount not exceeding $500 million. Requirements for eligibility for a guarantee under the proposed 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 3¾% with maturity dates not in excess of 50 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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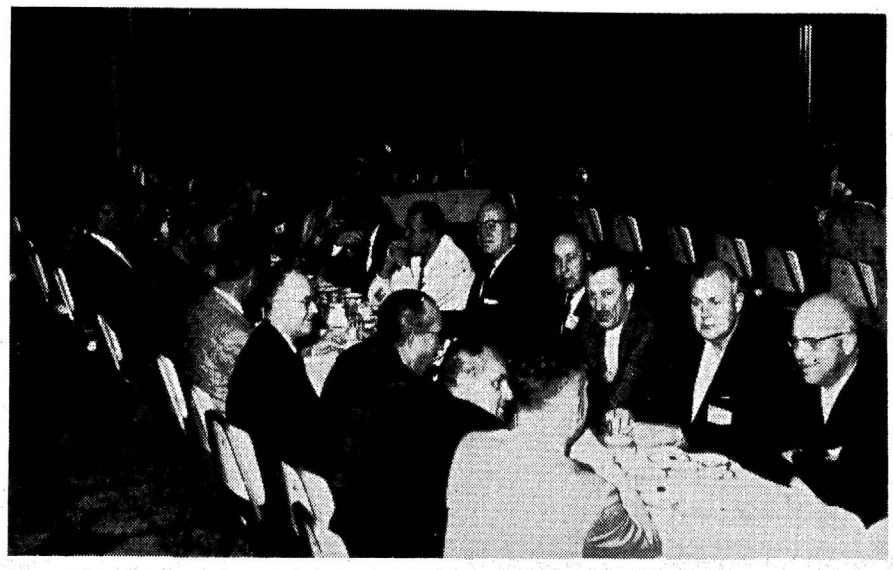

Municipal Securities Committee—Breakfast Meeting

Mr. & Mrs. Curtis Bingham, *Bingham, Walter & Hurry, Inc.*, Los Angeles, newly elected President of I. B. A.; Mr. & Mrs. George A. Newton, *G. H. Walker & Co.*, St. Louis, Retiring President

financing urban transportation facilities.

(f) Tax Immunity

No bills were introduced in Congress this year attacking the general 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 nonpublic 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 Subcommittee 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 Committees 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.

II
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

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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:

The Commission believes that the present maze of constitutional and statutory restrictions upon 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 deviousness 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 rate above some specified multiple of a reported average yield rate for high-grade municipal securities. The draft report gave the following hypothetical illustration:

A state law provides that no local government shall issue bonds at a net interest cost (appropriately computed) which is 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 this low, 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 Gushee (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. 2, 1962 and on when-issued transactions computed for settlement on or after Jan. 8, 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, 1959, the first edition of 10,000 copies has 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 and Bond Sale Procedures Subcommittee.
Liaison Subcommittee to A. B. T. & T. A.
Subcommittee on Metropolitan Area Problems.
Subcommittee on a Municipal Conference.
Subcommittee on Syndicate Operations.
Subcommittee on Trading and Cashiering Procedures.

Respectfully submitted,

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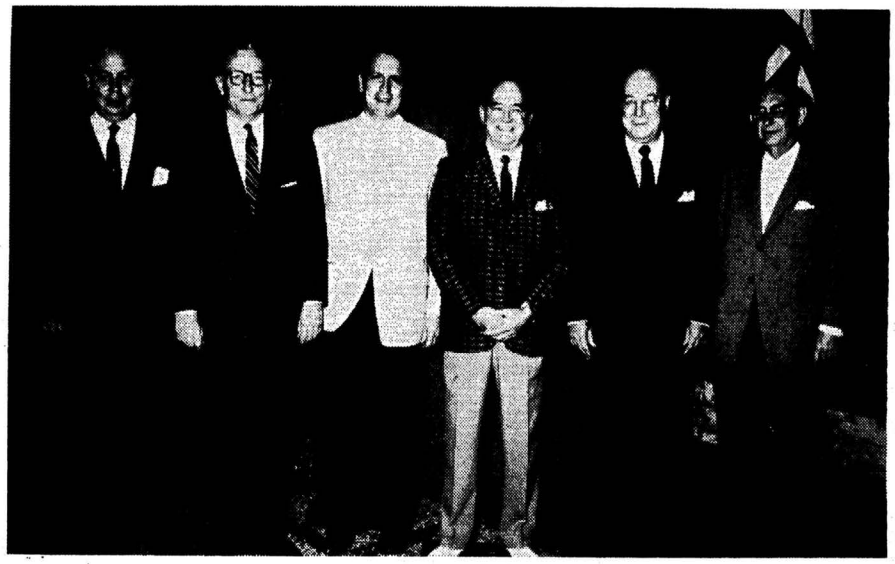

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APPENDIX A
Summary of Area Redevelopment Act (1961)
Public Law 87-27

The purpose of the act is to provide Federal assistance to communities, industries, enterprises and individuals 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 he determines upon the basis of standards generally comparable with those set forth in paragraphs (1) and (2), below, that there has existed substantial and persistent unemployment for an extended period of time. There shall be included among the areas so designated any area—

(1) where the Secretary of Labor finds that the rate of unemployment, excluding unemployment due primarily to temporary or seasonal factors, is currently 6% or more and has averaged at least 6% for the 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 three 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 that such low-income families are of the total farm families of each of such areas, the relationship of the income levels of the families in each such area to the general levels of income in the United States, the extent to which "rural development" projects have previously been located in any such area under programs administered by the Department of Agriculture, the current and prospective employment opportunities in each such area, the availability of manpower in each such area for supplemental employment, the extent of migration out of the area, and the proportion of the population of each such area which has been receiving public assistance from the Federal Government or from the State or States in which such area is located or from any municipality therein.

Section 6 authorizes $100,000,000 in Federal loans for projects in redevelopment areas designated under Section 5(a)

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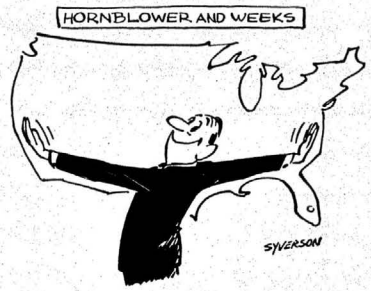

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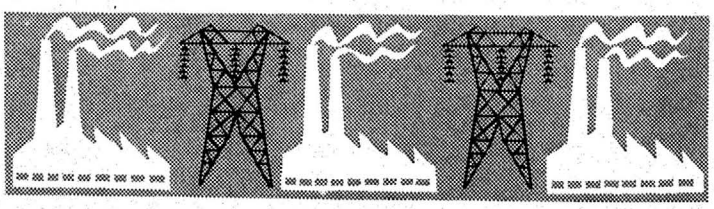

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and $100,000,000 in Federal loans for projects in redevelopment areas designated under Section 5(b) to aid in financing any project for the purchase or development of land and facilities (including, in cases of demonstrated need, machinery and equipment) 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 be not 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 obligations, plus ½ of 1% 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 be not more than the higher of (i) 2½% or (ii) 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 ⅛ of 1%, plus ¼ of 1% per annum) which in November, 1961 would be 3⅜%. 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 authorized $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, for public facilities within a redevelopment area, if, among other conditions (a) 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, (b) the entity proposes to contribute to the cost of the project in proportion to its ability so to contribute, and (c) the project will fulfill a pressing need of the area and there is little probability that such project can be undertaken without the assistance of a grant under this section.

Section 9 authorizes $4,500,000 to provide technical assistance which would be useful in alleviating conditions of excessive unemployment or underemployment.

Section 16 authorizes $4,500,000 for (a) studies of the size, characteristics, skills, adaptability, occupational potentialities 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 underemployed 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.

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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 hundreds 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.

Monroe V. Poole

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 of buildings for sale or lease to private industries. Outstanding guarantees can not exceed $10 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 for lease to private industries.

New York — The voters approved, on Nov. 7, an amendment to the State Constitution authorizing the creation of the New York Job Development Authority, and the authorization of $100,000,000 bonds—$50,000,000 general obligation and $50,000,000 revenue bonds.

New York — The Port of New York Authority must pay taxes on a project it built on Teterboro Airport land and leased for 20 years to a private industry, Superior Court Judge Charles 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 have authorized Industrial Aid bonds. Both bills were defeated in committee.

Vermont—A new State Industrial Building Authority has been organized. Created 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 activity in economically 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 was enacted in Wisconsin. Through an amendment, Milwaukee County was exempted from the measure.

Attached as Appendix A is a summary of municipal industrial bond issues reported sold or authorized since Jan. 1, 1961.

Respectfully submitted,

SPECIAL COMMITTEE TO STUDY INDUSTRIAL AID AND LEASE-PURCHASE FINANCING BY STATES AND POLITICAL SUBDIVISIONS

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San Francisco, Calif.

G. Thomas Yeager III
Baker, Watts & Co.
Baltimore, Md.

APPENDIX A

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

State—	Number of Issues	Aggregate Amount
Alabama	2	$26,800,000
Arkansas	8	11,318,000
Georgia	1	44,950,000
Kentucky	1	3,700,000
Mississippi	23	7,863,000
Missouri	6	3,665,000
New Mexico	1	2,000,000
Oklahoma	1	2,000,000
Tennessee	8	22,113,000
	51	*$124,409,000

*Three issues account for $85,600,000 of the aggregate amount.

ALABAMA

Amount	Issuer—
$25,000,000	Cherokee
1,800,000	Montgomery
$26,800,000	

ARKANSAS

Amount	Issuer—
$350,000	Benton
125,000	Benton
393,000	Blytheville
2,200,000	Conway
7,000,000	Greenwood
350,000	Lake Village
700,000	North Little Rock
200,000	Polk
$11,318,000	

GEORGIA

Amount	Issuer—
*$44,950,000	Early County

*Authorized, of which $14,950,000 6% bonds will be purchased by Southern Land Timber & Pulp Corp.

KENTUCKY

Amount	Issuer—
*$3,700,000	City of Florence

*Authorized.

MISSISSIPPI

Amount	Issuer—
$175,000	Canton
400,000	Chickasaw School Dist. 3 & 4
133,000	Copiah
1,850,000	Corinth
800,000	Covington County
60,000	Forest
250,000	Fulton
250,000	Grenada
370,000	Hernando
250,000	Itawamba
250,000	Lafayette County School District #4
100,000	Mathiston
80,000	Morton
100,000	Morton
300,000	Noxubee
400,000	Okolona
200,000	Osyka (District)
100,000	Osyka (City)
200,000	Pike
50,000	Ruleville
30,000	Starkville
1,500,000	Tate (Senatobia)
140,000	Terry
425,000	Union S. D. 4 & 5
250,000	Wiggins
$8,663,000	

MISSOURI

Amount	Issuer—
$3,000,000	†Village of Champ
60,000	†El Dorado Springs
300,000	‡Charleston
50,000	‡Monroe City General Obligat'n
100,000	‡Monroe City, Rev.
155,000	§Joplin, Revenue
$3,665,000	

†Approved by State Commission; not voted.
‡Approved and voted.
§Approved by State Commission.

NEW MEXICO

Amount	Issuer—
$2,000,000	City of Clovis

OKLAHOMA

Amount	Issuer—
$2,000,000	State of Oklahoma General Obligat'n

TENNESSEE

Amount	Issuer—
$15,650,000	Bradley
500,000	Fayette
175,000	Goodlettesville
400,000	Haywood
310,000	Hardeman
2,400,000	Lebanon
*2,400,000	Nashville
278,000	
$22,113,000	

*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 City, was Chairman of the Municipal Subcommittee on Syndicate Operations. The Report of the Committee follows:

This subcommittee has held several meetings and the Chairman has attempted to keep its membership informed of the more important matters presented to it for discussion. The widespread distribution of the members of this Committee, desirable as it may be, did not permit many opportunities for the majority of this group to sit down together.

John W. de Milhau

This report will consist of two sections. Inasmuch as this Committee was originally entitled the "Proxy" subcommittee the first part will deal with our thoughts and recommendations on this subject. The second part will deal with other important questions referred to this subcommittee for discussion.

The Proxy Problem

We believe that although this problem is far from being completely solved much progress has been made. It is difficult to reach agreement as to the best way to handle all the complex questions that may arise. However, we think that by giving publicity to the duties and responsibilities of those involved we will achieve a better understanding and a more positive approach on the part of those concerned.

The proxy problem has arisen as a result of the formation of syndicates comprised of members located in many different areas of the United States and who do not have an office in the city in which the account manager will hold meetings. We are all well aware of the necessity for the manager to have a definite commitment or other decision on the part of all members prior to the submission of a bid on behalf of the group. The problem arises when the lines of communication between the out-of-town member and the manager do not function properly.

Some of the desired information and its direction of flow may be summarized as follows:

A. From the Manager to the Member

(1) Comment on market conditions.

(2) Specific comments on the issue.

(3) Presale interest from institutions and members.

(4) Consensus of preliminary bidding views and desired spread.

(5) Final bid and offering terms.

(6) Final participation if adjusted.

(7) Members added or dropped from the account.

(8) Allotment of bonds against orders filed.

(9) Any other matters of importance and urgency.

B. From the Member to the Manager

(1) Knowledge of his preliminary price views and indication of any substantial interest.

(2) Indication prior to the final meeting of either a bidding limit or an agreement to accept bid as set by manager and majority present.

(3) Indication of additional underwriting desired, if any.

(4) Filing of subscription during order period.

(5) Arrangement to pick up allotments when ready.

It has become the custom, of necessity, for the managers of accounts with a large membership to request the out-of-town member to arrange to have a proxy represent him so that he may be advised properly of the discussions which will take place. If a proxy is not appointed the manager has no alternative other than to consider that the member is committed to the bid and terms set by the account, and will not be allotted any additional participation.

In order to bring to the attention of the membership many of the details incidental to the relationship of the member, the proxy and the manager, and which should not be overlooked, there are listed below some suggestions concerning each party.

A. Concerning the Manager

(1) Needs complete and final commitment from each member.

(2) Must be able to make bid in lockup meeting.

(3) Is entitled to price views from all members.

(4) Should not call for proxies on small issues.

(5) Should, when possible, take member orders direct.

(6) Should send out syndicate letters as early as possible so suitable proxies may be selected.

(7) Make syndicate letters more convenient so that returned copy will call for indication of proxy selected and amount of additional underwriting desired.

B. Concerning the Proxy

(1) Should be qualified to attend price meetings and willing to act.

(2) Must not act for too many members.

(3) Must communicate meeting results promptly.

(4) Limits given should be observed most closely.

(5) Should call member collect.

(6) Private wire systems should be avoided.

(7) Should not have to make decisions for members.

(8) Even if proxy drops out should remain in meeting if bidding limit of members he is proxy for not yet reached. If unwilling to file orders and pick up allotments should arrange for someone else to do so.

C. Concerning the Member

(1) Make arrangements as far ahead as possible and advise manager who will act as proxy.

(2) Should not have to ask a stranger to serve as proxy.

(3) If operating through proxy branch office should also notify head office.

(4) Be sure to express actual price and profit in sufficient time.

(5) Signify if willing to go with manager and majority or file bid limit. Do not request proxy to make decision for you.

(6) File orders through proxy as soon as possible especially if they must be filed in writing.

(7) If proxy doesn't call you—call him.

(8) Be responsible for expenses or arrange reciprocal business.

(9) Recognize that a proxy is probably busy and in most instances is extending a favor.

(10) Observe discretion and good faith with information from price meetings.

It is obvious from the foregoing that there are many varying factors to be taken into account and that no absolutely fixed procedures are practical. However, there is little question that continuing discussion of this subject has been and will be most helpful in achieving greater understanding of the problems faced and the means of alleviating them.

Questions Referred to the Subcommittee for Discussion

Many interesting questions have been brought to the attention of this subcommittee over the past year. We list below some of those of more general interest with a very brief summary of some of the incidental discussion concerning them. In a number of cases the same questions have also been submitted to other subcommittees so that additional comment may be found in their reports.

(1) Should good faith deposits be returned within 30 days after delivery and elimination of liability?

A good faith deposit should be returned as soon as good business practice dictates that it is no longer required. To extend the time for return beyond that necessary can in many instances cause undue hardship.

(2) Should final settlement of syndicate accounts be made within 90 days of the final sale?

In many instances settlement cauld be made with syndicate members in a shorter period of time than has taken place. A definite effort should be made to expedite settlement as promptly as possible after payment of expenses.

(3) Please comment on syndicate expenses?

Every effort should be made to hold down expenses to the practical minimum, particularly those connected with advertising. A statement should be furnished the account members which will show clearly and in detail each item of expense.

(4) Please comment on syndicate allocation procedures and the handling of "priority" orders?

Each manager, with the approval of the account, should make the decision on this question and should indicate the manner in which orders will be handled at the time of the setting of the bid and the release terms. It is not practical to have standardized or inflexible rules covering all accounts.

(5) Why cannot the manager arrange simultaneous deliveries of a new issue in every city in which the members have an office?

Although, to a limited extent, deliveries of some issues have been made on a simultaneous nationwide basis, it is not generally practical. The overhead cost is high and a longer than normal period of carry by the banking members of the group is called for. If a local customer pays his broker on the day of original delivery he should lose no interest.

(6) Why doesn't the manager advance on behalf of members of a syndicate any good faith deposit required?

This should be subject to the discretion of the manager. However, this procedure certainly would negate the reasons for such a deposit. Although much bookkeeping and use of funds might be saved, an advance on behalf of a member constitutes a loan of funds and as such would have to be treated and reported in accordance with all the requirements of a loan.

Respectfully submitted,
SUBCOMMITTEE ON SYNDICATE OPERATIONS OF THE MUNICIPAL SECURITIES COMMITTEE

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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 Liasion 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.

Walter W. Craigie

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 procedures 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, instead of 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 financing 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 80% 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 $5,000. For this reason, we conclude that it would be unwise to recommend that municipal bonds be issued only in $5,000 denominations, even in large issues.

Since $5,000 denominations in municipal bonds would be a feature attractive to many investors, we recommend that:

(1) Where controlling constitutional and statutory provisions permit, and where otherwise practical and possible, issuers of municipal bonds include in the invitation for bids a provision requiring bidders (and issuers of municipal bonds sold in negotiated transactions permit the purchasing underwriter) to specify whether the issue shall be printed and delivered in denominations only of $5,000 or in denominations only of $1,000.

(2) In States 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 to permit the issuance of such bonds in $5,000 denominations as well as $1,000 denominations.

There may be difficulties in providing for $5,000 denominations in certain issues and it obviously is not expected that provision will be made for $5,000 denominations where the problems are insurmountable.

Another approach to this problem is the possibility of making municipal bonds freely convertible (a) in denominations of $1,000 or any whole multiple thereof and (b) as coupon bonds or to fully registered for principal and interest. These features are very attractive to many investors, but they pose some problems, one of the principal of which is the expense which many investors and issuers are unwilling to assume. The City of Philadelphia recently has provided that (a) its coupon bearer bonds may be freely exchanged for fully registered bonds in the denomination of $1,000 or any whole multiple thereof and (b) that fully registered bonds may be exchanged for coupon bearer bonds of $1,000 denomination—at the expense 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, and the Municipal Securities Committee adopted and the IBA Board of Governors approved, a resolution urging issuers of municipal bonds to determine promptly after receipt of bids whether a bid will be acepted and, if a bid is accepted, to make a prompt written award of the bonds to the successful bidder. This same resolution was adopted by the Board of Governors of the Municipal Forum of New York in February, 1961, by 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 and the IBA Board of Governors approved, a resolution that the contract between the issuer and the winning bidder for the sale of municipal bonds advertised for public bids should obligate the seller to deliver the bonds by a specific date (preferably not later than 30 lays after the award of the bonds) and should grant the winning bidder an option to cancel his obligation and to receive prompt refund of his good faith deposit check if delivery is not made by the specified date.

The resolution also provided that the issuer should give to the winning bidder at least seven days advance notice of the time and date of delivery and urged all issuers, attorneys and investment bankers to make these obligations as to delivery and advance notice thereof terms of the contract, between the issuer and the winning bidder for the sale of municipal bonds advertised for 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 also adopted by the Board of Governors of the Municipal Forum this year. It was also adopted by the M.F.O.A. with the addition, to the provision with respect to the option of the winning bidder to cancel if delivery is not made by the specified date, of the qualification "save and except a delay occasioned by circumstances beyond the control of the issuer." The Local Government Law Section of the American Bar Association approved the report of its Committee 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 submitted a report on Supplemental Coupons, adopted by the Municipal Securities Committee and approved by the IBA Board of Governors, concluding with recommendations that:

(1) Impractical statutory provisions or bidding requirements, which necessitate the use of supplemental coupons, be changed where possible so that bids can be submitted on a regular basis without the necessity for using supplemental coupons.

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

The Board of Governors of the Municipal Forum of New York on February 24, 1961 adopted a resolution to 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 acceptable, and for this purpose it is recommended that issuers include in their notice of sale a provision similar in form to one of the following sentences:

(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 represented in part by separate 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 by it include the following:

(a) What minimum amount of good faith deposits 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-none basis?

(c) Do requirements 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, the Local Government Law Section of the American Bar Association, the Municipal Forum of New York and the IBA have been held this year, as in recent past years, at the annual meetings of the M.F.O.A., the American Bar Association and the IBA. We take this opportunity to express our sincere appreciation to the representatives of the other organizations and to the officers and governing bodies of those organizations for their cooperation throughout the year in consideration of recommendations to facilitate sound municipal financing.

Respectfully submitted,

LIAISON AND BOND SALE PROCEDURES SUBCOMMITTEE

Walter W. Craigie, Chairman
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Richmond, Va.

Russell M. Ergood, Jr.
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Philadelphia, Pa.

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Report of Subcommittee On Trading and Cashiering Procedures

W. Neal Fulkerson, Jr., Vice-President in Charge of the Municipal Bond Department of the Bankers Trust Co., New York City, was Chairman of the Municipal Subcommittee on Trading and Cashiering Procedures. Its Report follows:

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 Nov. 28, 1960, 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 invoices 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.

W. Neal Fulkerson, Jr.

In order to eliminate these discrepancies the Subcommittee appointed a group of senior operations 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. Gushee, 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 all 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 assist them in recognizing counterfeit securities.

In 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 liason committees when final recommendations are proposed. On October 6 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,

MUNICIPAL SUBCOMMITTEE ON TRADING AND CASHIERING PROCEDURES

W. Neil Fulkerson, Jr., Chairman
Bankers Trust Co.
New York, N. Y.

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Coffin & Burr, Inc.
Boston, Mass.

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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 and Turnpike Association and reported to the Convention as follows:

The Subcommittee appointed by Municipal Committee Chairman Alan K. Browne for liaison with the American Bridge Tunnel & Turnpike Association (hereinafter sometimes called the ABTTA) has had a relatively uneventful year. This position, to a large extent, has been due to factors over which neither the Committee nor the ABTTA has had control and includes the following:

W. F. Morgan

(a) The ABTTA for a substantial portion of the year had no active executive 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. Horty, 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 of 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 in order to evidence the interest of the IBA 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 and 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,

MUNICIPAL SUBCOMMITTEE ON LIAISON WITH THE ABTTA

W. F. Morgan, Chairman
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Smith, Barney & Co.
New York, N. Y.

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John Nuveen & Co.
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George T. Ragsdale
Lehman Brothers
New York, N. Y.

Walter H. Steel
Drexel & Co.
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 might save substantial amounts of money and avoid serious problems by obtaining expert financial advice. Such advice is available for the smallest municipalities, which need assistance on elementary planning and basic procedures, as well as the largest municipalities, which need highly specialized advice on interest rates and market conditions.

W. C. Jackson, Jr.

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 investors as to maturities, rates, options, and other pertinent facts which will result in the municipality receiving the best possible bids on the securities to be sold. Just 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 possible 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 market is favorable for receiving bids; the preparation of the Notice of Sale to include all information needed by bidders; the preparation of a Prospectus to include all 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 retainer 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,

SUBCOMMITTEE ON FINANCIAL ADVISORS FOR MUNICIPALITIES

William C. Jackson, Jr., Chairman
First Southwest Co.
Dallas, Tex.

Frank C. Carr
John Nuveen & Co.
Chicago, Ill.

Sidney J. Mohr, Jr.
Thornton, Mohr and Farish, Inc.
Montgomery, Ala.

Donald W. Moulton
R. H. Moulton & Company,
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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 $7,900,000,000.

R. M. Ergood, Jr.

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 thoroughly sampling 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. In most all of these cases, these firms would send representatives to an I.B.A. Municipal Conference. It is also interesting to note that the Executive Committee of the Texas group of the I.B.A. passed a resolution strongly supporting the idea of a Municipal Conference. These reactions were not at all surprising as the entire committee was strongly in favor of this Conference. With this overwhelming national acceptance, we moved into the questions of where, when and how?

The where, when and how situations were more complex due to the fact that certain conflicts had to be circumvented and worked out. We are thoroughly aware that this Conference cannot and will not interfere in any way with any of the I.B.A. functions. This Conference will also be financially self-supporting.

After careful study, our committee feels that a two-day seminar should be held on Friday and Saturday prior to the start of the regular I.B.A. Convention in Florida. This seminar could close with the Municipal Forum on Sunday afternoon. Those people who are interested in municipal securities, who are qualified to attend the convention, can continue their stay when the regular convention starts Sunday afternoon and those who would be present for the Conference only would thereafter not be a part of the convention. This plan would supplement the existing setup and give municipal representation of the majority of I.B.A. firms and not the minority, thus enabling a broader undertaking of national problems through greater geographic scope. After we have had our first Municipal Conference prior to the annual I.B.A. Convention and the many benefits proven, it is our recommendation to make it an annual affair.

After realizing the benefits that will come out of this Conference, 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 Conference 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.
Philadelphia, Pa.

Ernest J. Altgelt, Jr.
Harris Trust & Savings Bank
New York, N. Y.

E. William Darmstatter
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Subcommittee's Report on Metropolitan Area Problems

Orlando S. Brewer, Partner, Phelps, Fenn & Co., New York City, in the role of Chairman of the Subcommittee on Metropolitan Area 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, schooling, water, sewers 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 enigma that is taking place in the migration of the urban to the suburban and the suburban to the urban. It is apparent that no easy solution exists. However, in seeking a remedy three general problems which invariably will be considered are: (1) the appropriate governmental unit 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 facilities or services.

Orlando S. Brewer

Five general approaches determining the appropriate unit to provide area-wide services have been proposed.

(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 local governmental units within the area surrender authority to deal with specified 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 of the developments regarding metropolitan area problems, but it includes simply 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 15½ million people. Almost 14 million, or close to 90% of this population, live in one or another of nine metropolitan areas. The number of cities has increased to 368, 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 — has 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 half million people are added. If this rate of increase continues, California will meet and exceed New York State as the most populous state in the nation by 1962. In common with national trends 85% of this growth occurs in metropolitan areas. By 1980 California will have an estimated 30 million persons; about 28 million will live in one metropolitan area or another.

The Commission reported there are a number of problems requiring treatment and solution on an area-wide basis. These problems include regional planning; metropolitan transportation; pollution of the water and air; regional and interregional water supply and distribution; inequities in taxes and level of services throughout a metropolitan area; inequities aggravated by complexities in local government; and the loss of political control by the citizen. The report pointed out that there is a dramatic and often unsuspected variation between cost of services and the level of services received in the same metropolitan area. It was found that many suburban communities in a metropolitan area were paying much more for fire protection, water, sanitation, etc. than residents of a central city and these same residents were not receiving the quality of service as their city brothers. Further complicating the area-wide relationships between services and revenues in metropolitan areas is the great number of independent and overlapping local government units. City incorporations to promote special economic interests have been cited, plus the problem created by over 2,000 independent governing bodies now functioning in California's nine metropolitan areas.

Problems of transportation, water and air pollution cannot and will not be solved on a community basis concludes the report, they will and can be on an area-wide basis. The key to solving the metropolitan problems, it appears is the establishment in metropolitan communities of an area-wide organization or framework through which truly area-wide matters can be presented, discussed, decided and acted upon on an area-wide basis.

LOS ANGELES

California transport plan. The Southern California Research Council has proposed a Transport Authority to coordinate transport planning and, where necessary, transport development and operation in the Southern California region. The need for a balanced system of transport in the region experiencing the concentric expansion of the Los Angeles urban area is emphasized by the Council's projection of a population increase in the region from 9 million to 17 million, and a total labor force increase from 3.5 million to 6.7 million by 1980.

MPTA, as proposed, would be created by the State Legislature, but controlled by the five counties within which the Authority would function. The directing board would include one member from each of the participating counties appointed by the respective boards of county supervisors, one member appointed by the Governor, and one member representing the State Division of Highways. In MPTAs' first phase of activity, that of developing a master transport plan, it would be granted power to hire competent professional planners and to levy taxes to finance its operations. With completion of the plan, it would receive bonding powers, the right of eminent domain, and authority to operate mass transit facilities with the Los Angeles Metropolitan Transport Authority as its first operating agency. According to

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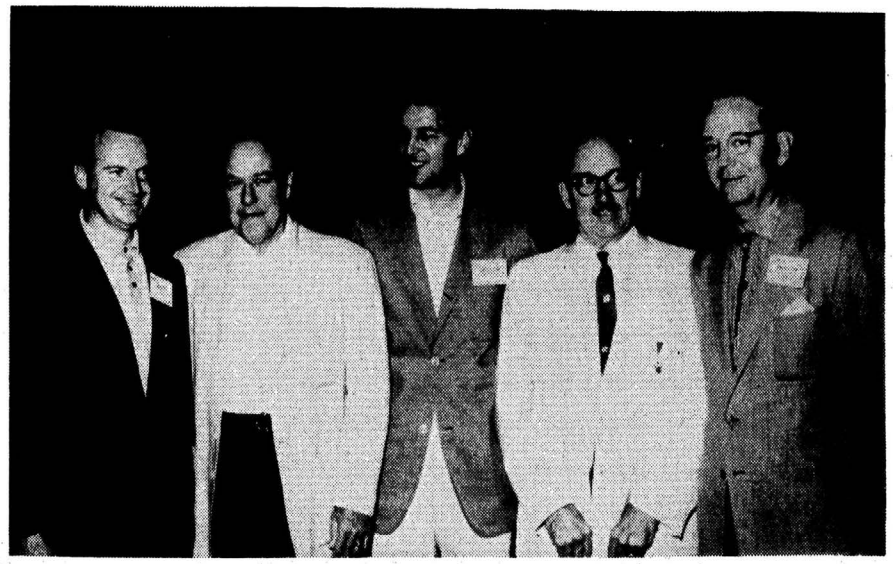

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the plan, local governments will retain autonomy for local planning, while using the special district organization as a tool of cooperation for the development of the region as a whole. MPTA could be later expanded geographically or developed into 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 of Bay Transit. In 1975, within three years of the proposed regional transit system's entering full operation in the San Francisco Bay area, estimated tangible economic benefits will reach $42,000,000 annually. Benefits will accrue from savings in travel time, in freight movements, in accident incidence, insurance premiums, automobile operating costs, parking charges, bridge tolls and traffic control. Intangible benefits which may exceed the foregoing include: stimulus of regional growth, encouragement of development in urban centers, reduced smog, new locations for business and industry, provision of shelter and transportation for civil defense.

The proposed five-county, 120-mile system will consist of 20 miles of subway and tunnels, 42 miles of aerial lines, 52 miles of high-speed surface lines, a 14-mile underwater transit tube connecting San Francisco and Oakland, and a 2-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 $47,000,000. The earnings will leave a surplus of more than $5,000,000 after paying 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 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 1963-1964, $26 after the 120-mile rail network is in operation. The last figure is the highwater mark which will represent repayment of capital costs. During the preceding 10-year period, assessments will meet only interest payments. The maximum transit district tax rate would represent 7½% 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 restraints upon the power of the body that figure-head 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 Metro plan will provide the impetus for greater county-wide control.

MARYLAND

Solution to Baltimore's transit problems lies in the adoption of a Metropolitan Authority. The Baltimore Metropolitan Area Mass Transit Legislative Commission, in an effort to develop a program that would help alleviate the Baltimore area's chronic transportation problem, recommended the creation of a metropolitan transportation authority to own and operate the mass 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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authority ownership and operation as well as a special requirement on the vote of the authority, which is needed to authorize such ownership and operation. The two-year delay was planned to allow the authority time to acquire personnel and become sufficiently acquainted with regulatory and financial matters.

In the central district of Baltimore City and some of the outlying communities the near saturation point is reached by automobiles and highways in peak hours. Although new expressways are being planned, it is impossible to provide sufficient accommodation for transportation exclusively by automobile. Moreover, a projected increase in the labor force of Baltimore, Anne Arundel and Baltimore Counties, will add approximately 120,000 persons to those who need means of transportation to work. Public sentiment in the past, however, has opposed a subsidy for mass transit but approved expenditures for highway construction.

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 question 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 improve services. Fifth, private companies could be required, in the suggested program, to extend existing services. Sixth, the use of prudent operating ratio 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.

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

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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 $20-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 service. 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 fares with transfers, add 37 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. It 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 proposal of the Durham Charter Committee to consolidate the County and City.

Both rural areas and city districts as well as professional groups, industry, and 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 waged by those opposed to the Charter.

OHIO

Cleveland voters to 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 County 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 and 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 comprehen-

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sive effort to resolve the problem consists of a study which has been under way since January, 1959, 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 48,600 by the City of Knoxville.

Petitions calling for a referendum on the initiation ordinance had been circulated widely. There have been reports of irregularity regarding the petitions though the Knox County Election Commission has certified the signatures of registered 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 to stop the council from 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 determined favorably the issue of representation in the instant case. Appellants are expected to distinguish between the Nashville and Knoxville annexations on the grounds that in Knoxville councilmen are elected at large and annexed areas would automatically have the right to vote for them whereas in Nashville councilmen are elected from districts and the annexation ordinance should therefore make provision for representation.

TRI STATE REGION
New York-Connecticut-New Jersey

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 obsolescence 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 region's businesses. They further agreed that the total transportation system of the region must be dealt with as a whole

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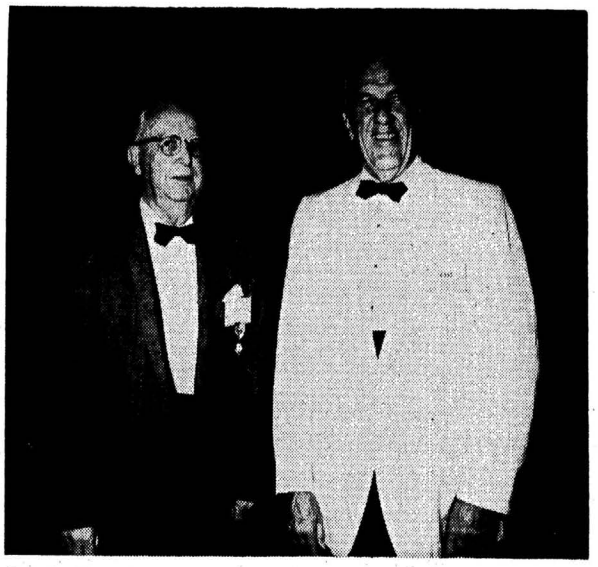

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to assure efficient communication among the older central business districts, and the newer industrial clusters and residential areas which will continue to spring up throughout the region.

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 haphazard 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. 12, 1961. The proposed merger 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 350,000 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. Three council members would be elected from the incorporated city at-large.

County - Town merger denied. A petition by the Fairfax County, Virginia supervisors 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 400 square miles and a population of 275,000 had previously signed a merger agreement with the town of Clifton, with a population of 230, 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 5,000 persons is dejure 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 250% 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 existent state laws remained unchanged and expansion of cities and towns continued, the county would be cut in two in ten years by a series of municipal islands which would nullify county planning and zoning, and complicate extension of urban-type services.

The urban county plan, as drafted by the Fairfax Commission on Urban County Govern-

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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 city 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 of 1960 by the Governors of Maryland, Virginia and the Commissioners of the District of Columbia.

The compact provides for the creation of the Washington Area Transit Commission, which will regulate the existing, privately owned transit in the entire metropolitan area. The Commission is to begin operations 90 days after the signing of the compact, set for March of 1961.

The compact is the product of several years' work. It 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 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.

Respectfully submitted,

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1961 was a "year to remember." It was not that the figures justified the best year in insurance stock history. Published operating figures in fact showed little if any improvement.

"Mind Over Matter"

The best year in insurance stock history, a rather broad statement, represented the triumph of mind over matter, or more concretely, state of mind over near term operating results. Value, we believe, resides ultimately in the mind—a kind of financial equivalent of the philosopher Descartes' dictum "I think, therefore I am." In 1961 the state of mind of investors toward insurance stocks was influenced by:

(1) Disillusionment toward some industrial growth stocks including well known electronics, whose operating and market performance left plenty to be desired;

(2) Consideration of insurance companies as financial—not just insurance institutions, benefited by higher interest rates, with constantly expanding investment earnings;

(3) Belief that fundamental changes are taking place in fire and casualty in rating and marketing which will improve the long-term outlook;

(4) Expectation that life sales will be enormously helped by the coming family explosion and that life earnings, aided by substantial leverage, will skyrocket with continued high interest rates and improved mortality, particularly heart and cancer;

(5) Strong technical position of insurance stocks at the beginning of the year, due to five years of consolidating market movement.

Stocks Reasonably Priced

The price-times-earnings ratios of insurance stocks, representing the state of mind of investors toward insurance shares, the esteem in which they are held, hence rose during 1961. Insurance securities, cheap a year ago, are now reasonably priced.

While near-term market performance now seems more subject to general market conditions, the longer term outlook, as we said a year ago, continues fair and warmer. You can still reach for an insurance stock instead of many another!

Respectfully submitted,

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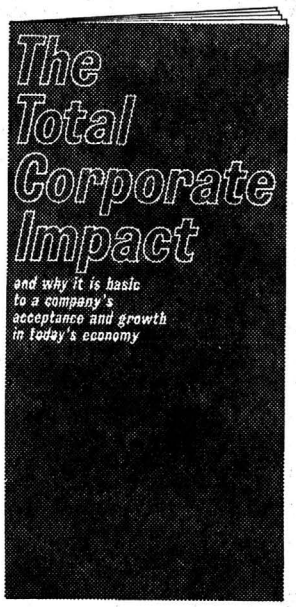
Significant Developments in The Fire and Casualty Insurance Field in 1961

A logical procedure in tracing the significant developments in the fire and casualty insurance field this year is to examine them from the following standpoints:

Factors influencing underwriting profit margins. This includes



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the progress made in solving the problems 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. Included in this category would be gains made in net investment income and the effects of stock market action on policyholders' surplus or total capital position. Dividend action might be considered a related element under this heading.

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 by a life insurance company licensed in New York.

An examination of the aggregate combined loss and expense 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, is shown in figures:

	6 Mos., 1961	1960	1959	1958	1957
Loss Ratio	-----	60.8%	58.5%	60.2%	62.9%
Expense Ratio	-----	39.1	39.9	40.9	41.2
Combined	*101.6%	99.9%	98.4%	101.1%	104.1%

*35 companies.

The year 1957 represented one of the worst loss years in the history of the fire and casualty insurance business. Since that year, however, substantial improvement in underwriting profit margins has been achieved as the fire and casualty insurance companies have made an all-out attack on the underwriting problem from several directions. Increases in rates in several lines, particularly in the automobile bodily injury and property damage lines, represented the chief means by which underwriting 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 companies' campaign 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 organization of personnel, has represented an important avenue for improvement. Reductions in commission rates paid on such mass lines as automobile insurance also has contributed to savings in insurance company operating costs.

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. Just as 1960 seemed to be headed for one of the most profitable underwriting years in a decade, hurricane Donna struck Florida and the eastern seacoast, increasing insurance losses by close to $100 million. This added at least one and one-half points to the combined loss and expense ratio for 1960 and wiped out a major portion of the underwriting profits of the stock fire and casualty insurance companies for that year.

Again in the first half of 1961, the unseasonably cold weather of January and February contributed to a 10% increase in fire losses. This, coupled with a series of severe storms in the southwest during April and May, threw underwriting results back into the red. Before fire and casualty companies could achieve much by way of recovery from the effect of these storms on underwriting profit margins, hurricane Carla on September 10 and 11 of this year whipped into Texas from the Gulf of Mexico and caused more catastrophic property losses in that area. Fortunately, the second major tropical storm of the season, hurricane Esther, stayed out at sea and its winds caused a relatively small amount of property damage.

It would thus appear that catastrophic storm losses in both 1960 and 1961 have more than neutralized progress which a majority of the stock fire and casualty insurance companies have been making in solving their basic operating problems. For example, the automobile liability insurance business produced a profit for **Travelers Insurance Company** in 1960, and several other companies have recently reported profitable underwriting results from this heretofore troublesome line. Furthermore, the expense ratios of many companies have been brought down to much more satisfactory levels during the past two years, reflecting the commendable gains in efficiency of operations which have been achieved.

Expense Ratios Key to Profitability

Insurance is a business of percentages of probability. Losses will vary from year to year but, assuming that rates are properly constructed, underwriting operations should be profitable in the long run. This is so because insurance law, recognizing that insurance is an indispensable factor in our economy, requires that insurance companies charge rates that are fair and reasonable, and which should assure sufficient income over a period of years to pay losses and expenses and leave a margin for profit and contingencies. Fire and casualty insurance companies can attempt to refine their underwriting business and minimize losses by becoming increasingly selective as to the risks they assume.

However, if the industry's average loss ratio runs between 60% and 65%, as would seem to be a fair assumption under current conditions, the target for the management of most fire and casualty insurance companies is to bring the expense ratio (ratio of expenses to premiums written) down to or below 35%. This is the expressed goal of the mangements of a number of companies, and several of these companies have made notable progress in recent years toward achieving that goal figure. Thus, it has become the practice of many analysts of insurance company securities to judge managements of the various companies to a large degree on the extent of the progress they have made in the past three or four years in reducing their expense ratios.

Equity Portfolio Gains

With respect to investment results, the 1961 semi-annual aggregate figures compiled by **Alfred M. Best Company** for 120 stock fire and casualty insurance companies showed marked improvement. Net investment income rose by more than 7%, and substantial appreciation was recorded in stock portfolios compared to moderate market depreciation in the first half of 1960. Both loss reserves and unearned premiums were higher in the first half of 1961, and as a result of operations since Dec. 31, 1960, assets ad-

Continued on page 46

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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 equalled 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.

Glens Falls Insurance Company and Kansas City Fire & Marine Insurance Company.

Hanover Insurance Company and Massachusetts Bonding & Insurance Company.

New Hampshire Insurance Company and Illinois National Insurance Company.

Reliance Insurance Company and Standard Fire Insurance Company of New Jersey and Standard Accident Insurance Co.

Security Insurance Company of New Haven and New Amsterdam Casualty Company.

Springfield Insurance Company and Freeport Insurance Company and The Standard 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 30 fire and casualty insurance stocks started the year 1961 at 42.5. As of Aug. 31, 1961, it was up 32% to 56.1. 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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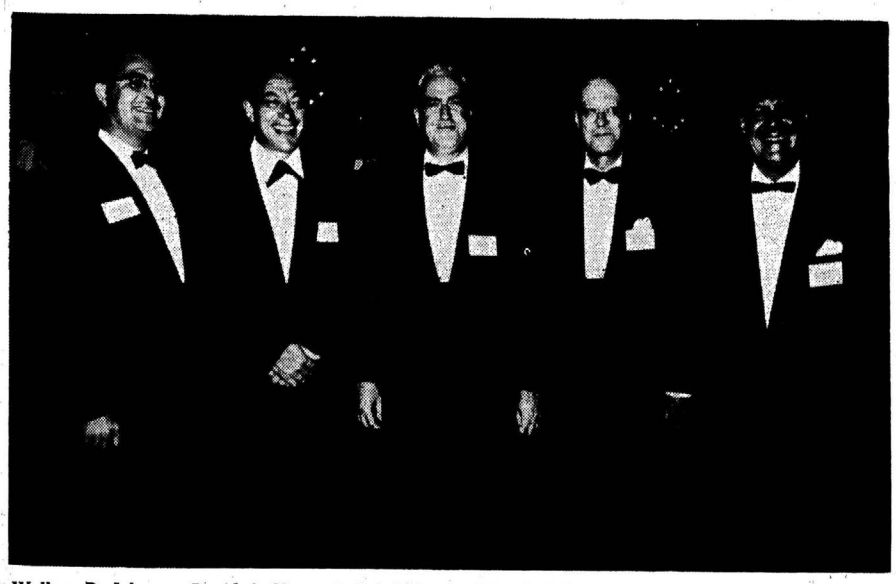

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M. Best & Company index of 30 life stocks was 193.0. At the end of September, 1961 this index was 341.9, an increase of 77.2%.

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 $39 billion or 68.3% 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 ½of 1% 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 1956. It would not be realistic to expect such percentage gains in each year. The life insurance industry continues to stress its product, however, and $57 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 insuring 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 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 miocines. 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, made greater 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 enables it to take care of expansion requirements with relative ease. We cannot say the same for the natural gas transmission companies, which have weathered the recession in terms of volume of business done but have suffered deterioration of investor confidence.

Carl C. Brown

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 land against 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 perhaps 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 Government 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 subsidizing 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 citizen.

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 the utility companies. 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 and even hydro-electric plants and extensive transmission systems. In so doing, taxpayers' receipts are being used by the Federal Government to lend money to these unnecessary schemes at an interest rate of 2%, giving these projects a substantial operating subsidy, when the Government itself pays 4% to borrow long-term money. There are instances that have been reported where some of these REA's have borrowed 2% Federal funds to purchase 4% Government bonds.

REA's Lending for "Lending Sake"

The original test for an REA loan was based on sound business considerations. Today loans appear to be made just for the sake of making them, without notice or opportunity to affected persons to be heard in public hearings. Fortunately, in some states, there is a safeguard in that before these projects can be built, they must receive State Commission approval under which proof must be given that they are essential and in the public interest. Unfortunately this safeguard is not available in many states. Not only is this situation bad, since it makes our citizens subject to higher taxes to subsidize these operations, but it is bad from the standpoint of weakening the investor-owned companies in the area, since REA's with their power rate advantage are in a position to draw industries and large customers away from companies in adjoining areas.

At a time when the nation is confronted with keeping our own economy strong, when citizens are being taxed at an excessive rate, and when the government has a budget which is substantially out of balance, why do we encourage the use of Federal funds for these REA loans which largely duplicate facilities already available and fully supplied by the investor-owned utility industry.

On still another front, Government action is producing duplication of expenditures and unnecessary 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 taking of power from Glen Canyon, a new hydro-electric plant being built on the Upper Colorado River in the State of Arizona, to markets. Five private companies in the immediate area already have extensive transmission systems and are prepared to implement these in order to do the job completely without the need of 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 losses of taxes to the states and to the Federal Government. It also puts the Federal Government in competition with the private companies which have served 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 Plutonium Project in the State of Washington available for sale to Southern California by way of the construction of an expensive high-voltage transmission line putting 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 in all the Federal Hydro-Electric Projects with transmission systems so that Bonneville, Grand Coulee, Hoover Dam, Central Valley, TVA and others will all be able to interchange power. This would be a very expensive undertaking and would be a duplication of facilities that are now available. In fact, private companies have made overtures to Federal Projects such as the TVA to bring about an interchange of power so as to utilize most efficiently all power reserves. Similarly 14 Midwestern power companies have offered to supply the Federal Government with electricity when Federal hydro-electric plants along the Missouri River are short of power. So far such propositions have fallen on deaf ears.

On a broader scale, investor-owned electric utility companies have announced their intention to double their investment in transmission lines requiring an outlay of over $7 billion. By the end of 1970 the major power systems thus 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 was evidenced at recent confirmation hearings, was also concerned with certain appointments made this 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 new 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 difficult problems facing the Commission in its deliberations over the important natural gas industry.

Discriminatory Tax Proposal

Still another development during the year was in connection with proposed Federal tax legislation. In the last session of Congress legislation was proposed which would give tax benefits to a large segment of American industry but would deny it to the electric utility industry. Such tax legislation was not cleared for consideration but will likely come up again when 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 independent of incentives since their spending are a function of public requirements, also reduction in taxes would be passed on to consumers and, therefore, be no incentive and their facilities are not subject to competition. The premises are fallacious. Industry spokesmen have pointed out that the availability of a tax benefit would stimulate capital investment by utilities for expansion, modernization and technological advance. Reduction in taxes would permit lower energy costs which would help to stimulate the growth and strength of the economy and maintain the competitive position of the utility industry against other beneficiaries of the tax program.

Apropos the tax stimulus, one of the largest utilities in the country submitted a memorandum to the House Ways and Means Committee, proposing to replace immediately old generating capacity, that would normally not be retired for many years, with modern facilities at a cost of $40 million, if the tax credit were available. Apart from effect of modernization, the utility offered to pass along the reduction in cost to two million customers. Without taking any position on the wisdom of this tax scheme, it is hoped that if such legislation is enacted the utility companies would receive the same treatment as any other American enterprise or industry.

Natural Gas Industry Also Under Attack

Last year we brought to your attention the regulatory situation

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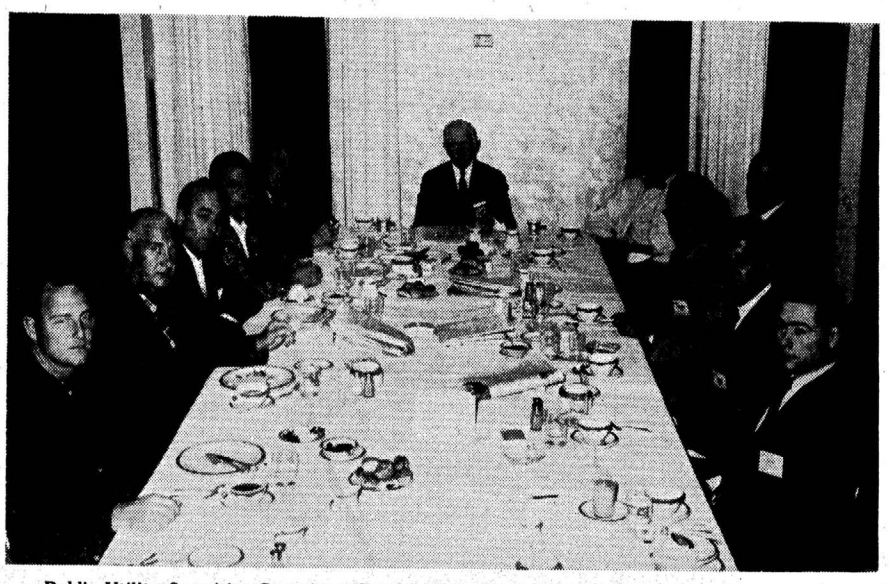

Public Utility Securities Committee, Breakfast Meeting—Carl C. Brown, *Dean Witter & Co.*, New York, Chairman

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with respect to the *natural gas industry*. We pointed out that heretofore 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 1950-1960 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 10½% return on this basis. We characterized this new method of determining rates of return to natural gas pipeline companies 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 necessarily set up on a thin equity basis.

At this moment it is not possible to say how badly 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 apparant 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 states or 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 within the California Commission was reconciled to clarify and strengthen 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 by courts 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,

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Report of the IBA Canadian Committee

Norman J. Alexander, General Manager of James Richardson & Sons, Winnipeg, Canada, as Chairman of the Canadian Committee, submitted the following Report to the Convention.

While a high level of economic activity prevailed in Canada in 1960, and during the current year to the time of writing, the period has been one of broad complexity influenced by domestic and external developments both of a temporary or cyclical nature as well as those of a long term or permanent character. Under these circumstances, the real increase in the Gross National Product in 1960 even though of modest proportions may be viewed with a degree of satisfaction. It also is probable that the real or physical volume of production in 1961 will also be somewhat larger than that of 1960.

Norman J. Alexander

Canada entered 1960, the first year of a new decade with a material amount of capacity in excess of demand and a relatively high percentage of her rising labor force unemployed. Rising competition on world markets from Europe and Japan with their modern plant and equipment constructed in the post-war years and from the growing output of the less developed countries of Africa, Asia and South America was felt very keenly by Canada. To an exporting nation, plentifully endowed with raw materials and with excess resource industrial capacity, such competition imposes special problems so that Canada today is facing one of the greatest challenges in her history.

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 $36 billion. This growth contrasted sharply with the 6.1% increase in 1959. Prices rose some 1.7% in 1960 so that about two-thirds of the gains in the GNP represented increases in actual production. Despite this, however, even the physical increase 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 interrupted in 1960 as the level of economic activity eased in response to downward tendencies in several components of the end product 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 value of production declined while business inventories declined by nearly the amount of the increase in the first quarter. Final purchases in the third quarter rose relatively sharply but the renewed strength was only partially reflected in production with the result that business inventories continued to decline. In the final quarter of the year both the end product and 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.

In the last quarter of 1960, the Gross National Product was at a record annual rate (seasonally adjusted) of $36,436 million. In the first quarter of 1961, the somewhat softer end product and inventory demand was more than counter-balanced by a substantial advance in outlay for new housing; the material improvement in export demand and continued strength in government expenditures. Despite these gains, 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 uptrend was again resumed and the Gross National Product rose to an annual rate of $36,280 million. The improvement can be viewed 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 1960 figures. There was a substantial rise in consumer spending; continued heavy outlay by the government sector and small

Continued on page 51

*Reproductions of statistical data, in part, included in text matter.—Ed.

	1960		1959		1958	
			- millions -			
Gross National Product		$35,959		$34,857		$32,867
Spent on Consumer goods and services						
Private	$23,409		$22,482		$21,240	
Government	5,128	28,527	4,893	27,375	4,784	26,024
Balance Available		$ 7,422		$ 7,482		$ 6,843
Personal Saving	$ 1,675		$ 1,754		$ 1,674	
Business Saving	5,121		5,062		4,741	
Government*	779		987		359	
Inventory Adjustment	-57		-115		-35	
Residual Error	-96		-206		104	
	$ 7,422		$ 7,482		$ 6,843	
Spent as investment						
Private	$ 6,612		$ 6,894		$ 6,975	
Public	1,508		1,523		1,389	
	$ 8,200		$ 8,417		$ 8,364	
Inventory Change	$ 316		$ 297		$ - 333	
Residual Error	97	$ 8,613	207	$ 8,921	- 105	$ 7,926
Net Balance on Current Account		- $ 1,191		- $ 1,439		- $ 1,083
Inheritance & Migrant Funds - net		-79		-55		-48
Current Account Balance		- $ 1,270		- $ 1,494		- $ 1,131

Balance of International Payments or Capital Account

Foreign Direct Invest. in Canada	$ 690	$ 550	$ 420
Cdn. Direct Invest. Abroad	-85	-80	-48
Net Transactions in stocks and bonds	218	617	610
All other items	447	407	149
	$ 1,270	$ 1,494	$ 1,131

* Total Government Capital Expenditures less Government Deficit.

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	Long Term Dominion	10 Municipal Bonds	10 Provincial Bonds	10 Public Utility Bonds	10 Industrial Bonds	40 Bond Average
1958 Aug. 1	3.96	5.17	4.72	4.87	4.96	4.93
Sept. 1	4.15	5.17	4.79	4.91	5.01	4.97
Oct. 1	4.13	5.30	4.97	4.95	5.15	5.09
Nov. 1	4.31	5.28	5.02	4.96	5.09	5.09
Dec. 1	4.42	5.27	5.08	5.02	5.12	5.12
1959 Jan. 1	4.48	5.38	5.14	5.14	5.22	5.22
Feb. 1	4.53	5.41	5.18	5.14	5.17	5.23
Mar. 1	4.65	5.52	5.17	5.17	5.17	5.26
Apr. 1	4.80	5.52	5.22	5.20	5.20	5.29
May 1	4.88	5.55	5.23	5.20	5.25	5.31
June 1	4.94	5.71	5.39	5.47	5.42	5.50
July 1	4.94	5.84	5.52	5.47	5.63	5.61
Aug. 1	4.97	5.86	5.61	5.57	5.60	5.66
Sept. 1	5.29	6.20	5.97	5.78	5.78	5.93
Oct. 1	5.80	6.60	6.19	6.01	6.05	6.21
Nov. 1	5.45	6.53	6.06	6.00	6.03	6.15
Dec. 1	5.58	6.52	5.97	6.00	6.02	6.13
1960 Jan. 1	5.70	6.60	6.12	6.04	6.14	6.23
Feb. 1	5.87	6.60	6.19	6.17	6.22	6.30
Mar. 1	5.63	6.56	6.05	6.14	6.20	6.24
Apr. 1	5.43	6.24	5.79	6.02	6.00	6.01
May 1	5.34	6.06	5.74	5.93	5.91	5.91
June 1	5.22	6.06	5.73	5.83	5.82	5.86
July 1	5.13	5.88	5.54	5.58	5.56	5.64
Aug. 1	5.21	5.84	5.51	5.50	5.52	5.59
Sept. 1	4.82	5.67	5.32	5.37	5.33	5.42
Oct. 1	4.77	5.61	5.28	5.29	5.24	5.35
Nov. 1	4.92	5.60	5.40	5.39	5.39	5.44
Dec. 1	5.35	5.95	5.60	5.54	5.62	5.68

CANADA

1961	Medium Term	Long Term				
Jan. 1	5.22	5.38	5.97	5.68	5.45	5.61	5.68
Feb. 1	5.18	5.26	5.94	5.70	5.49	5.62	5.69
Mar. 1	5.12	5.13	5.83	5.53	5.47	5.51	5.59
Mar. 30	5.18	5.26	5.85	5.65	5.51	5.61	5.66
May 1	5.10	5.31	5.92	5.74	5.54	5.68	5.72
June 1	5.09	5.21	5.82	5.62	5.48	5.60	5.63
June 30	4.83	4.98	5.71	5.37	5.37	5.47	5.48
Aug. 1	4.87	4.99	5.62	5.39	5.35	5.42	5.45
Sept. 1	4.83	4.96	5.60	5.38	5.39	5.43	5.45
Oct. 2	4.89	5.02	5.63	5.45	5.37	5.42	5.47
Nov. 1	4.77	4.92	5.56	5.36	5.37	5.35	5.41

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increases in exports of goods and services. 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 $699 million or 2.6% to a total of $27,375 million. The increase was modest when compared with the $1,732 million increase—or nearly 7% in 1959. Major changes were an increase of $753 million or 4.2% in labor income to $18,514 million and a decline in corporation profits before taxes (excluding dividends paid to non-residents) of $172 milliion or 5.9% 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 $85 million to $2,362 million in rent, interest 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 non-durables 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 $65 million or 4.3% to $1,588 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 $251 million or 4.9% to $5,400 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 $423 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 20% or $401 million over 1959 to $2,361 million.

Non-merchandise transactions in 1960 increased to an adverse net total of $1,122 million and brought the current account adverse balance position to $1,270 million. This compares with the 1959 current account balance of $1,494 milloin of which non-merch ndise items were $1,071 million.

The highlights of the Canadian economy in 1960 together with comparative figures for 1959 and 1958 are given in the following tabulation:

Security 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 net 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 unchanged from the $1,060 million in the corresponding period of 1960. In the first half of this year net new issues payable in foreign currencies only amounted to $21 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 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 "disinvestment" of government accounts in the early part of 1960 resulted in a sharp rise in bond yields which reached their peak during the month of February. The trend then changed and

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yields declined fairly steadily until October, 1960 when they again began to rise. This continued until February, 1961 where they levelled off. Since that time yields have slowly worked their way a little lower with this trend being more evident in the short end of the market.

The Money Market of 1960 was characterized by wide swings. Ninety-day Treasury Bills started off the year on a 5.14% basis following a decline from a 6.16% yield in August, 1959. The low for 1960 was a 1.68% basis in September and they ended the year at a 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 2.50%.

Industrial Production

Index of Industrial Production
Seasonally Adjusted
1949 = 100

		Total Index	Mining	Manufacturing	Electricity & Gas Utilities
1959	June	167.2	247.3	151.5	269.6
	July	166.1	247.9	150.7	260.9
	Aug.	164.9	246.0	148.9	270.6
	Sept.	168.4	263.9	150.4	280.7
	Oct.	171.1	259.6	154.2	278.1
	Nov.	167.8	264.1	149.3	285.3
	Dec.	169.4	257.1	152.1	284.9
1960	Jan.	172.4	256.2	155.6	287.5
	Feb.	170.4	260.6	152.6	288.9
	Mar.	171.7	263.8	153.0	299.6
	Apr.	166.8	251.5	149.2	293.0
	May	167.3	256.4	149.0	296.0
	June	166.9	249.6	149.0	302.1
	July	164.0	250.8	145.7	297.8
	Aug.	165.6	249.1	146.8	314.6
	Sept.	167.6	255.2	148.4	314.4
	Oct.	166.9	246.1	149.5	301.4
	Nov.	165.9	252.2	147.7	298.9
	Dec.	166.0	248.3	147.8	305.6
1961	Jan.	165.8	254.6	146.8	305.8
	Feb.	166.3	253.6	147.6	303.9
	Mar.	165.5	242.7	148.1	302.5
	Apr.	168.7	258.4	149.4	312.2
	May	169.3	266.6	148.4	325.5
	June	172.5	264.3	152.5	323.5

Source: Dominion Bureau of Statistics
Canadian Statistical Review

New Deals

These are strenuous times in both financial and economic Canada, as government, finance, business and industry seek means of putting the economy back into high gear and solve such knotty problems as adverse balances of payment on Current Account, government deficits, unemployment and the financing of our activities. Many of these problems are interlocking which makes the situation more complicated. As is to be expected, there is a wide diversity of views as to remedial methods all of which makes objective reporting difficult.

One of the most controversial subjects in Canada in the past two years has been the respective roles that are to be played by monetary policies in prompting the economic and financial welfare of the nation. Following the 12% increase in money supply in 1958 to support the large Conversion Loan operation and Federal deficits which produced pronounced inflation fears, the money supply was held almost constant between October, 1958 and October, 1960. This policy was in the face of a rise of nearly 8½% in the Federal net debt, with increases of similar proportions in provincial and municipal debt plus a 9% increase in the Gross National Product promoted accusations of an unnecessary "tight money" policy that was hindering the Nation.

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 $5.1 billion in August, 1959 to a low of $4.6 billion in February of 1960 had increased fairly steadily during 1960 and at the end of the year were approximately $5 billion again. After holding relatively constant for the first quarter of 1961, general loans again began to increase and by the end of the third quarter they had increased to a record high point of $5.6 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, 1961 were in excess of $7.7 billion, an increase of nearly $1 billion since September, 1958.

In the final four months of 1960 Canada's money supply was increased close to 1% per month. These were 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 9¼%. On an annual basis between October, 1958 and October, 1961 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 as Governor, 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 activity of other nations and in particular the United States. Under these circumstances, the 5% increase in 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 Dec. 20, 1960 to stimulate a greater participation of Canadian capital in the ownership of Canadian industry. Investment funds and mutual funds in Canada which qualify as "investment companies" under the Income Tax Act enjoy a special low rate of tax of 21%. Subsequent to 1956, there were no regulations as to the percentage of investments which should be in Canada. New regulations were introduced in the Budget that require that corporations desiring to qualify as "investment companies" for tax

Balance of Payments on Current Account

	Exports	Imports	Balance	Non Merchandise (net)	Current Account Balance
	millions of dollars				
1952	4,339	3,850	+489	-325	+164
1953	4,152	4,210	-58	-385	-443
1954	3,929	3,916	+13	-445	-432
1955	4,332	4,543	-211	-487	-698
1956	4,837	4,565	-728	-638	-1,366
1957	4,894	5,488	-594	-861	-1,455
1958	4,887	5,066	-179	-952	-1,131
1959	5,149	5,572	-423	-1,071	-1,494
1960	5,400	5,548	-148	-1,122	-1,270

Balance of International Payments on Capital Account

	Foreign Direct Invest	Canadian Direct Invest Abroad	All Transactions bonds and stocks	All Other Items	Overall Balance
	millions of dollars				
1952	+346	-77	+125	-558	-164
1953	+426	-63	+158	-78	+443
1954	+392	-81	+167	-46	+432
1955	+417	-74	-51	+406	+698
1956	+583	-104	+727	+160	+1,366
1957	+514	-68	+763	+246	+1,455
1958	+420	-48	+610	+149	+1,131
1959	+550	-80	+617	+407	+1,494
1960	+690	-85	+218	+447	+1,270

Source: Bank of Canada 1960 Annual Report

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purposes and to permit their Canadian shareholders to enjoy the 20% tax credit on diviends must, in the future, obtain at least three-quarters of the 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 paid by subsidiaries to non-resident parent corporations was increased to 15% and a 15% 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 withdrawal of 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 impairing 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 fund to lower the external value 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 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 in all likelihood by very high. 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, at least for the next 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 buy Canada mid and long term securities.

The third step to help the Canada 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 bonds held by the Fund would then be cancelled. This would remove about $245 million mid and long term bonds that have been overhanging the market.

Whether these steps will continue to have 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 struc-

Continued on page 54

Chartered Banks

Classification of General Loans

Month End		Business Loans	Personal Loans	Loans to Farmers	Loans to Institutions	Total General Loans
		millions of dollars				
1960	Jan.	3,093	1,044	369	168	4,674
	Feb.	3,101	1,041	351	167	4,659
	Mar.	3,150	1,049	348	167	4,714
	Apr.	3,171	1,078	361	165	4,775
	May	3,208	1,109	370	167	4,854
	June	3,267	1,135	386	168	4,957
	July	3,332	1,141	396	174	5,043
	Aug.	3,259	1,151	421	173	5,004
	Sept.	3,245	1,165	434	178	5,022
	Oct.	3,232	1,173	446	184	5,035
	Nov.	3,256	1,182	441	186	5,064
	Dec.	3,220	1,199	420	194	5,032
1961	Jan.	3,176	1,200	395	191	4,962
	Feb.	3,217	1,194	384	185	4,979
	Mar.	3,267	1,212	392	182	5,053
	Apr.	3,316	1,246	405	178	5,145
	May	3,337	1,284	418	183	5,223
	June	3,441	1,313	442	188	5,382
	July	3,481	1,346	446	188	5,460
	Aug.	3,547	1,371	462	188	5,568

Source: Bank of Canada Statistical Summary.

Distribution of Canada Direct and Guaranteed Securities

End of Period		Total Outstanding	Bank of Canada	Chartered Banks	Govt. Accounts	General Public: Market Issues	General Public: Canada Savings Bonds
		Millions of Dollars					
1955		16,000	2,416	3,124	1,491	6,536	2,433
1956		15,234	2,426	2,524	1,518	6,225	2,541
1957		15,165	2,463	2,641	1,367	6,045	2,649
1958		16,416	2,670	3,521	1,258	6,073	2,895
1959		17,135	2,677	2,811	923	7,513	3,212
1960		17,747	2,744	3,057	866	7,485	3,594
1960	Jan.	17,224	2,535	2,926	409	7,652	3,203
	Feb.	14,321	2,544	2,920	876	7,808	3,174
	Mar.	17,310	2,598	2,908	833	7,828	3,143
	Apr.	17,296	2,651	2,875	821	7,823	3,117
	May	17,232	2,645	2,956	811	7,735	3,085
	June	17,174	2,663	2,933	779	7,741	3,059
	July	17,106	2,715	2,874	848	7,629	3,040
	Aug.	17,102	2,723	2,905	900	7,556	3,017
	Sept.	17,110	2,676	3,061	907	7,464	3,002
	Oct.	17,366	2,769	3,127	950	7,518	3,002
	Nov.	17,995	2,754	3,095	985	7,527	3,633
	Dec.	17,747	2,744	3,057	866	7,485	3,594
1961	Jan.	17,741	2,637	3,157	882	7,471	3,594
	Feb.	17,730	2,584	3,275	800	7,485	3,585
	Mar.	17,753	2,662	3,309	727	7,493	3,562
	Apr.	17,717	2,739	3,161	728	7,563	3,527
	May	17,687	2,733	3,281	726	7,452	3,496
	June	17,762	2,714	3,381	733	7,462	3,473
	July	17,737	2,799	3,459	748	7,282	3,450
	Aug.	17,885	2,803	3,645	777	7,237	3,424
	Sept.	18,061	2,862	3,662	787	7,351	3,400

Source: Bank of Canada Statistical Summary.

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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. Constitution, 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 both 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 G. 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 Corporation on behalf of its shareholders has filed a "petition of rights" but to date of writing the B. C. Government has anounced no decision in this respect.

Legality Attacked in the Courts

The legal ramifications of the csituation 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. 13, 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 Electric. 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 25 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 Canadian 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 necsesary 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 175.1. Durable goods production has shown an uninterrupted rise since January. It now looks as if, for the first time in a number of years, Canada will have a surplus in her merchandise trade. The GNP is rising and corporation profits are begininng to improve and with the increased production unemployment 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 $2¾ to $3 billion, a level 20% or more above the previous peak year. While redemptions of the approximately $21 billion 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 ten 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.

Herbert R. Anderson

In terms of people, total shareholder accounts are now close to 5½ million held by an estimated 2¾ million individual investment accounts. These are large numbers in absolute terms. Their relative importance may be made plainer when it is pointed out that more than 20% of all holders of corporate securities own some mutual funds, and at least 10% of the total hold no other corporate security.

Underlying 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. After a time, if they are sound, they become tolerated and subsequently they are accepted as self-evident truths.

To the extent this is true, the three stages would rarely be reached by all people at the same time, so there doubtless are those with each attitude toward any new development at any given time.

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 just what an open-end investment company or mutual fund is may be in order. A mutual fund is no more or less than a commingled investment account, made easy to acquire or dispose of on an agreed-upon basis, that is aimed at a particular—and stated—investment result and operated within clearly defined policies. Other than within this broad definition, one mutual fund is no more necessarily similar to another than is any one of the individual accounts within any investment firm or brokerage office the same as all others. Using commonly understood military terms, there are mutual funds with all gradations of strategic objectives as between income, growth and stability and then, touching on the area of "risk tolerance," there is a further range in the tactics through which even similar objectives may be sought.

But, regardless of this (wholesome, 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 case of mutual funds from their earlier consideration as "another security" to their becoming a widely accepted consumer service.

The sale of liberty bonds to the public generally during World War I is often credited with stimulating and advancing the public's interest in saving and investing. Whatever the cause, personal savings and investment in fixed dollar commitments probably have grown more startlingly over a somewhat longer period than the growth of investment companies in more recent years.

(Since 1915, deposits in mutual savings banks have increased from $3.9 billion to $36.3 billion, investments in savings and loan associations from $1.48 billion to $71.4 billion and total assets of life insurance companies from $5.2 billion to $119.6 billion, percentage gains of 831, 4,724 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 erosion in the value of the saved dollar and (2) a most impressive 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 frankness 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 annuity" is one reflection of this. The consideration by savings banks in New York State of the possibility of their offering a mutual fund to depositors is another, as is the tendency by some banks to offer their common trust funds to the public generally. In the latter case, 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 fiduciary accounts, as was intended.)

Mutual funds are not the only sound way to share in the ownership of common stocks. However, they do provide many conveniences. They do tend to eliminate the problems of "choice and change." In addition, the selective diversification they provide within a stated field probably offers the greatest possible assurance of the investor's participation in the kind of investment results he seeks—and this may well be the fundamental fact underlying the industry's continued growth.

(That this is important is suggested by some rather interesting figures that indicate the problem of investors, sensed or understood, in actually achieving this result through individual stock selection. For example, using only those stocks that are listed on the New York Stock Exchange, we find as of a recent date that "the market" as measured by the Dow-Jones Industrial Index was about 35% above its 1955-57 highs. Yet 15 of the 30 stocks in this Index were below their individual '55-'57 highs by an average of 23%. Taking all stocks on the New York Stock Exchange, we find that 43% are still below their individual 1955-57 highs, some by substantial amounts. And even more startling, about one-third of all the stocks on the New York Stock Exchange that were listed then and now are still selling below their 1946 highs when the Dow high was less than one-third its persent level.)

Let's examine this development from another viewpoint. We all know our population has increased. The more important financial fact is that, coincidental with the nation's growth of population, the national income has become much more broadly spread. In other words, we not only have a lot more people but a higher proportion who are able to invest.

(Taking the 10 years ending in 1957, the latest date for which such figures are available, we find, first, that the number of "consumer units" increased by nearly 20%, from 44.7 million to 53.7 million—more people earning. We then find that the proportion earning more or less than $4,000 was exactly reversed over the 10 years. In other words, in 1947, 63% earned less than $4,000, and 37% earned more, 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 38%, 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, on the basis of dollars of constant (1957) value, 49% of all "consumer units" earned less than $4,000 in 1947, and 51% earned more as compared with 1957 when 37% earned less and 63% more. 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 but there is reason to believe that Social Security, and the substantial growth in use of employee retirement plans generally, has caused people to become more conscious of retirement planning. As long as people see little or no hope of accumulating 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 sufficiently possible of achievement to warrant doing something about it.

In short, we believe that the increasingly effective sales efforts in the sale of mutual fund shares are the result of these relatively fundamental forces and factors, rather than being the cause of the industry's growing importance.

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

Investment Company Institute

Mention should be made in this report of the recent change whereby the National Association of Investment Companies has become the Investment Company Institute. Organized 20 years ago as an Association of issuers, 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 can discern, isolate and remove possible weaknesses, should add to its strength.

Constructive Analysis Welcomed

Today's investment companies, of course, have grown to their present stature and public acceptance under carefully drawn statutes that regulate their operation and prescribe disclosure standards that are unique in today's business world. Significantly, these statues —and particularly The Investment Company Act of 1940—represent the cooperative effort of the authorities 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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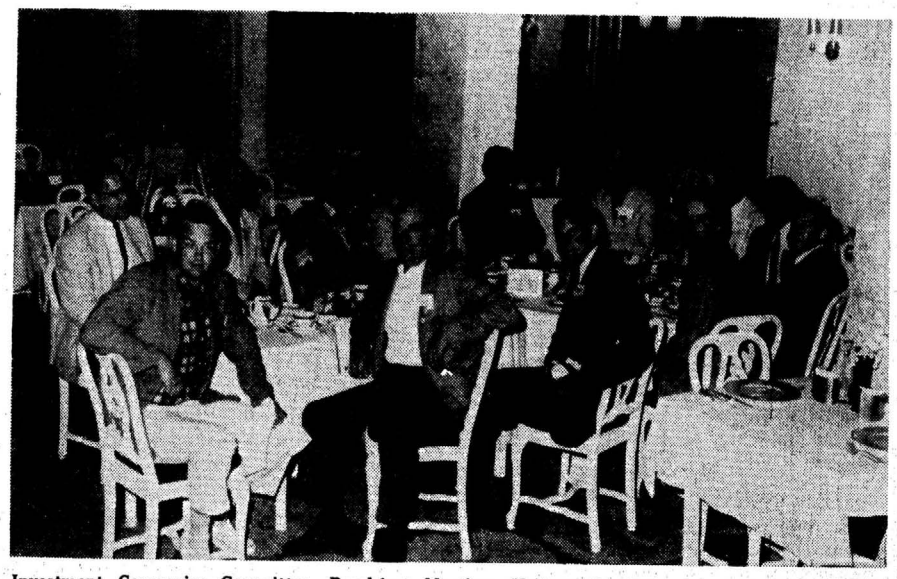

Investment Companies Committee, Breakfast Meeting—Herbert R. Anderson, *Distributors Group Incorporated*, New York, Chairman

G. Powell Davis, *Investment Corporation of Virginia*, Norfolk, Va.; C. Wiley Grandy, *Investment Corporation of Virginia*, Norfolk, Va.; Mr. & Mrs. Glenn Miller, *Cruttenden, Podesta & Co.*, Chicago

Continued from page 55

provements in the basic operation of investment companies can and should be made, they are generally welcomed. Those in the business have the same purpose. To the extent, however, that these inquiries simply challenge or seek to deny the profit that should accrue to a successful business enterprise, they strike at the basic motivation through which the services and products offered to the American public in a competitive market continuously are improved. And that is everybody's business.

Significant Special Services

More than two-and-a-half million present shareholder accounts of mutual funds—about 45% of the total number—are now regularly adding to their investment through the accumulation and dividend reinvestment plans offered by investment companies. Illustrating the adaptability of the investment company vehicle to the needs and objectives of people, the relatively new Remittance or Withdrawal Plans now number close to 30,000, represented by accounts with a present value of about $500 million.

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, today the figure is still no more than an estimated 2.5% 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 Board 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 this program, a report on 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 the committee and others who were interested.

Harvey B. Gram, Jr.

Lauds 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 liberalizing legislation has been enacted in the interim and, of course, there have 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 has received a number of requests for information as to services and other reports available which provide data on and analyses of small business investment companies and reports generally in this area. For the benefit of those interested in such matters, we list, without necessarily endorsing, the following:

(1) The SBIC Evaluation Service which is published monthly by S. M. Rubel and Associates, 53 W. Jackson Blvd., Chicago 4, Ill. This Service is what its name implies and contains a price index, data on book value, price premium, average portfolio yield, percentage of funds invested, total funds invested, etc.

(2) The SBIC Newsletter, 927 15th Street, N. W., Washington 5, D. C., which is published twice a month and reports generally on developments in this field.

(3) Keyfax Publications, Inc., Sherman Oaks, Calif., a very new publication in this field.

For those interested in the substantive changes in the 1958 Act which were made by the Small Business Investment Act Amendments of 1961, and also other legislative enactments of the First Session of the 87th Congress having to do with small business, we call your attention to a compendium of these items which was put in the *Congressional Record* by Senator Sparkman on Sept. 27, 1961, a copy of which is attached to this report as Appendix I.

Your committee wishes particularly to express its thanks to Mr. Fine for his cooperation and helpfulness during the past year. We also wish to acknowledge the cooperative helpfulness of the National Association of Small Business Investment Companies. We welcome suggestions from the membership as to how the committee can be more helpful and useful in this area.

Respectfully submitted,

SMALL BUSINESS COMMITTEE

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APPENDIX I

The Small Business Legislative Accomplishments of the 1st Session, 87th Congress.

Extension of Remarks of 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 1950, when the present Small Business Committee of the Senate was established by Senate Resolution 58, 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 enterprisers wage their oftentimes desperate struggle for survival on today's business battleground.

Perhaps mindful of the growing casualty lists mirrored in the mounting number of small business bankruptcies, the 1st session of the 87th Congress againn demonstrated its awareness of the problems of small businessmen through the enactment of various measures to strengthen the small business segment of our economy. In summarizing these at this time, I cannot let the occasion pass without taking notice of the combined efforts of the members of the Senate Small Business Committee to help small businessmen hurdle many of the obstacles which stand between them and the successful conduct of their enterprises. Without stint the members gave of their time and energy to make it possible for the owners and managers of small concerns, if not to overtake, at least to stay competitively within shouting distance of their larger and more powerful rivals. In no slight measure, these efforts of the committee members were responsible for the enactment of significant small business legislation during the first session of the 87th Congress.

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 investing public to the idea of small business investment companies has exceeded expectations. Today there are in existence 386 investment companies licensed by the Small Business Administration. These have aggregate capital in excess of $300 million available for long-term loans and equity capital for small business enterprises. Even so, as with all new and original concepts, it became evident that opportunities existed for improving and expanding the SBIC program, chiefly by means of making the formation of SBIC's more attractive to the investing public.

New Incentives Provided

With this as an objective, Congress passed S-902-Public Law

Continued on page 58

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Small Business Committee, Breakfast Meeting—Harvey B. Gram, Jr., *Johnston, Lemon & Co.*, Washington, D. C., Chairman

Mr. & Mrs. Milton F. Lewis, *A. G. Becker & Co. Incorporated*, New York; Mr. & Mrs. Paul F. Genachte, *Chase Manhattan Bank*, New York

Continued from page 57

87-341-the Small Business Investment Act Amendments of 1961, to offer new incentives for the formation of SBIC's. 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 $150,000 to $400,000.

(2) Banks may now invest 2% of their capital and surplus in SBIC's. Previously banks could only invest 1% of their capital and surplus in SBIC's.

(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 SBIC's. After a hearing, SBA can suspend the license of an SBIC. Licenses, 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) SBIC's may now cooperate with lenders and investors, whether incorporated or unincorporated, in furnishing funds to small business firms. 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 87-305—approved Sept. 26, 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 87-305 laid the foundation for a program designed to increase the role 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, points 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, coinsure, and reinsure 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 87-70 — authorized the Small Business Administration to make disaster loans to a small business 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 87-27—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 $10,700,000 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.

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Report of IBA Railroad Securities Committee

James L. Sheehan, Partner in Dick & Merle-Smith, New York City, and Chairman of the Railroad Securities Committee, presented the following Report to the Convention.

Since the end of World War II seven major studies of transportation have been made and publicized. They contained numerous constructive recommendations for the modernization of transportation policy and the promotion of a higher degree of financial strength for common carrier transportation. The failure to accomplish little more than minimum progress with respect to a modernized transportation policy and regulatory philosophy is one of the principal reasons why the railroad industry continues to be a notoriously weak segment of our economy.

James L. Sheehan

To a degree, in certain instances more than others, railroad management also should be charged with some part of the responsibility for the present predicament of the industry. It is our opinion that railroad management should be more cooperative and more statesmenlike in coping with general problems of public transportation.

Unless appreciable and rapid progress is made in dealing with the problems, the survival of the railroad industry as an integral part of our free enterprise system is seriously in jeopardy and government ownership and operation would appear to be inevitable.

Figures Tell the Story

There is probably no better way to exemplify the combined effect on the railroad industry of an unsatisfactory national transportation policy and internal management difficulties than to reflect the rate of return on its net property investment. The figures for recent years are given in Table I.

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 Pocahontas roads) at the present time.

The roads operating in the Eastern District (exclusive of the Pocahontas carriers) seem to have suffered the most in the last few 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 decline was not appreciable, the greatest decline being about 20% in the case of the Pocahontas Region carriers.

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

1961 Net Earnings at Depression Level

The year 1961 for the railroad industry from the standpoint of net railway operating income (earnings derived from direct railroad operations) is going to be quite unsatisfactory. Total operating revenues should aggregate approximately $9.1 billion, as contrasted with $9.5 billion for the preceding year. Net railway operating income probably won't exceed $500 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 revenues of all the class I roads totaled $3.45 billion, or less than 40% of the current level of revenues.

Stated another way, the 1935 net earnings were equivalent to 14.5% of operating revenues for that year, whereas the corresponding ratio for the indicated current year's result is only 5.5%. The 1935 profit margin of 14.5% applied to the projected 1961 revenues would produce a net operating income of over $1.3 billion; notwithstanding such a level of earnings, the rate of return on net property investment would still be less than 5%.

TABLE I

Rate of Return on Net Property Investment

Period—	All Class I Railways	Eastern District Roads	Pocahontas Region Roads	Southern Region Roads	Western District Roads
Year: 1956	3.95%	3.30%	8.68%	5.00%	3.54%
1957	3.36	2.40	8.44	4.17	3.18
1958	2.76	1.11	6.95	3.68	3.20
1959	2.72	1.42	6.89	3.63	2.87
1960	2.13	0.62	6.51	2.97	2.40
1st 8 mos. 1961	1.40	—0.98	5.07	2.64	2.34

TABLE II

Carloadings of All Class I Railways

Period—	1961	1960	% Change 1961-1960
4 Weeks January	1,921,855	2,386,196	—19.5%
4 Weeks February	1,954,793	2,292,112	—14.7
5 Weeks March	2,506,536	2,898,441	—13.5
4 Weeks April	2,106,107	2,492,148	—15.5
4 Weeks May	2,242,173	2,558,522	—12.4
5 Weeks June	2,860,298	3,062,371	— 6.6
4 Weeks July	2,173,783	2,298,399	— 5.4
5 Weeks August	2,966,799	2,963,099	+ 0.1
4 Weeks September	2,351,174	2,328,706	+ 1.0
4 Weeks October	2,580,437	2,557,643	+ 0.9
5 Weeks November	------	2,725,718	---
4 Weeks December	------	1,878,036	---

Average Fixed Charges Coverage Below 1960 Ratio

Class I railways combined earnings coverage of 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 one 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 recovers and costs remain relatively stable 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 over the rougher spots by guaranteeing their borrowings, as provided for in the Transportation Act of 1958. At the present time the principal amount of such guaranteed loans aggregate approximately $153,000,000.

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.

Piggyback Loadings Up Sharply

Freight car loadings by months in 1961 in comparison with corresponding figures for the preceding year are given in Table II.

Piggyback loadings continue to expand and a new record was set recently when 13,461 cars were loaded in a single week, a gain of 46.5% over the same week of the year 1959.

Well conceived and equitable plans for consolidation of railroad properties are in the public interest. They shoulld be sanctioned without undue delay if economic waste is to be avoided and the public is to receive improved transportation service at the lowest possible cost.

Projected Merger Savings

Some idea of the estimated annual savings (pretax) that may be realized from current merger proposals are shown in Table III.

The annual savings add up to $253 million. Since the studies that suggested these savings date back to a period when costs were at a lower level than obtain today, it is reasonable to suppose that such savings are understated in terms of current costs.

It is estimated railroad consolidations on a broad national basis that might reduce the number of systems to as few as 10 or 12 could mean savings (pretax) in transportation costs of upwards of

Continued on page 60

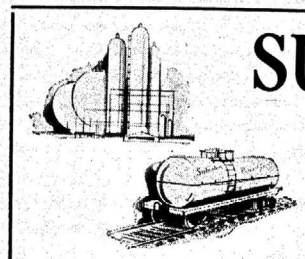
TABLE III

	Estimated Savings
Atlantic Coast Line—Seaboard Air Line	$38,700,000
Great Northern—Northern Pacific—Burlington	43,000,000
Norfolk & Western—Wabash—Nickel Plate	27,000,000
Chesapeake & Ohio—Baltimore & Ohio	45,000,000
Pennsylvania—New York Central	100,000,000

TABLE IV

All Class I Railways—Gross Capital Expenditures

Year	Expenditures on Roadway	Expenditures on Equipment (000)	Total
1956	$406,500	$821,357	$1,227,857
1957	386,956	1,007,749	1,394,705
1958	258,356	479,680	738,036
1959	250,456	567,546	818,002
1960	285,615	633,484	919,099
Total	$1,587,883	$3,509,816	$5,097,699



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	1961	1960
Earnings for 10 months Ended 10/31	$2,116,060	$1,908,284
Earnings for 12 Months Ended 10/31	$2,798,056	$2,540,939
Earnings per share Common for 10 Months Ended 10/31	$1.34	$1.25
Earnings per share Common for 12 Months Ended 10/31	$1.79	$1.69
Average shares Common Stock Outstanding 10 Months Ended 10/31	1,520,600	1,430,494
Average shares Common Stock Outstanding 12 Months Ended 10/31	1,511,836	1,428,956

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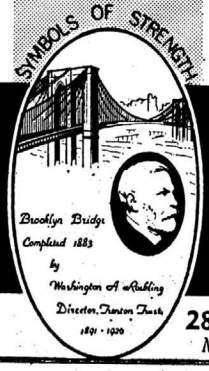

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Continued from page 59

$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 railroads 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 ebb and flow of earnings and consolidation progress.

Respectfully submitted,

RAILROAD SECURITIES COMMITTEE

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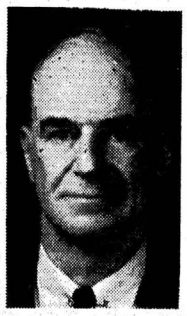
Report of IBA Governmental Securities Committee

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

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.



George B. Kneass

The new Treasury "team" of Secretary Dillon and Under Secretary for Monetary Affairs, Roosa and his competent staff has adopted a 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 its regular refunding operations.

The report of the previous year stated, "Our unfavorable balance of payments has added a brand new problem to 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 Treasury 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 lead to the 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 area and, 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 moves attributed to the Open Market Committee's activities since February. However, those responsible for the execution of the revised policies continued to appear to have as their objectives the unobtrusive assistance to the flow of funds into appropriate domestic market areas. There is ample evidence that the record volume of private financing 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 and securities sold for cash and cash refunding while increased in volume, had no real depressive impact on the market. The larger cash requirements as they developed, brought the total needed in the July-December period to better than 11 billion dollars, of which nearly 7 billion represented the cash budget deficit, one and a half billion, the retirement of the September Tax Anticipation Bills, and the remainder attrition 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 debt extension. The average maturity of the marketable debt as of that date was close to 4 years, 8½ months, so by the calendar yearend it should be close to the 4 year, 7 month figures of Jan. 1, 1961.

Active Year for Treasury Financing

The new Treasury Administration, as evidences 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 2¼% interest, maturing in 1962, and two issues carrying higher rates maturing in 1963, the privilege of extending into bonds due in November 1966 and 1967. Holders of over $6 billion securities accepted this exchange. In the middle of September, owners of the 2½% bonds maturing in 1970 and 1971 were offered a "senior leap frog" advance refunding with a choice of 3½% bonds due in either 1980, 1990 and 1998 with appropriate price adjustments. This privilege was accepted by about 50% of the holders and totaled $3¾ 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 $23.5 billion had a life of over eighteen months. There were also twelve increases in the bill issues. The banking system and the so-called "other investors," including private industry and foreign interests, added significantly to their holdings of Treasury obligations, particularly in the short area.

Sales of E and H Savings Bonds have been at an encouraging rate, but maturities of older issues no longer offered for sale are becoming sizable. Nearly $1 billion of series F 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 bond—the 3⅞s due in 1968. Your committee has consistently urged the transfer of ownership of this class of restricted bond into marketable obligations. It is unlikely that this extension into this issue will have any noticeable price impact.

The recent projections of budgetary requirements reveal that the January-June period will balance overall as far as receipts and expenditures are concerned. Maturities during this six months, excluding 3 and 6 months bill rollovers amount to about $35 billion, of which $26 billion is held outside the Federal Reserve Banks. It would appear to be a busy half-year in Treasury finance and will require a favorable atmosphere to create attractive securities for cash refunding or exchange refunding and, at that same time, pursue a furthering of the debt extension program, which, under most circumstances, appears so important and desirable.

Urges New Debt Ceiling Policy

The Treasury's debt is currently nearly $297 billion, just under the legal limit of $298 billion. Such an absolutely inflexible legal limit can prevent the Treasury from using several practical debt management tools for the refunding of approaching maturities. It is suggested that legislation next year provide for a temporary escalator clause which would permit the debt ceiling to be exceeded for two week periods only, and then solely for accommodating the refinancing of maturing debt.

The Treasury's task will not be an easy one in the next six months. It would appear that our

Continued on page 62

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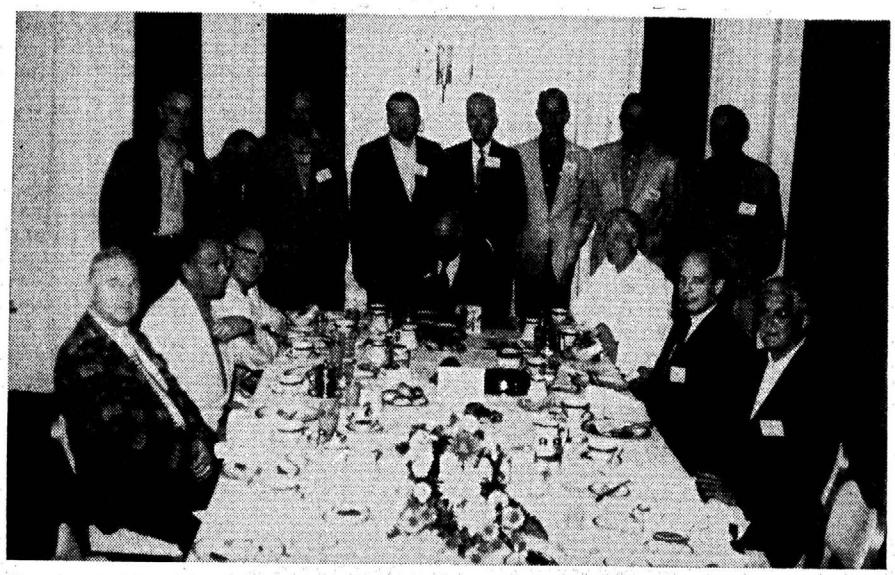

Governmental Securities Committee, Breakfast Meeting—George B. Kneass, *Philadelphia National Bank*, Philadelphia, Chairman

Mr. & Mrs. Malcolm S. Prosser, *Seattle First-National Bank*, Seattle; Mr. & Mrs. Lyle F. Wilson, *Pacific Northwest Company*, Seattle; Sherman Ellsworth, *Wm. P. Harper & Son & Co.*, Seattle

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,

GOVERNMENT SECURITIES COMMITTEE

George B. Kneas, Chairman
The Philadelphia National Bank
Philadelphia, Pa.

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The National City Bank
Cleveland, Ohio

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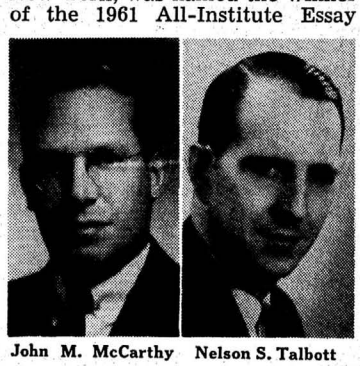
New York, N. Y.

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

IBA Institute's Contest Winners

HOLLYWOOD, Fla.—John M. McCarthy of Lord, Abbett & Co., New York, was named the winner of the 1961 All-Institute Essay



John M. McCarthy Nelson S. Talbott

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 50th Annual Convention and briefly addressed the delegates on the subject of his paper: "Small Business Investment Companies—Investment Opportunities and Pitfalls."

Nelson S. Talbott, Partner of Prescott & Co. in Cleveland, as winner of the Second-year Class Essay Competition, received a $250 award 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, Abbett & 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. A graduate of Yale's Sheffield Scientific School with a B.S. in Industrial Administration and Engineering, he became associated with Prescott & Co. in 1958 and was elected to general partnership in 1960. He is also a director and chairman of the finance committee of The Talbott Corporation and a director of The Huffman 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 with them covering this period had been signed. It was also indicated at that time that we were then completing the process of defining the scope of this study.

Ralph F. Leach

We have since that meeting agreed on the coverage which can be obtained in the time and with the money available. This study will embrace a comprehensive examination of sources of funds of both U. S. corporations and of state and local governments. It will examine the role of the investment banker, the growth of the investment banking industry, and its history including the changes in its organizational structure.

With the exception of the U. S. Government security market (which has been studied recently elsewhere) the study will examine closely the major sectors of the new issue market, including corporate, municipal and foreign securities. The study will investigate the relative importance of each type of security activity, including activity in outstanding issues, for different types of firms as well as for the industry as a whole; review the characteristics of new issue transactions including the nature of the customers and the size and price structure of the transactions; consider the interrelationships of manager, underwriting groups, selling groups, and issuer and the disposition of unsold securities, etc. The study will also cover the economic structure and personnel of the investment banking industry, its financial characteristics, and methods of financing, all with historical perspective.

The balance of this year has been devoted to the preparation of questionnaires which will shortly be sent to all IBA members and to a cross-section of non-members. The committee has spent a great deal of time with representatives from the Wharton School in simplifying the questionnaires and in making certain that there will be a minimum of difficulties presented in assembling the data required.

Questionnaires Being Mailed

The questionnaires are currently being sent out and data will be collected for the period January through March of 1962. Included in the process of preparation was a thorough pre-test of the questionnaries with both bank and non-bank firms. In pretesting it was found that while cooperating firms sometimes had difficulty in isolating certain data after the fact, the difficulties were not likely to occur if preparations for filling out the questionnaires were made in advance. It is hoped that the designated person in each firm will be thoroughly familiar with the material required prior to the end of December and that he will be able to set up the books of his firm in such a way as to provide the data with a minimum amount of disruption to the normal work process.

I would like to stress to all members that this very important project will be no better than the statistical response which we will obtain from all of you. I ask therefore that each of you take the responsibility to stress cooperation within your own firm and to other firms in your area. We will be working through regional groups to elicit as close to a 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, evaluation and analysis, will be under way by mid-1962. At this time we expect to call on some of the leaders in various fields to assist in interpreting some of the basic material. Following that a series of studies growing out of this project will be published. It is our expectation that the first of such 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 a year ago. Having thus accepted the challenge to study our own industry well in advance of the recent interest shown by Congress in the securities business means that we will 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.

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 on both organized exchanges and over-the-counter markets. 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. Of necessity it will probably have to concentrate upon limited areas and fringe 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 this extent 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 emphasis should also contribute materially to the final body of data that will be available on our industry. To this extent the end result may be a more useful, effective, valid and meaningful end 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.

Amyas Ames
Kidder, Peabody and Company
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Report of IBA Nuclear Industry Committee

Dr. Paul F. Genachte, Vice-President, Atomic Energy, Chase Manhattan Bank, New York City, again was Chairman 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.

Dr. Paul F. Genachte

Power Reactors: Economic Nuclear Breakthrough Apparent 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 alone. 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 5.6 mills per kilowatt-hour with the first core and 5.3 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) must be on the order of 12 to 15% and the load factor, 85 to 90%. The AEC has estimated the cost at 6.7 rather than 5.6 mills per kilowatthour. Be that as it may, this 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 closed-cycle reactor at Camp Pendleton on land belonging to the United States Marine Corps. Joint usage of the plant provides for 80% of the cost to be borne by Southern California Edison. This company would also take 80% of the plant's production. The target date for this plant, which is also fully competitive and again without subsidy, is 1965.

Yankee Electric Atomic, which began full power production at a level of about 135,000 kw last January, is now thinking of embarking on another plant with a capacity of 250,000 to 300,000 kw in about a year. This decision evidently results from the successful operation of the first plant. The new plant would go on the line in 1966. The Yankee reactor has performed beyond expectations, both technically and economically. Costs are estimated to be 9 to 10 mills per kilowatthour or just about competitive in this geographical area. A second core, in due time, should bring the costs down to the point at which the plant will be fully competitive.

Late this year or early next year, the large Consolidated Edison plant will come into operation with an installed capacity of 255,000 kw. The company is already considering a second reactor at Indian Point, near Peekskill, New York.

In 1962, the fast breeder reactor of the Power Reactor Development Company (Detroit Edison and 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, is studying a possible 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 importance of one fact cannot be overstressed. We definitely have a more diversified program 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 organic-moderated reactor, the gas-cooled reactor and their variations. Manufacturing companies such as General Electric, Westinghouse, Allis Chalmers, Babcock & Wilcox, North American Aviation, General Dynamics, Martin, Combustion Engineering, and some of our most prominent consultant firms as Stone & Webster, Bechtel and Ebasco Services are engaged in this global effort.

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 installed capacity of utilities at that time, since in 1965 the total installed capacity should be 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 almost 40% for natural uranium. The reduction in these base charges was made possible by decreased costs incurred in the production of natural uranium. These new charges are based on a price of $8 per pound of natural uranium oxide, which is the price established by the AEC under its domestic purchase program for the period from April 1, 1962 to Dec. 31, 1966.

Simultaneously, however, the charge rate on the inventory of uranium in a reactor was increased from the previous 4% to 4¾%. The theory behind this 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 since the rate was first established in 1954.

The combined effect of these measures has been to reduce the nuclear fuel cost from .3 to .6 mills per kilowatthour on the basis of present burn-ups. This was 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 unusually high burn-ups are possible, which would cut the cost of the nuclear fuel by almost 50%. Even with the present reactor technology and the existing limitations in heat fluxes, important fuel savings could be achieved. This approach is being investigated.

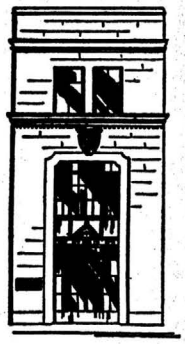
These new developments have convinced your Committee that it will be possible to have nuclear power plants that will be fully competitive with conventional power in several areas of the United States by 1965.

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. Changing the present leasing policy to outright sale would mean that the current 4¾% use charge would jump to about 9 to 12% (gross rate of return) for private utilities 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 kilowatthour more or less.

The first reaction of utilities was favorable to the idea of private ownership of atomic fuels. However, the immediate switchover to private ownership would act as a brake on the growth of atomic energy. Therefore, the AEC now believes that there will have to be a transition period of perhaps 10 years or more. Over such a period, it is certain that the higher cost of atomic energy resulting from private financing of fuel inventories would be more than offset by other cost reductions resulting from improved reactor technology and future reductions in the cost of uranium oxide. Congress has been very security conscious and there is no telling when it may agree to modify the Atomic Energy Act. There may be a prolonged legislative battle, which could last several years. Some of the transition measures suggested by the AEC include: the continued leasing until a predetermined date of purchase; purchase at an early date with payment in instalments; purchase at an early date with deferment of payment; purchase through bonds or bank loans

Continued on page 91



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Report of IBA Oil, Natural Gas Securities Committee

L. Emery Katzenbach, II, partner White, Weld & Co., New York City, and Chairman of the Oil and Natural Gas Securities Committee, submitted the following Report to the Convention:

Trends in the Domestic Petroleum Industry

Oil industry earnings, as measured by the 32 oil companies tabulated by the Chase Manhattan Bank annually, 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 $3.0 billion was reported by these companies. Earnings in 1960 afforded a 10.0% return on net assets (preferred and common stocks plus surplus), and was the second consecutive year to record an improvement over the 9.5% rate of return in 1958, the lowest in more than a decade.

L. E. Katzenbach, II

The rate of return as computed above is a composite of domestic and foreign earnings. As indicated below, return on domestic investment declined from 1955 through 1958 and increased modestly thereafter. Return on foreign investment has declined since 1955.

	Return on Investment Domestic	Foreign
1955	10.2%	30.2%
1958	7.2	17.3
1960	8.8	13.8

Capital expenditures continued to decline in 1960. The accompanying table reveals a decline from peak spending of $5,453,000,000 in 1957 (reflecting heavy concession purchases in Venezuela) to a low of $4,241,000,000 in 1960.

The largest percentage decrease in spending has occurred abroad although over the five-year period the decline in domestic expenditures has been somewhat greater in dollar volume. Lower refinery expenditures have been partly offset by rising outlays for petrochemical facilities. Well drilling activity declined from 58,160 wells in 1956 to a subsequent low of 46,751 wells in 1960. Total wells drilled in 1961 may somewhat exceed the 1960 level but in view of the continued domestic surplus of crude oil, no significant improvement over the 1960 level is anticipated for the next two years at least. Although plans have been announced by three of the major oil companies to construct major refineries in the next few years, no construction dates have been announced. There will be virtually no increase in total refining capacity this year, nor is any measurable amount anticipated in the next few years again reflecting the ample unused capacity in this activity.

Record Earnings Forecast

The downward trend in capital spending combined with a moderately rising trend in current cash earning power has further strengthened the already strong financial structure of the petroleum industry. Cash earnings in 1960 as computed by the Chase Manhattan Bank amounted to $6.17 billion as compared to $5.88 billion in 1959. The best year in history was 1957 when $6.32 billion were reported as cash earnings. Therefore, the petroleum industry in 1960 came close to equalling its most profitable year. It is probable that a new record will be established in 1961 or 1962.

The year 1960 saw a new high in the amount of dividends paid out by major oil companies. Dividend payments amounted to 23% of cash flow last year compared to only 17% as recently as 1956. Compared with $1.47 billion disbursed in 1959, $1.50 billion was distributed in 1960. Working capital also increased, rising $320 million in 1960 compared to $180 million in 1959.

Barring a significant change in weather patterns, we see a reasonably good chance that 1961 industry earnings will surpass 1960 and 1962, stimulated by a rising economy, may be moderately more profitable than 1961. Nevertheless, the existence of an excess of both refining capacity and produceability seems to preclude a substantial improvement in earnings for several years to come.

We have demonstrated that under current and foreseen conditions the demand for capital within the industry can be well supplied from internal sources. Thus, with the exception of occasional public financing by large oil companies to provide funds to refinance short- or medium-term debt, there is little prospect of investment bankers having much in the way of oil industry securities to sell to the public. Equities of small, more speculative oil securities are even more scarce.

Financing Prospects

The most prevalent type of financing undertaken by the oil industry this year (and in prospect for the next few years) results from the purchase of producing companies by large integrated companies. The largest financing of this type in 1961 was the sale of Honolulu Oil Corporation's assets to Standard Oil Company (Indiana) and Tidewater Oil Company. The total amount of capital involved amounted to about $360 million, of which $270 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 Argo Oil Corporation's assets to Atlantic Refining Company is expected to be financed with over $100 million of production payments with the balance provided in cash by Atlantic. In the preliminary stage is the proposed purchase of Republic Natural Gas Company's assets by Socony Mobil Oil Company for $150 million plus the assumption of certain debts by Socony.

Aside from these substantial financial transactions, a large number of properties changing hands represent much smaller sums and involve, in some cases, only a few hundred barrels of daily production. A considerable number of such transactions are thought to involve less than a million dollars in total value 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; the expense, and in some cases, the managerial problem of expanding into refining and marketing to assure an outlet for oil production; aging managements and failure to develop adequate middle management prepared to assume the responsibilities of top management; and finally, pressure from stockholders to liquidate and thereby achieve a value for the share 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 rapidly rising demands of the oil consuming public. Under present day conditions, however, oil companies, with few exceptions, are generating more than sufficient 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.

In the meantime, we are likely to witness a number of additional acquisitions and mergers, and while such transactions may require 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 oil equities may, in general, look forward to rising 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 fo producer

Continued on page 105

Capital Spending by Oil Industry
(Millions of Dollars)

United States:	1960	1959	1958	1957	1956
Production	$2,131	$2,113	$1,873	$2,294	$2,297
Refining/Chemicals	439	362	536	792	713
Other	606	562	564	690	614
Total U. S.	$3,176	$3,037	$2,973	$3,776	$3,624
Foreign	1,065	1,229	1,383	1,677	1,364
Total	$4,241	$4,266	$4,356	$5,453	$4,988

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.

Robert A. Podesta

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:

Alaska	New Mexico
Arkansas	New York
Colorado	North Dakota
Connecticut	Oklahoma
Florida	Oregon
Georgia	South Dakota
Indiana	South Carolina
Kansas	Tennessee
Maine	Utah
Michigan	Washington
Missouri	Wisconsin
Montana	

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, all based on the Uniform State Securities Act with modifications:

Colorado	Montana
Indiana	South Carolina

The new acts in these four states include provisions for: (a) the manual exemption for sales by registered dealers in the secondary market; (b) registration by notification for securities meeting specified requirements; and (c) registration by coordination for securities which are also registered under the Federal Securities Act of 1933.

There has been frequent criticism of the provisions in a few state securities acts authorizing the commissioner to deny registration of securities if he finds that the issue would not be "fair, just or equitable," because such a provision establishes no real statutory standard and simply permits the commissioner to deny registration of any issue that he personally dislikes. The old acts in Indiana and Montana included "fair, just and equitable" provisions; but those provisions are eliminated by the new acts.

A bill to provide a complete new securities act embodying the Uniform Act failed to pass in Wyoming.

In California, a bill to provide the Uniform Act with some modifications failed to pass, although it was endorsed by the California Corporation Commissioner, the California Bar Association and the IBA. The work toward adoption of the Uniform Act in California has been a major project, which would have made many desirable improvements in the California securities law. Great commendation is due all of those who have worked on this project.

Deplores Arkansas Yardsticks

An adverse development is the adoption in amendments to the Arkansas Securities Act of provisions that, before any security may be issued as an exempted security under six specified classes of exempt securities and before any transaction shall be executed as an exempt transaction under five specified classes of exempt transactions (including the exemption for nonissuer distribution of outstanding securities about which specified information is available in a recognized securities manual), a proof of exemption must be filed with the Commissioner with payment of a filing fee of $10. The proof of exemption must contain a statement of the grounds upon which exemption is claimed and a declaration of which exemption is claimed. These filing and fee requirements in Arkansas have been applied to securities and transactions which were classed as *exempt* in the Uniform Act after careful consideration. *This Committee strongly opposes such conditions on exemptions* because they, in effect, require registration where there should be exemption.

Maine was added this year to the three states (Kentucky, New Jersey and Washington) which provide for the appointment of a State Securities Advisory Committee. We believe that such advisory committees can serve a useful purpose in providing practical assistance to administrators in effecting sound regulation.

A noteworthy development occurred in Maryland, where Governor Tawes appointed a committee to consider the desirability of adoption of a new securities act. The committee has recommended adoption of the Uniform State Securities Act (with some modifications), to provide anti-fraud provisions, requirements for the registration of dealers and agents and requirements for the registration of nonexempt securities. The security registration requirements of the act would be designed primarily to require full disclosure to investors and would not provide authority for the administrator to deny registration on the basis of the amount of underwriting or selling commissions or compensations. (The present act includes anti-fraud provisions and requirements for the registration of dealers, with an exemption from dealer registration for firms which are members of a national stock exchange registered with the SEC.; but it does not require registration of securities.)

Last year this Committee published a "Primer on State Securities Regulation." The Primer was used widely as a simple explanation of state securities regulation. The Primer has been revised to reflect the important amendments to state securities acts this year and the revised edition is now available on request from the IBA.

II

Survey of State Securities Registration Problems

In June of this year IBA President George Newton in a letter to all IBA members requested information regarding each issue managed since Jan. 1, 1961 which was not qualified in certain states because of blue sky law requirements. It was hoped that this information would be helpful in working with state securities administrators on problems encountered in registering issues under state securities acts. APPENDIX B is a summary of some of the principal problems reported. In many instances we believe that corrective amendments or reconsideration of administrative practice are indicated.

III

Options and Warrants to Underwriters

Issues involving options or warrants to underwriters can be registered in all states if specified conditions are met in the terms of the options or warrants.

The statement of policy on options and warrants adopted by the North American Securities Administrators in 1946 created a general assumption that options or warrants would be looked upon with great disfavor in connection with the application for registration of securities, and the statement of policy was followed in a number of states. Under that policy a few administrators refused to register any issues involving options and warrants and in a few states contended that where their laws provided percentage limitations on the amount of underwriting commission it would be impossible to determine whether the percentage limitation was met until the options or warrants were sold and the profit to the underwriter was determined. At the Annual Meeting of the N.A.S.A. in September, 1959 the administrators approved guides in determining whether the issuance of stock options is justifiable under the statement of policy, providing that the statement of policy should be given a *liberal interpretation* as to options or warrants issued to underwriters in connection with a public offering if specified conditions are met.

At the Annual Meeting of the N.A.S.A. this year, three further changes in the statement of policy were approved: (1) permitting options or warrants to be assigned to partners of the underwriter when the underwriter is a partnership; (2) reducing from 10% to 7% the required step-up in exercise price each year the option or warrant is outstanding, or in the alternative an overall step-up of 20%, the step-up to commence 12 months after the grant of the option or warrant and to be made at the time the option or warrant is issued; and (3) to reduce from one year to 11 months the period in which the option or warrant must be nonexercisable. Attached as APPENDIX C is the statement of policy of the N.A.S.A. on options and warrants with the changes approved this year.

Some states do not follow the statement of policy on options and warrants. Other states follow part of it or use it as a general guide. Some states follow it strictly.

This Committee wishes to express its appreciation to the members of the Options and Warrants Committee of the N.A.S.A. for affording representatives of the IBA Committee an opportunity to discuss the statement of policy with them at meetings during the year and for their open-minded and objective consideration of suggestions regarding the statement of policy.

IV

Real Estate Investment Trusts

One of the 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 investment in all kinds of real estate—apartments, hotels, stores and others. Prior to a change in the tax law effective in 1961, persons who invested in real es-

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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 hereby submits its report reviewing pertinent developments within the aviation industry during the past year.

Edward J. Morehouse

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 area of the nation's 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 air frame and missile companies, the manufacturers of propulsion systems including jet, piston and rocket engines, the small plane manufacturers and a host of other companies whose products are utilized in the manufacture, testing and ground handling of air and space vehicles. 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 aviation field has grown tremendously in recent years.

The air transport industry is comprised of the scheduled carriers, including the domestic 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 manufacturers during the first half of 1961 aggregated about $5.5 billion as compared with $5.2 billion in the same period last year. Net income of these companies totaled $43.5 million in the 1961 first half, up from only $8.4 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. Generally speaking most of the major aerospace companies have been showing improved earnings this year; profit margins on defense business have continued at narrow levels however. A step-up in the rate of defense expenditures during the second half of the year, which will offset the somewhat lower 1961 deliveries of commercial transport aircraft, indicates that the volume of business done by the aerospace industry for the full year should be slightly ahead of 1960. A moderate increase in volume should take place in 1962 as the effects of the new Administration's increased defense and space budgets are more fully reflected. Common shares of most of the aerospace companies have risen in price this year.

The increased emphasis by the new Administration on the limited war capabilities of our defense posture indicates that the decline in the relative importance of manned aircraft may be slowed, at least temporarily. In addition to a substantial rise in orders placed for various tactical, reconnaissance and cargo aircraft by the military there have been a number of other developments this year which should ensure the continued prominence of manned aircraft in the defense program for the foreseeable future. Contract awards were made earlier this year for the development of the C-141 aircraft, a large military jet cargo transport from which, it is expected, civil versions may ultimately evolve. Contracts were also placed for the so-called "tri-service" VTOL transport, a tilt wing configuration designed for vertical take-off and landing, which may be the forerunner of a whole new family of aircraft suitable for both military use and, possibly, for short haul purposes in the commercial market. Other military programs with respect to manned aircraft which moved ahead in 1961 included those relating to an advanced tactical fighter and a light observation helicopter.

Fate of B-70 Program

The Pentagon recently announced that it would not spend funds voted by Congress to enlarge the present program for the supersonic B-70 bomber, a program which is designed to demonstrate the technical feasibility of the aircraft and related subsystems rather than to develop a full-scale weapon system. 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 and experience relating to large supersonic aircraft gained from this and earlier programs will be extremely helpful in the proposed development of a commercial supersonic transport. In June of this year a joint report was issued by 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 technically feasible and appears 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 they may succeed in putting a supersonic airliner into service before the U. S. Whether they will develop a true commercial vehicle or, as they have done in the past, convert one of their supersonic military aircraft remains to be seen.

Current industry opinion seems to be that it will be well beyond 1970 before a supersonic jet could be introduced into commercial service. Four study contracts, two to airframe manufacturers and two to engine companies, are to be let this fall. The fiscal 1962 budget includes a provision of approximately $11,000,000 for the supersonic transport project. The proposed U. S. configuration would be a Mach 3 airplane, with a designed cruise speed of about 2,000 miles per hour and a range of approximately 3,500 nautical miles. Passenger capacity is expected to be approximately the same as that of the larger models of today's subsonic jets. Propulsion system will probably be some form of a turbofan engine coupled with ramjet or other type of auxiliary power to give the necessary thrust for acceleration to transonic speeds.

Most estimates of the Free World airline market for a supersonic transport range between 100 and 200 aircraft. Development and production cost estimates for a fleet of such aircraft range from $2.0 billion for 145 aircraft to slightly over $4.0 billion for 220 aircraft. The unit cost estimates of production models range from $12.6 million to $20.0 million. The wide range of these cost estimates reflects the fact that the basic assumptions made by the various manufacturers were not the same.

It is clear that the magnitude of the program will require substantial financial assistance by the government. It is equally clear that the government will expect that as part of the program there must be developed a feasible plan by which the government may recapture some part of its investment.

Space Program Accelerated

The pace of our national space activities quickened noticeably in 1961. Two flights by U. S. Astronauts in May and July and an unmanned orbital flight in September were mileposts in Project Mercury, first phase in this country's efforts toward manned space flight. Launch tests began this fall on the first stage of the huge Saturn rocket, whose eight engines are designed to produce 1.5 million pounds of thrust. One of the most important space developments in 1961 was approval by Congress of the Administration's request for an expanded effort in the program for a landing on the moon by 1970. While there remains some difference of opinion in Congress as to the ultimate wisdom of spending so much money on this program, nevertheless it now appears likely that the nation will expend some $20.0 billion on a lunar landing project. Evidence of possible commercial aspects of our space activities became faintly apparent this year, particularly in the area of the proposed communications satellites.

Deliveries of commercial jet transports have been at a somewhat slower pace this year, reflecting delays experienced in the Convair 990 program and, for several of the U. S. airlines, completion of the initial phases of their jet equipment programs. Several of the lines have placed orders for the short to medium range Boeing 727 with deliveries expected to commence in 1963-1964. A significant development this year was the penetration made into the domestic market by foreign manufacturers of turbine-powered aircraft. One of the "Big 4" U. S. airlines now has in operation the French Caravelle and another has placed a sizable order for this aircraft. Certain of the all-cargo carriers now have in

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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 Commitee, a Report on the WATER TREATMENT INDUSTRY.

The Committee's Report, encompassing approximately 70 pages, represents what is very likely 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 new developments in progress, particularly in the area of saline 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 herewith are some of the highlights of the Report.

J. Victor Loewi

INTRODUCTION

Much has been written and said over the air recently about 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 much for granted as they do the inexhaustible supplies of the air we breathe. However, this country, like other parts of the world, is gradually approaching the point where the demand for fresh water will exceed the supply. If our usable water resources remained static, consumption would catch up in two decades, but pollution is rapidly eroding existing sources.

Much attention is being directed to alleviating the impending water crisis through research directed toward conversion of sea water and brackish water. 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-7916) an additional $75 million was appropriated to add to funds already available to extend research and development work and construction of additional pilot plants.

Efforts are also under way to conserve our natural fresh water supplies by reuse of waste water, treatment of sewage and industrial waste, avoidance of pollution and conservation, control and replenishment of natural resources.

Conversion of sea water has been successfully achieved for many years. During the war our military and naval forces, both at sea and on remote Pacific islands, were supplied with fresh water distilled from the sea. The problem is to bring down costs to an economical level. To further this objective, private industry and the Government are spending many millions on development of new methods and approaches and improvement of existing processes. Much progress has been made and in many parts of the world, including arid areas of our own country, millions of gallons of distilled sea water or brackish water are being supplied daily for industry and human consumption.

Water treatment and water conversion can become a big industry in coming years, and many companies will benefit therefrom.

The object of this review is to put the problem into focus, to outline what is being done to resolve it, and to summarize the activities in this area of the many corporations which are participating in various phases of water treatment.

Scope of the Problem of Water Shortage

"Water, water everywhere, nor any drop to drink." Coleridge's famous lines from The Rime of the Ancient Mariner acknowledged an accepted fact in his day about which nothing could be done. Modern science, however, has found methods to separate salt and other impurities from water and to make it potable or otherwise useful. At the same time the whole field of water resources in this country and abroad has been re-examined in the light of ballooning demands and mounting wastes, contamination and loss of available supplies, and it has been found that prompt steps must be taken to avoid alarming future shortages.

That simple chemical compound H_2O, so essential to life and living processes and seemingly so abundantly available to most people actually threatens to become in short supply in the form necessary for human uses, even apart from the numerous arid regions of the world. Yet there are limitless amounts of water on and under the surface of the earth in either nonusable form or not readily accessible. The problem then becomes one of providing for adequate quantities of water in a state in which it can be used wherever it is needed, to do so on the rising scale of accelerating need and at a cost that is not prohibitive.

Two Main Sources

The two main sources of water that can be developed for general use are surface and underground. Surface supplies came from lakes, rivers, reservoirs which are replenished by rainfall, melting snow and underground reserves. Under the surface of the earth are important sources of water found in glacial, alluvial or windblown deposits of granular materials such as sand, gravel and sandstone, solution passages, caverns or fractures of rock, and combinations of these consolidated and unconsolidated geological formations which are called aquifers. This ground water originates from accumulations during geologic time. Water is replenished in these formations by downward percolation of rain and other surface waters. In some areas the underground reservoirs are being drawn on at a faster rate than the water can be replaced resulting in a lowering of the natural water table.

Rainfall in the U. S. is estimated at 4,300 billion gallons per day on average with wide variations across the country. Of this total perhaps 25% is available as runoff into lakes, rivers and aquifers and theoretically can be collected and put to use. The remainder is lost through evaporation, plant transpiration and in other ways. Not all of this 25% actually can be obtained. The U. S. Dept. of Commerce has estimated that 515 billion gallons of water a day is all that is available. Of this, we are at present using about 323 billions gallons per day.

Water Use Compounds

It is further estimated that by 1975 requirements will have increased to 453 billion gallons per day and by 1980 to 600 billion gallons. By the year 2000 water needs may have quadrupled present use. This is based on expected growth in population plus big increases in usage by industry especially, agriculture, and for municipal and domestic purposes. The growth in population and total water use since 1900 has been as as follows:

Year—	Population	Total Water Use (billion gal. per day)
1900-----	76,000,000	40
1910-----	92,000,000	66
1920-----	106,000,000	92
1930-----	123,000,000	110
1940-----	132,000,000	135
1950-----	150,000,000	204
1960-----	180,000,000	312
1975 est..	235,000,000	453

It can be seen that water usage has surged upward at a much more rapid rate than population growth. Industry has become an increasingly heavy user, now accounting for nearly 50% of the total. By 1980 it may require two-thirds of all water produced. Agriculture now consumes about 44% of the total and municipal and domestic use accounts for the remainder.

Industry Demands Rising

The tremendous demands of industry for water are indicated by the facts that one ton of newsprint requires 240,000 gallons, one pound of high grade paper 1,000 gallons, one ton of steel 65,000 gallons, one ton of synthetic rubber 660,000 gallons, one ton of rayon 200,000 gallons, one gallon of alcohol 236 gallons. Over 11,000 major U. S. firms now use a total of 10-20 million gallons daily apiece, and the trend is rising rapidly.

The natural fresh water supply remains constant. Therefore as usage increases shortages will become widespread and severe. Certain areas of the country that have been troubled with insufficient and deteriorating water supplies have already had to resort to special measures to help alleviate their pressing problems, but much more needs to be done. The regions of the country suffering from lack of water embrace the Southwestern and North Central sections and the Gulf and Florida Coasts. States involved are Oklahoma, New Mexico, Arizona, California, Utah, Minnesota, Iowa, North Dakota, South Dakota, Montana and Texas. Water problems also exist in some areas along the East Coast of the U. S.

It might be thought that the Great Lakes area has unlimited fresh water availability. However, this is not true because withdrawals are subject to restrictions and controls necessary to protect interests such as shipping, hydroelectric generation and property values. Nor can replenishment by return of waste water solve the difficulty as pollution then enters the picture, and this is also regulated.

In 1957, 1,000 cities throughout the nation were forced to restrict the use of water and 15 out of every 100 persons had to curtail their normal water consumption. Residents of Dallas, Texas paid 50 cents a gallon for drinking water. In the 1930's the U. S. experienced a serious drought. Should this happen again, it would take place at a time when far more people are using much more water.

Congress Acts

The whole matter of adequate water supplies has become increasingly importunate as we rapidly approach natural availability in the rate of use. Recognizing this as a national problem, Congress has taken steps to provide additional supplies, and local bodies have sought to improve the situation in their own localities in a variety of ways. President Kennedy in his special message on natural resources stated: "No water resources program is of greater long-range importance—for relief not only of our shortages, but for arid nations the world over—than our efforts to find an effective and economical way to convert water from the world's greatest, cheapest, natural resources—the oceans—into water fit for consumption in the home and industry." Mr. Kennedy has also expressed the conviction that obtaining inexpensive fresh water by saline conversion would dwarf any other scientific accomplishment as a benefit to mankind.

In the last analysis the oceans are the only unlimited water resource. Fresh water from the surface of the earth and ground water returns to the oceans. Through evaporation the oceans also become the source of all rainfall. They cover nearly three-quarters of the surface of the world and contain some 330 million cubic miles of water. They also hold a large amount of dissolved solids—enough so that if they were totally distilled out the residue would cover the present land area to a depth of 500 feet. Here then is an inexhaustible supply of raw material for fresh water.

There are other approaches to the water shortage problem. Brackish as well as sea water can be converted to fresh. Water can be conserved and reused. Surface and underground supplies can be kept pure and recharged. New ground water supplies can be found. Pollution can be controlled. Water can be treated in many ways. Sewage can be utilized. Rainfall can be modified. We will examine all of these avenues and discuss companies with activities in these various areas.

Approaches to the Problem

Expanding the Available Supply

It should be borne in mind that all water withdrawn for use by industry, agriculture and for do-

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Continued on page 114

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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 then 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 to those American businesses which would invest their funds for modernization. . . . The Committee has worked diligently on the President's tax recommendations for four months, and now finds that it will be impossible to conclude its deliberation in the few weeks that remain in this session. . . . It is hoped that the Committee can report to the House by early February, 1962. . . . A Committee print 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 the draft** has been approved by the Committee."

Walter Maynard

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 rate, 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 set the amount of the credit at 8% of the qualified investment, but not more than half of the tax liability in excess of $100,000. 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 tax message received rough treatment in the study draft issued by the committee. For example, the proposal to eliminate 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 at a rate of 16⅔%, compared with the 20% advocated in the President's message. Your Committee believes that, although the argument for some $3 billion of interest and dividend income goes unreported each year, our Association should continue to resist the withholding proposal on the ground that (a) it would cause many persons to pay tax and go through a great deal of trouble to obtain a refund where, in effect, no tax is due; (b) the clerical burden on corporation and financial intermediaries would be enormous, and (c) steps are already underway to install a data processing system which should allow the Internal Revenue Service to detect under-reporting and solve the problem without the drastic withholding remedy.

In connection with (a), the study draft provides that refund claims may not be filed for amounts less than $10. This creates an obvious injustice for those least able to afford the tax and for those just beginning to save; moreover it will not encourage the practice of thrift.

Dividend Credit and Exclusion

Finally, and possibly of most significance to your Association, is the fact that, although the President's tax message recommended repeal of the present 4% dividend tax credit and the $50 exclusion, the study draft of the bill omits the repealer. Possibly, however, we should not take too much satisfaction in this development, because in a speech earlier this month Professor Stanley Surrey, Assistant Secretary of the Treasury in charge of tax policy, again urged repeal of the dividend tax credit and exclusion — moreover, the "liberal" members of the Senate Finance Committee continued their efforts in the concluding phase of the Congressional session to attach a repealer of the dividend tax credit and exclusion to various items of legislation, and these efforts will doubtless be renewed at the next Congressional session.

In this connection, it is of interest, however, that members of Congress report that the two subjects on which they received 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 present situation is that, despite the minor measure of relief provided by the 4% dividend tax credit and the $50 exclusion, the corporate stockholder continues to suffer a severe penalty not imposed on any other form of income in that corporate income is taxed twice —first in the hands of the corporation, and second when received by the stockholder in the form of dividends. An increase in the dividend tax credit to 20% (the Canadian rate) would have the logic of eliminating double taxation in the lowest personal income bracket.

Capital Gains Tax Reform

Looking ahead to the next Congressional session, we should continue to take every opportunity to impress upon our Representatives in Congress, and upon the community at large, the need for basic reform in an area of primary interest to our Association —the capital gains tax. Our contention here is that in an economic sense the tax is much too high to produce the maximum amount of revenues that it is capable of producing, and that in any event the high rate of tax is a grave deterrent to the mobility of capital, and therefore inappropriate for a country which must not only grow but also maintain its competitive position in world trade.

We are convinced that a lowering of the rate of the tax would ease the "locked-in" situation, would produce substantially greater revenues for the Treasury, and would provide a huge new source of the kind of venturesome capital most needed if we are to maintain our world economic leadership.

In connection with the capital gains tax, it should be emphasized that there are other areas of potential reform which are even more important than the matter of rate reform. For example, our industry has advocated for a number of years the so-called **full reinvestment plan.** This would accord to transactions in capital assets, including securities and real estate, the same treatment now granted to transactions in homes, where capital gains taxes are not payable if full reinvestment is made within 12 months.

Punitive Personal Income Tax Rates

Also, looking ahead to the Administration's promised program of tax reform, we should continue to urge that the maximum rate of personal income tax be brought down to levels which are not punitive. A rate higher than 50% creates a greater incentive for tax avoidance than for additional constructive effort. We believe, therefore, that the maximum rate for both corporate and personal income tax should be set at the 50% level. Moreover, **averaging** of income over a reasonable time period should be allowed. This provision would be helpful to small business and to businesses which suffer from wide fluctuations in income such as ours. An averaging provision would reduce the basic inequity that arises from the fact that income received in even annual installments pays a lower rate of tax than the same amount of income received in varying installments.

Longer Term Considerations

Finally, we should face up to the unpleasant fact that the chronic inability of governments, including that of the U. S., to keep expenses within incomes may well within the predictable future lead to the requirement that additional taxes be imposed. In view of the necessity that industry in the U. S. increase its ability to compete in world markets, we think 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 some form on final domestic sales of goods and services.

Your Committee emphasizes that it is important that each member of the Association use every opportunity to make our views on all of the foregoing subjects known as forcefully as possible to his representatives in Congress.

Respectfully submitted,

FEDERAL TAXATION COMMITTEE

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Educational Committee Report

The two issues of the IBA Educational Bulletin published during 1961, September (48 pages), and December (68 pages), constitute in essence the report of the Education Committee. They present in text and pictures a record of the educational, public relations and promotional activities of the national Education Committee, the 17 Group Education Committees in the United States, and like activities on the part of member organizations.

More investment banking firms utilized IBA training programs during 1961 than ever before, reported Robert Mason, Chairman of the Education Committee, at the Fiftieth Annual Convention of the Investment Bankers Association of America. Mr. Mason is with Merrill Lynch, Pierce, Fenner and Smith Incorporated, 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 274 junior officers and partners of IBA member organizations attended the ninth annual session of the Institute of Investment Banking on the campus of the University of Pennsylvania in Philadelphia. 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 55 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. each Sunday afternoon through Jan. 7. Despite competition from several popular programs on other channels, the Forum has an audience estimated at from 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 $350 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 participated 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

Harold H. 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 City office of Bacon, Whipple & Co. (See page 63.—Ed.)

Editor's Note: Following are members of the Education Committee:

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The Investment Banker and Merchant Marine Financing

Continued from page 20

defense." 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 mortgagor 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 1958. 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 suitable 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 1939 were not required.

Pre-Financing Authorized

At a later date—in 1959—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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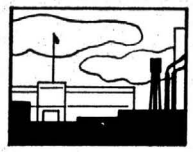

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actual cost of ships on the basis of a deposit of bond proceeds in escrow with the Secretary of Commerce, pending disbursement. Also, in 1959, more flexibility was added by an amendment permitting owners to defer placing mortgages on their ships until after delivery.

Notwithstanding the existence of the pledge of faith of the United States to the payment of principal and interest on Title XI loans and mortgages, it is our hope that lending institutions will continue to bear in mind in their negotiations with Title XI applicants the following excerpt from our Title XI regulations:

"The imposition of financial covenants upon the borrower or mortgagor 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 we are desirous of building into the loan agreement a great number of technical defaults. On the contrary, we would prefer 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 will have 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 to 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. Actually, were it not for the risks which are particularly prevalent in the shipping industry, with its wide fluctuations of the charter rates and peaks and valleys 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 trailership CARIB QUEEN was foreclosed and the ship turned over to the Navy, where it is being successfully operated to the government's advantage. The LEILANI was recently resold to American President Lines and is being reconstructed into a first-class passenger ship for use in its transpacific trade. The freighter COAST PROGRESS is presently being offered for sale under competitive bids.

In order to avoid other potential defaults, the Maritime Administration has, to date, made principal payments to owners of six tankers and two containerships aggregating approximately $1,131,000. The necessity for making these advances arose from the seriously depressed condition of the shipping industry, 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 independent U. S.-flag tanker owners, whose tankers were built without construction - differential subsidy and who have operated without operating-differential subsidy aid, were forced to lay up their ships or operate them at rates far below a break - even level, suffering heavy financial losses in either case.

The Maritime Administration, having committed itself to insure ship mortgages at times when charter rates were profitable, felt that it was in the government's interest to protect and preserve its collateral by making advances of principal for account of the shipowner. As the advances of principal were applied directly to the reduction of the government's insurance obligation and since no advances were made for payments of interest, these advances did not result in any increased contingent liability of the government. These actions were concurred in by the Comptroller General of the United States.

In making these advances, we have taken due precautions to protect the government's interest, and added financial restrictions have been imposed until the advances are repaid to the government, all of which has been done with the hope and expectation that shipping rates will improve and the companies eventually will be able to operate profitably. We feel that in the not too distant future there will be blue skies for the tanker segment of the industry as petroleum requirements continue to increase and obsolete war-built tanker tonnage is either converted into dry cargo ships or scrapped. We are already currently experiencing some improvements in the market.

Deferment of Principal Payments

Some advances have been obviated by action of the mortgagees who, with the consent of the Maritime Administration, have agreed to deferments of principal payments usually for two-year periods. Ten companies have received such deferments. The alternative to making advances or consenting to deferments of principal is that of incurring the risk of having to pay the insurance in full. We much prefer to have these ships in operation where they will be more readily available in the event of a national emergency and could be quickly diverted to defense purposes. Paying off the mortgages and laying up the ships in the Maritime Administration National Defense Reserve Fleet appears justifiable only as a last resort.

Turning now to the status of the existing program, on Sept. 30, 1961, there were outstanding $356 million of insured loans and mortgages, together with commitments to insure an additional $102 million. Of the $356 million, over $100 million represented public issues of Merchant Marine bonds. The balance was composed of privately placed loans and mortgages. The lenders and mortgagees

Continued on page 74

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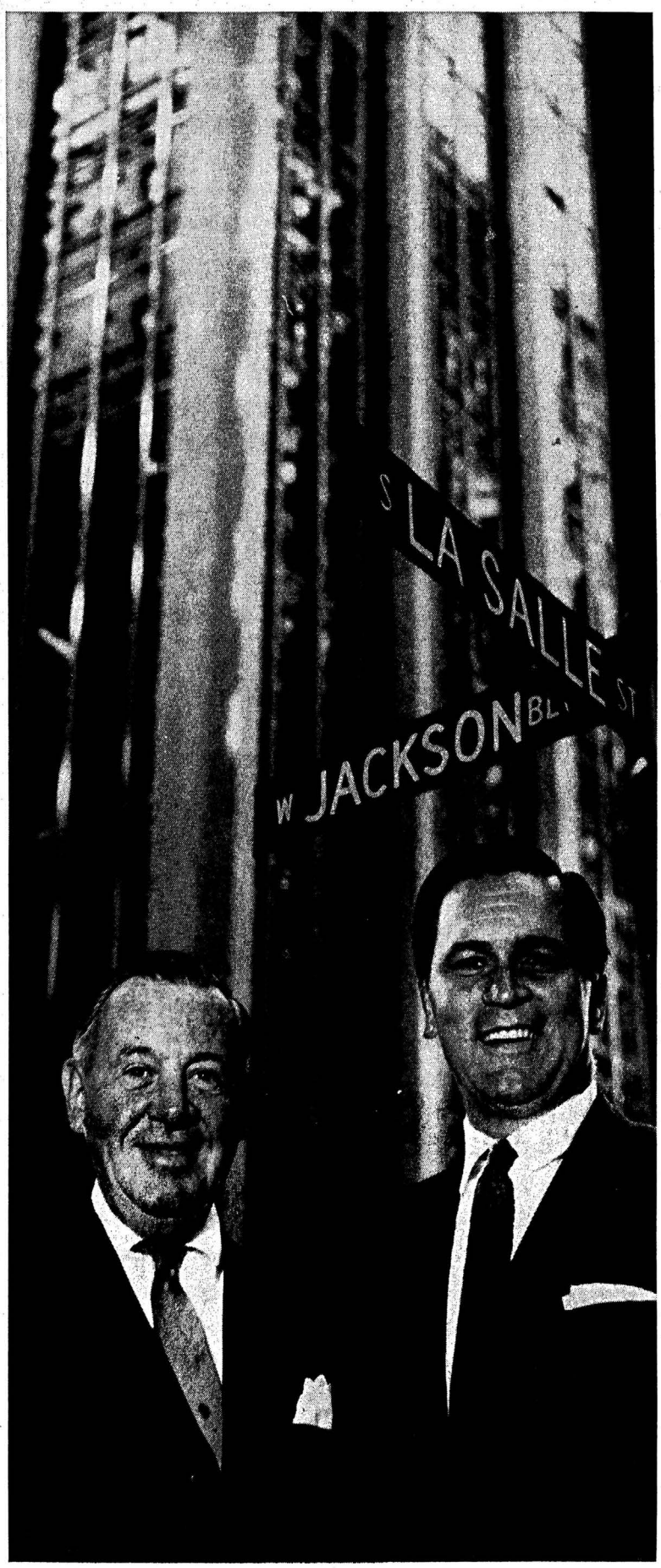

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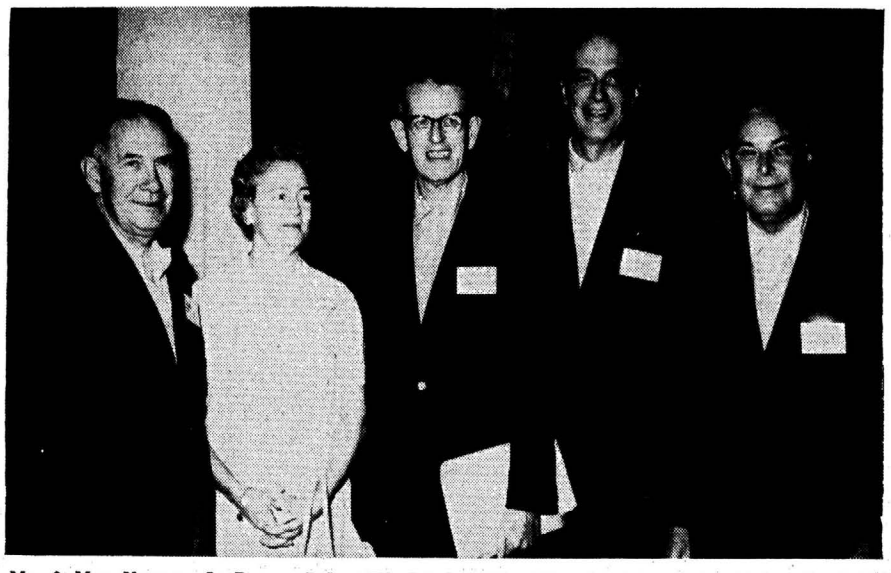

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Continued from page 73

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 from notes to 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 $4¾ million to $10 million, there is usually more than one ship involved, so that the total underwriting has ranged from $8½ million to $20.2 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 4.20% 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 2.65% to 4¼%, respectively. The long-term portion of this issue carried a rate of 4½%.

At the time of issue, these interest rates ranged from 45 to 89 basis points over long-term governments. We believe that the latter difference is certainly too great. At the same time these issues exceeded triple A Corporates 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 first 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 security 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 range between U. S. Government 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 somewhat more significant than with other bond issues. The U. S. Government insurance virtually guarantees that the purchasers of the bonds will be repaid. Because of the possibility of default by the borrower, this repayment 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 governments. 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 $2,694 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 $1,379 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 $1,034 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 statu-

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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 construction because of various contractual restrictions and because of the need to retain funds adequate to meet current amortization of mortgages on their presently owned ships. But the greater portion 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 approximately $57 million in mortgages over and above the subsidized operators potential. These applicants are, in general, somewhat less strong financially; however, 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 $990 million may not be sufficient. Should this prove to be the case, the Maritime Administration would most certainly give consideration to proposing 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. Government Insured Merchant Marine Bonds, and the Maritime Administration 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 between the owner, the lender, and Maritime, we have accomplished a very close and satisfactory relationship with the lending institutions. We are confident that we have a program which is daily becoming more attractive to lenders throughout the country. Ample 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 attractive throughout the broad spectrum of investing groups, and we believe that the securities are of such soundness as to be virtually 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.

*An address by Mr. Nichols before the 50th Annual Convention of the Investment Bankers Association of America, Hollywood Beach, Fla., Nov. 28, 1961.

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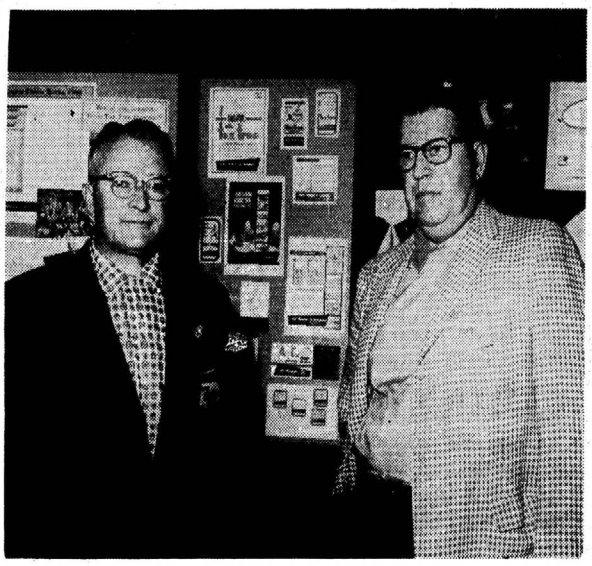

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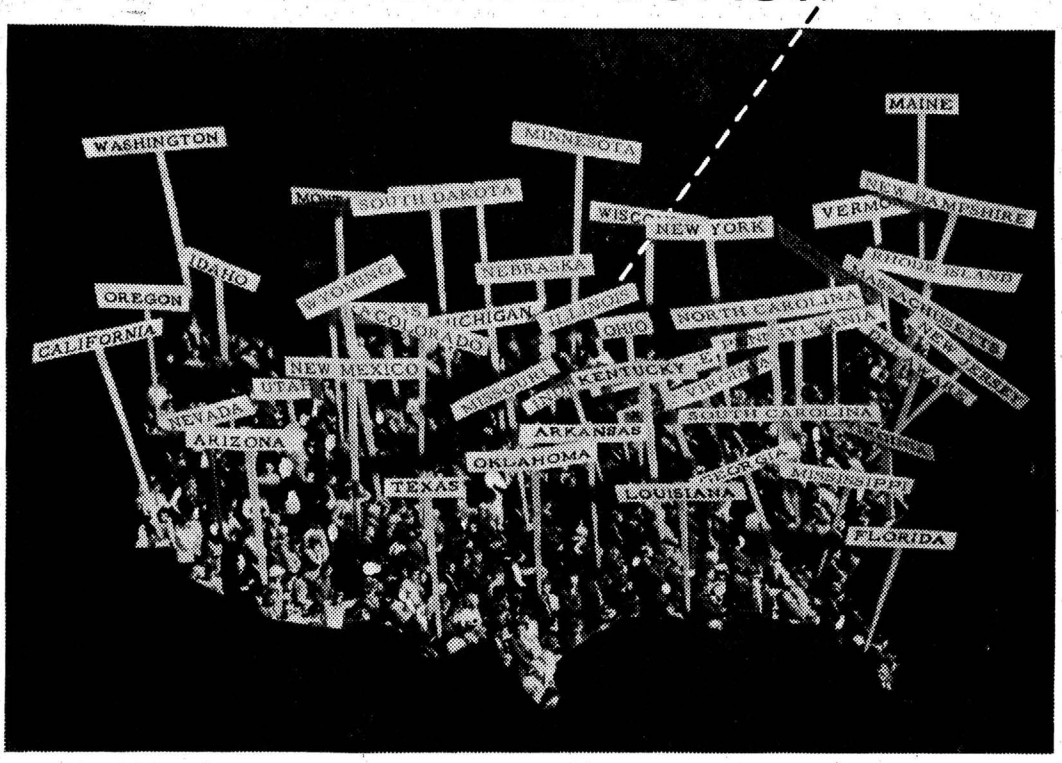

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Dilemma Confronting U. S. Regarding Latin America

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 dollars 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 characteristically 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 ambivalent. The great sea of underprivileged, with no vested interest in the established orders of their own countries, continued to praise 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 inescapable phase of any movement to change an historic system that had yielded them in 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 compensation. There was never even a hint of the imposition of an extra-continental 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 disenchanted. 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 the nations of this interdependent hemisphere cannot progress together in freedom, in the face of the modern world menace, one would indeed have to be pessimistic with respect to the larger world where the historic record of dependable cooperation is less persuasive.

IV

President Eisenhower's Program

Surely no one can doubt that we must do all we humanly can to keep Latin America free, independent, and democratic.

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, 1960, 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 left office 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

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representatives of the Latin American nations met at Punta del Este, Uruguay, and spelled out in greater detail the steps they would take to effectuate 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.

V

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 communist imperialism, domestic reaction and democratic liberalism.

In Latin America are 200,000 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 uninhibited violence. They do not want peaceful change. They want bloodshed, for in violence 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. Ther 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 so 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 15th and 19th centuries cannot be sustained in the 20th 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, Frondizi of Argentina, Alessandri of Chile, Lleras Camargo of Colombia, Betancourt of Venezuela, Lopes 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 dispossessed 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 per-

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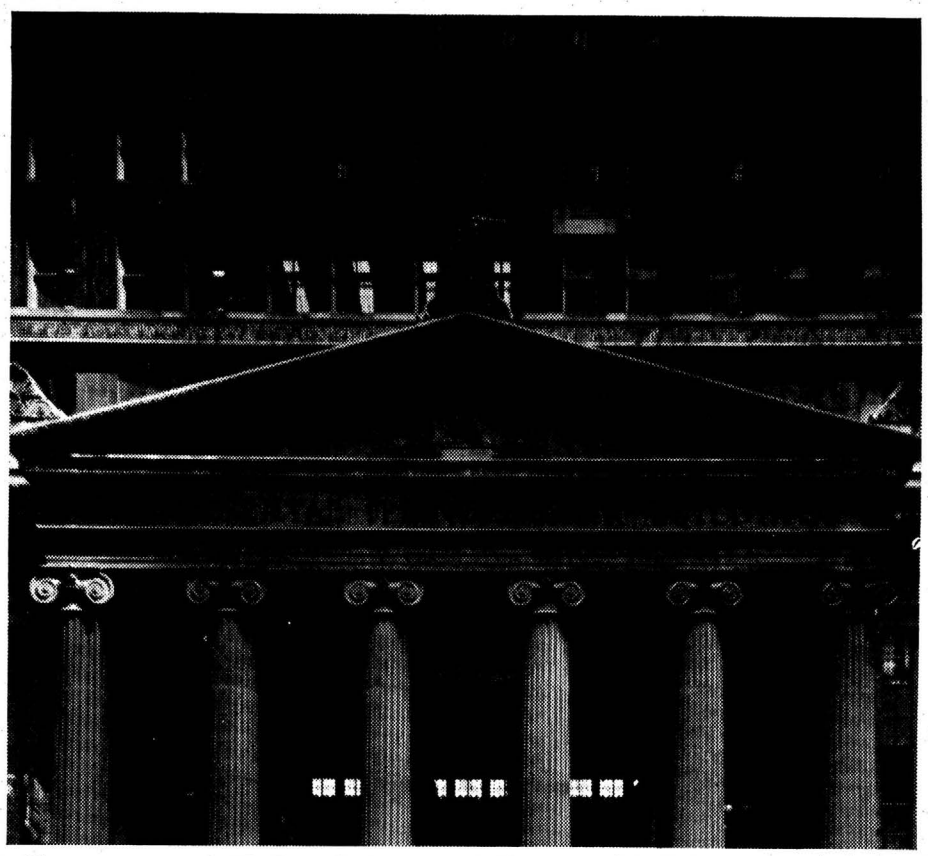

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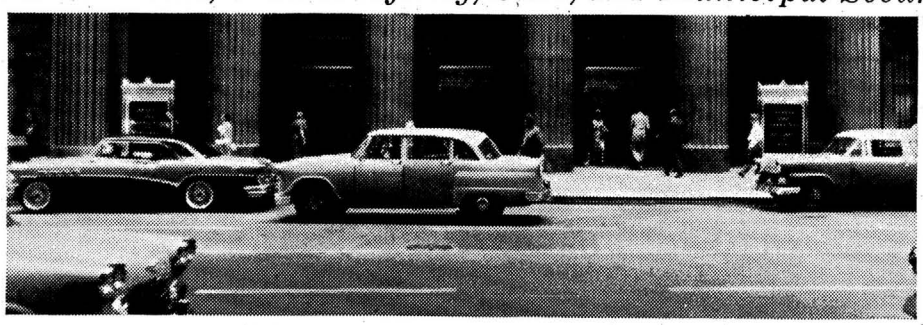

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Continued from page 77

haps show the flavor of the student movements.

In Santiago, Chile, a litle 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 Christians, 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 $275 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 fail 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 leader 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.

VI

At Punta del Este the Latin American nations committed themselves to social reform projects that will cost about one hundred billion dollars in the coming ten years. Twenty per cent of this must come from external sources, mainly the United States.

The obligation on us is not as great an increase in foreign spending as might at first appear. If the Export-Import Bank, the Development Loan Fund, the Inter-American Bank, the World Bank and its subsidiaries, and private lending institutions of the United States continue to invest in Latin America at about the average rate of the past five years, and if other industrialized nations of the world extend credit to Latin America at no more than the reasonably contemplated rate, then our commitment, above recent averages, would amount to from three hundred to five hundred million dollars a year for the next ten years.

This is, of course, an extremely serious matter, in the light of our current international financial imbalance. Our dilemma, as I see it, is that we cannot possibly afford **not** to meet commitments to Latin America, but neither can we seemingly afford to finance them.

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 periphery 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 places a 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 our interest-rate structure such that private funds are not induced unnecessarily to seek better investment opportunities in other industrialized nations. As technology continues to develop at a logarithmic rate, the Defense Department must consider whether a greater share of our massive military establishment would not be as effective for security purposes with fewer foreign installations.

Finally, I would contend that if all such efforts combined do not suffice to assure financial stability, then we must decide in terms of our own self-interest which areas of the world most need our assistance and there concentrate our aid, risky as such a choice might be. I am deeply convinced that the Western Hemisphere and Western Europe **must** remain free. Otherwise, freedom will fall around the globe like dominoes in a row. Of course we want all nations to enjoy the blessings of liberty, but we must accept the fact that the United States cannot for long be the Atlas of the world without danger of collapse.

The time is obviously here when all peace-loving, freedom-loving nations must, in their own interest, share the burdens of promoting human advancement while stifling the ghastly totalitarianism that seeks to engulf us.

***An address by Mr. Eisenhower before the 50th Convention of the Investment Bankers Association of America, Hollywood Beach, Fla., Nov. 30, 1961.**

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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 inasmuch 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 whatsoever.

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.

"100% Discrimination"

In speaking 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 the least, overdue. Incidentally, Japan's current payments deficit is the equivalent of $600 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 sacrifice. 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 would mean 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 Commonwealth Symphony and its old theme song "Empire Preference Forever," written in Ottawa in 1932.

Over the years, the U. S. has complained about the system of Commonwealth preferences. It is true that the chief advantage of Commonwealth preference 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

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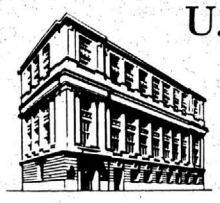

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Taken on the Cleveland Boat Ride

Taken on the Cleveland Boat Ride

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enthusiasm in Canada. As a distinguished former deputy minister of trade and commerce recently said: "In a free trade arrangement with the U. S., Canada 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 privileges to all members.

Even Britain decided she had to belong to a club, and initially decided to form her own. But then she changed her mind and decided to apply for membership in the already established one. If circumstances forced the U. K. to abandon any thought of "going it alone," much more so 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 competitive. For this reason, there are some influential Canadians who would favor economic affiliation with the U. S. where a tremendous market has tariffs higher than Canada's and where, of all the countries in the world, wage rates are the most comparable to those prevailing in Canada.

More Exports Not the Answer

In order to correct our imbalance of international trade, we hear much from Ottawa about increasing 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 Manufacturing Department, the Finance Department and the governmental taxing authorities. Sweeping 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 a five-year period, without allowing anything for retirement. To understand the magnitude of this task, contrast this 8.6% with the cold fact that Canada's average annual increase in commodity exports was only 4.2% 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 increasing "road blocs" thoughout the world. We are coming to realize that foreign markets, particularly for manufactured goods, offer little hope of expanding our industry to optimum levels.

Thus, we must more and more set our sights on the home market, where almost 40% of commodities used are imported. The comparable figure for the U. S., incidentally, is 12%.

A growing number of Canadians, and many of their elected representatives, are swinging to the view that a selective and constructive use of tariffs will best further Canada's interests at this time. They believe this will be the most effective way of discouraging some imports and of boosting domestic production to economic levels in our most highly-productive industries and thus, of reaping the benefits of lowered production costs.

How would such tariffs be set? The first decision to be taken would be whether a given product should be produced domestically or imported. The idea is not that we might grow bananas or orchids in Canada but that we improve our yardsticks for determining the products that can be produced economically there. The main criterion would be making the fullest and most effective use of our resources, but giving more attention to manpower than to horsepower.

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 reflex action taken only in economic self defense. It will be no more anti-foreign in spirit than are the protectionist fences being erected in Europe. It will be just a pro-Canadian exercise in survival.

Some jokester long ago described national financing as "one generation paying the last generation's debts by issuing bonds for the next generation to pay." In Canada's case, the situation is far more serious: we are not only financing our deficits by borrowing but by actually selling the ownership of our natural resources and our production facilities. We are in effect living off capital and, in the process, seeing control of a constant string 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 worried about it. In so doing, they show that they broadly misunderstand Canadian motivations and feelings. Let me state most explicitly that Canadians acknowledge that American (and other) capital has stimulated Canadian growth and development to a tremendous extent. Canadians fully realize what this has meant in terms of jobs and living standards. They also acknowledge with appreciation that, in the main, this financing and control, where it exists, has been considerate and statesmanlike.

But, like any self-respecting man—and Canadians are a proud, ruggedly independent people—the country wants to be erasonably self-sustaining and reasonably able to develop, direct and manage its own affairs.

Frankly, it is tiresome to Canadians to find that many foreign commentators still insist on drawing a parallel between British investments in the United States in its early stages of development and U. S. investments in Canada today. There is little basis of comparison.

First, a qualitative distinction: most British investment in the U. S. was bond money or mortgage money. When that was paid off U. S. citizens owned the industry. By contrast, U. S. investment in Canada is mostly in equities, which control the industry more or less indefinitely. A vast difference. And the control is extensive. Latest figures show that U. S. interests control 51% of Canada's mining and manufacturing.

To cite a few examples: our auto industry is 97% controlled from the U. S.; our rubber goods industry about 90%; petroleum and natural gas, 71%; and our electrical industry, 65%. 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 investment in the U. S. at its peak, before the First World War, only amounted to about 15% of Gross National Product. Currently it is down to about 3%, or about $18 billion. Foreign investment in Canada is now 62% of Canadian GNP or, about $22 billion. Looking at it another way, U. S. investment **alone** in Canada is about equal to **total** foreign investment in the U. S., although Canada has only one-tenth the population and one-fourteenth the U. S. GNP.

This inflow of capital to Canada has, of course, compensated for, and in a manner hidden, the heavy negative balance in commodity trade. It has served to keep Canada afloat. But its overall impact, plus the problems of the nature of Canada's trade abroad and of Canadian economic growth are the subjects of closest scrutiny at this time.

What, it might be asked, can Americans do to help in this moment of Canadian re-appraisal?

I would suggest much could be done simply by attempting to understand the scale and the urgency of our problems. They cannot be easily understood in the context of the American economy, which is more mature and sophisticated. They are peculiarly Canadian problems which demand Canadian solutions. Canadians have a proud history of national growth and independence and they are naturally sensitive to anything which they feel places these in jeopardy.

Americans can also help in a tangible way. Business policies originating there can help solve the export-import problem. It is not necessary or normal that Americans buy only $16 per capita a year from Canada when Canadians buy about $207 from the U. S. We've seen encouraging examples recently, in the automobile industry for one, where the U. S. purchasing purview seems to be broadening to include Canada. Canadian resourcefulness and diligence have been able to compete in many instances with much larger American sources of supply. The possibility of providing one or two component parts on a continental-volume basis is a tremendous boon to Canadian industry, yet it represents a negligible loss to bustling American enterprise. This practice might well be encouraged.

Canadians have noted with some concern a recent suggestion in this country that the U. S. Government take steps to force

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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 of 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 cooperation in defense measures. To do this effectively, Canada must have the proper motivation, based on friendly understanding and economic vitality.

Finally, a solidly-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 cooperation, 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. Lank before the 50th Annual Convention of the Investment Bankers' Association of America, Hollywood Beach, Fla., Nov. 27, 1961.

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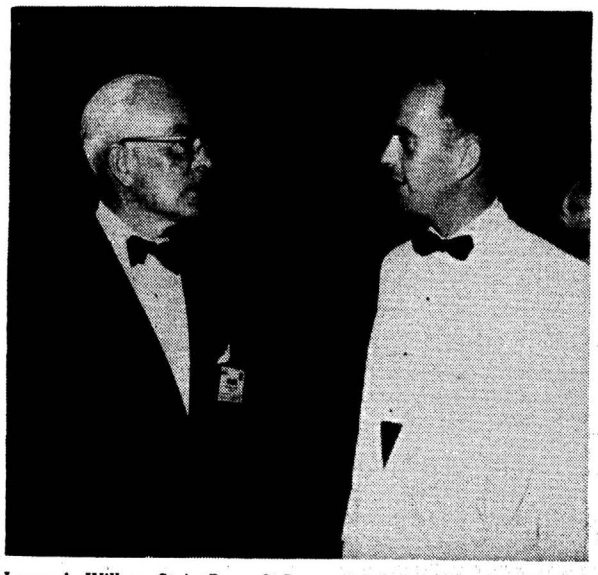

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"Peace or War?"

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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 or 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, received a severe setback from the manner in which those negotiations were conducted at Geneva. It is now perfectly apparent the Soviets during the full course of the negotiations far 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 preparation for them must have been under way during the whole period of the negotiations, if not before.

Kremlin's Duplicity Magnifies Problem

Indeed I think the duplicity which marked those negotiations was not only a setback for disarmament hopes, but it has cast a dismal cloud of distrust over any renewed United States-Soviet exchanges. And if it be contended, as the Soviets have, both during the course of the negotiations and after, that we are 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 this was not practicable. Why it was not is now apparent.

All this presents a most discouraging prospect, yet the grim 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 there must exist a body of knowledgeable public opinion to support and stimulate government officials to well thought out methods of dealing with this vital subject. In spite of frustrations and distrust, the search for the means of honorably avoiding war in the settlement of our international disputes must go on for there is no other 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 not synonymous 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 afford much hope for constructive action, particularly after the disappointing spectacle which took place among the so-called nonaligned 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 pretense 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 equate 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 marked 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 arbitrament 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 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 filed against its jurisidiction 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. In spite of setbacks, 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

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eager to conclude effective agreements. I cannot say, particularly in the light of this summer's experience, that I am sanguine, but I am still hopeful that sooner or later results will be achieved.

What I do repeat is that this issue of war and peace, of which disarmament is only an 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 remarks 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, we must also give serious thought to new political forms to meet 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 radical approaches to all of our problems. The emphasis on research, on scientific application, on new mathematical and art forms, on the speed of communication—all make us realize that our horizons have been extended to a degree comparable to the great reaches of the Renaissance. We see it on all sides in business —in the new methods, the new services, the new equipment—and I suggest we must also examine new economic and political forms in order to keep pace with the new demands.

A part of this great phenomenon of our times is that we are faced with a vast 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 prophecized it would occupy. This movement, held back by oppressive and inept governments over centuries, with a political and social concept borne of revolution, has burst forth in coincidence with the new demands of large areas of the world for improved 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, Africa and South 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 and a good 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 complicated as never before by the existence of these mass destruction weapons which, if let loose, would substantially destroy the values which have so painfully been built up.

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 determination clearly and forcibly in the path of those who would subvert or destroy it. Perhaps more important than merely meeting an exterior challenge, it is incumbent upon the Free World as a matter of its own duty to itself to reach and express its full potential. It is a reflection upon its own capacity that its own vision 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 communication which exists today, when one can be in London and San Francisco on the same day, we should begin to recognize 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 come to emphasize its strength. Something over 200,000,000 people —industrious, skillful, cultured, experienced—with a splendid system of communication, striking juxta-position of coal and iron, a steel capacity greater than that of the Soviet Union and China 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 rapproachment 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 in 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-

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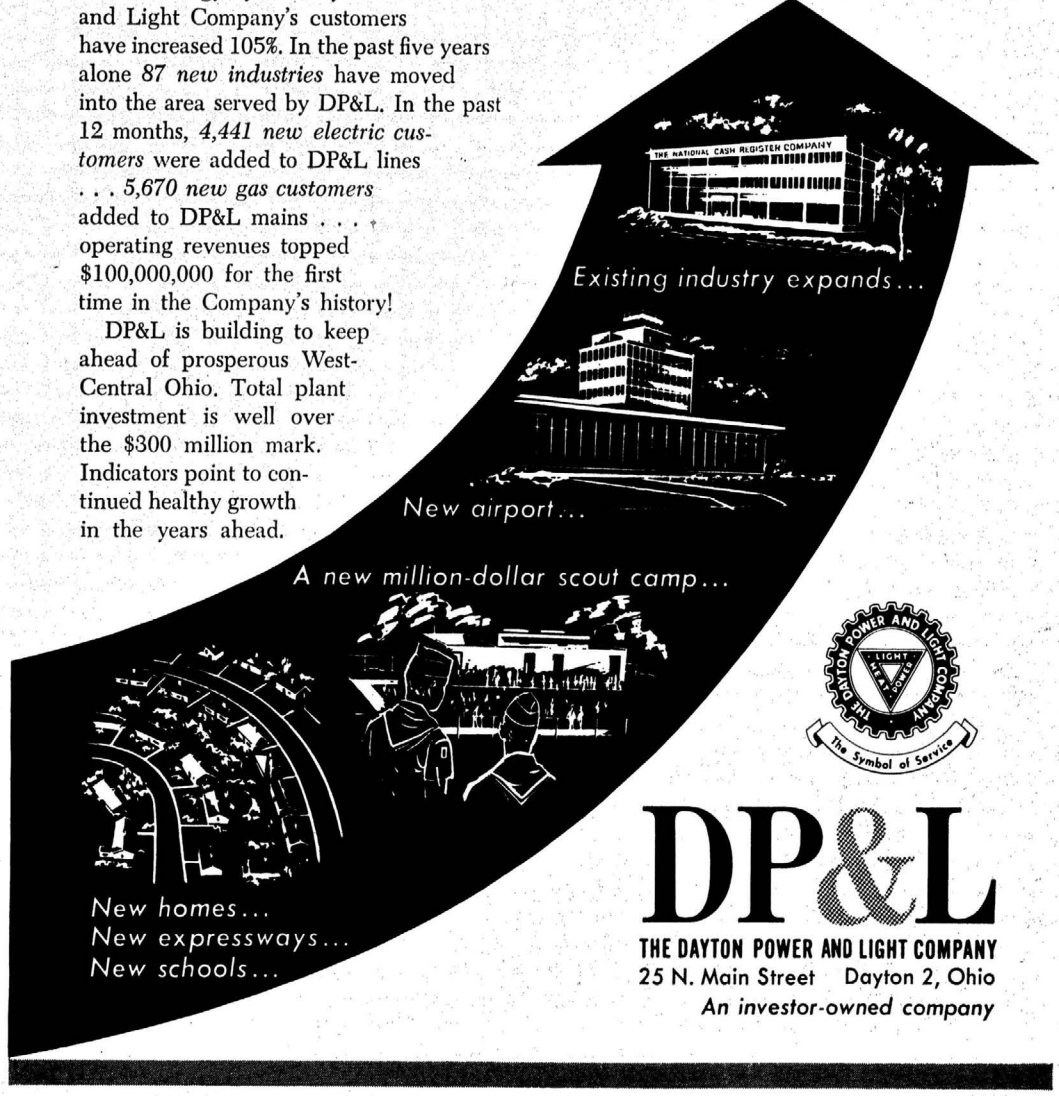

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ments could be adjusted, just as the balance of payments of the individual European nations have so largely been adjusted by the economic integration of Europe.

Many will see in this a very large order, but the exigencies we face are also of a large order. The Communist world is in the process of marshalling vastly divergent peoples and nations to the acceptance of their strength and their ideology. At the same time it is doing its level best to keep the Free World divided, off balance and frustrated. Even if there were no Communist threat, there would, as I have suggested, be good reason to give thought to this objective, but the Communist moves should greatly stimulate our own thinking in this direction.

Not Advocating Super State

I am not advocating a new super state, but I do insist we must seek new and better forms wherein our common economic and political interests can be weighed, determined and acted upon. We already have something in the nature of an expression of our common military strength in NATO, although this is far from being at its full potential. We may have to set up some political institutions in which these great problems which for a long time have been fully identified, can be dealt with and a common policy worked out in regard to them. I believe we have been deflected by too concentrated attention on the moods and attitudes of those whose directions are still uncertain or unformed, and we have not given enough attention to the preservation of the strength and purposes of those who are already committed to the principles of individual freedom and initiative. Our economic position demands it, because before long we shall be challenged seriously in the economic field by the productive capacity of the Soviet Union and its satellites. Our political position demands it for as these recurrent crises occur it is obvious that we must have a better means of uniting our policy and expressing it promptly than has been the case thus far. Of all periods in our history when isolation or provincialism, or for that matter, nationalism, has been proven inadequate as it is now, it is almost incongruous to hear that a tendency in this direction is gaining momentum throughout certain sections of the country.

Now I have covered a rather wide front and perhaps rambled 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 even to the matter of our security and the problem 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, but the market place is traditionally a well informed, knowledgeable and tolerant part of the community. If those in the market place do not look up and view the outside world from time to time, who else will be disposed to do it? I have always been intrigued by the comment Thomas Carlyle made when he was informed that the famous lady philosopher and critic of his and her day, Margaret Fuller, had finally decided to accept the universe. "By gad, she'd better," said Carlyle, and I think you investment bankers get the point!

*An address by Mr. McCloy before the 50th Annual Convention of the Investment Bankers Association of America, Hollywood Beach, Fla., Nov. 29, 1961.

Report of IBA Industrial Securities Committee

Continued from page 68

mestic and municipal purposes is not consumed so as to be subsequently unavailable. Much of this water can be reused, and it is evident that far more can be done in this direction. Important areas of reuse are industrial waste waters and sewage. Approximately one-half of all the water used by industry is required for process cooling water and boiler feed. Only 2% of all the water used by industry is actually consumed, with the remainder returned as waste to natural sources.

There are a number of ways in which industry can conserve the water it uses. These are (1) conservation of fresh water by substitution of sources (2) reduction in water use and waste of waters (3) recycling (4) multiple reuse and (5) reconditioning of water and wastes.

Reuse

Conversion by substitution of source can be employed by use of saline or brackish water for cooling processes wherever feasible. This is presently done to a large degree by industries manufacturing petroleum and coal products in California, Massachusetts and New Jersey; petroleum and primary metals in Maryland and chemicals and allied products in Texas. Planned reuse of sewage effluents is another approach to conservation of fresh water. A good example of how this is done is the experience of Bethlehem Steel Company. Its Sparrows Point, Maryland plant requires a total of some 600 million gallons daily of cooling water. Most of this water is pumped from Chesapeake Bay but because of its salinity this water is unsuitable for many applications. For this purpose the company has since 1942 used the sewage effluent produced at the Back River, Baltimore treatment plant whose output is transported to the steel plant. Daily use of this effluent has risen to 125 million gallons.

* * *

Many industries have employed the procedure of reuse of plant waste water to a substantial degree. The following table indicates the percentage of water reuse by various industries.

Industry:	Percent
Petroleum	98
Paper and pulp	52
Chemicals and drugs	35
Autos and aircraft	25
Iron and steel	25
Stone and glass	25
Lumber and furniture	23
Miscellaneous	22
Foods, beverages	22
Optical and medical	21
Plastics	19
Toys and sport goods	19
Nonferrous metals	18
Machinery and tools	15
Apparel and textiles	14
Leather	12

* * *

Office of Saline Water

After the war the apparent acute shortage of water in arid areas of the nation and elsewhere and excessive use of underground water throughout the country led President Harry S. Truman in March, 1950 to request the Secretary of the Interior and the heads of several other Federal departments and agencies to secure information and legislation on the large scale conversion of salt water. This resulted in Congress passing the Saline Water Act of 1952. The Act established the Office of Saline Water under the Department of the Interior and authorized the appropriation of $2 million for a five year research program. The objective of this program was to develop economically feasible processes for converting sea water and other saline water to fresh water of a quality suitable for agricultural, industrial, municipal and other beneficial uses.

In 1955 Congress amended the 1952 Act by increasing the total authorization from $2 million to $10 million providing for the research, development and construction costs of pilot plants and extending the life of the program through fiscal year 1963 with an additional three years to complete contracts and compile results of the studies.

Demonstration Plants

In 1958 Congress enacted another law providing a second $10 million authorization for the construction and operation of at least five saline water conversion demonstration plants to test and demonstrate the reliability of engineering, operating and economic potentials of sea or brackish water conversion processes. This law stipulated that at least three of the plants be designed for the conversion of sea water and that each of two plants so designed have a capacity of not less than 1 million gallons per day. Two of the plants were to be designed for the treatment of brackish water and at least one of these plants was to have a capacity of not less than 250,000 gallons per day. One of the sea water plants was to be located on the East Coast, one on the West Coast and one on the Gulf Coast. One of the brackish water plants was to be located in the Northern Great Plains and the other in the arid areas of the Southwest.

A great deal of interest has been evoked in the saline water program and the demonstration plants. Over 200 communities applied for location of one of the demonstration plants, supporting the prediction of the Office of Saline Water that within the next decade more than 1,000 cities will be forced to convert saline or brackish water for drinking purposes. The final location of these facilities and the methods of conversion to be used have been determined, and the first demonstration plant has been in operation since June, 1961. A description of these plants follows.

Freeport, Texas was dedicated in June, 1961. This is a 1 million gallons per day capacity plant for sea water conversion employing the long tube vertical multiple effect distillation process. In this process sea water is pumped into a series of vertical evaporators which contain a nest of long tubes. The sea water is boiled inside these tubes. Brine is separated from the steam produced by boiling. This steam is then condensed as fresh water. This plant was constructed by Chicago Bridge and Iron Company with the engineering work handled by W. L. Badger & Associates of Ann Arbor, Michigan. It will sell water to the city of Freeport and Dow Chemical which is also interested in the residue effluent of concentrated brine. It is noteworthy that the Freeport plant was damaged only to a relatively minor degree by Hurricane Carla and was back in operation after a week. Meanwhile the fresh water in its storage tanks was made available to stricken residents.

Point Loma, San Diego, California is scheduled for completion this November. This is a 1 million gallons per day capacity plant for sea water conversion employing the multi-stage flash distillation process. In this process a superheated brine solution is piped into vacuum chambers where the lower pressure causes it to flash (boil suddenly) and release steam. The steam then rises to contact coils at the top of the chamber, condenses and drips as fresh water into collecting troughs below. This plant is being built by Westinghouse Electric Corp. Flour Corp. is doing the engineering.

Webster, South Dakota is scheduled for completion in November also. This is a 250,000 gallons per day capacity plant for brackish water conversion by electrodialysis. In this method the water is subjected to an electrical field which attracts or repels the electrically charged mineral particles (ions). Selective plastic membranes block the ions before they can reach the electrodes and trap them in a waste brine compartment while desalted water flows through to another compartment. This plant is being built by Asahi Chemical Industry Company of Japan. Engineering is being accomplished by the Austin Company of Cleveland, Ohio and Detroit, Michigan.

Roswell, New Mexico is getting underway. This will be a one million - gallons - per - day - capacity plant for brackish water conversion using the forced circulation vapor compression process. This calls for water to be pumped into a heat exchanger in an evaporation chamber where it is boiled. The resulting steam is further heated in a compressor so that it can be reused as the evaporator heating medium before being drawn off as fresh water. Construction contracts have not yet been let. Engineers are Catalytic Construction Co.,

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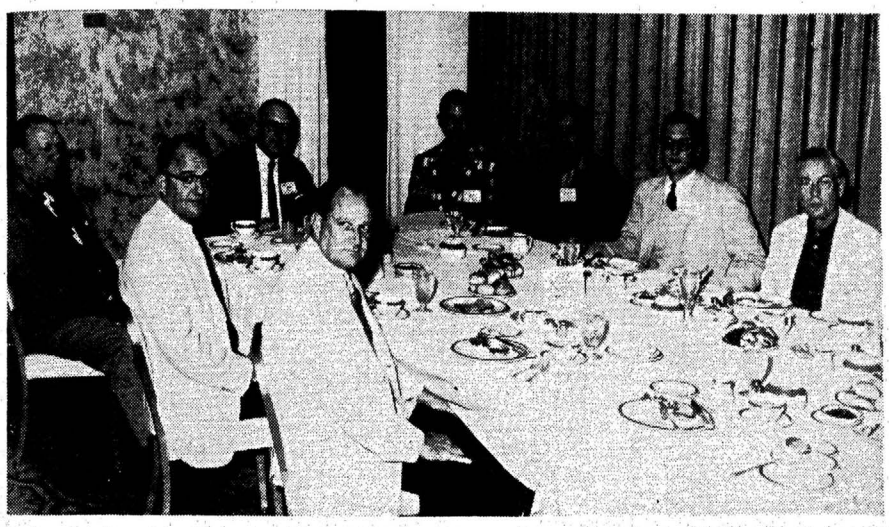

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Philadelphia, Pa., a subsidiary of Houdry Process Corp.

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 solvent 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 considered likely candidates.

Other communities needing additional water facilities which ranked high on the list of applicants 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, Oklahoma.

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 confined 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 fundamental research. Existing 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 considerable magnitude. The end result of many natural phenomena are known, but how they occur is not. It is known, for example, that salt dissolves in water and that the process requires very little energy. If it was also known how this was accomplished, it might be possible to reverse the process to remove dissolved solids. Most scientists and engineers agree that the most effective and economical means of saline water conversion remains to be discovered and that the foundation of an effective program is continuous, fundamental research. This may permit attainment of a major breakthrough.

* * *

Budgeted expenditures of the Office of Saline Water for research and development have been about one-quarter for basic research and three-quarters applied research. Thus far under the 1952 and 1955 laws, $9.3 million has been spent for this purpose. Under the 1958 law providing for demonstration plants, appropriations totaling $8.6 million through fiscal year 1962 have been received.

A part of the spending for re-

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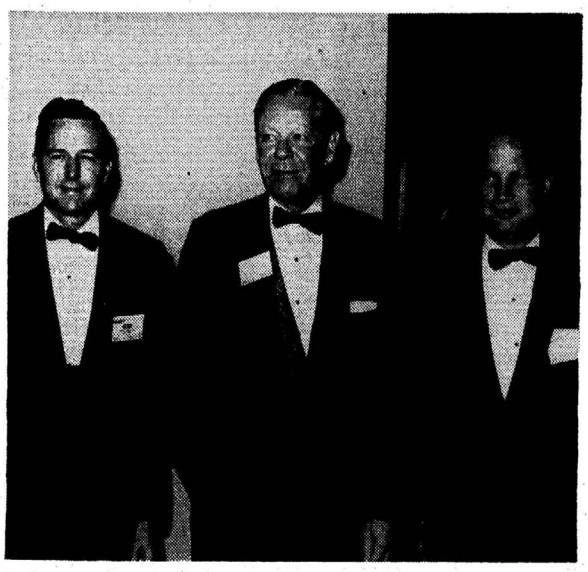

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search and development has been for pilot plants. A pilot plant is a small research facility designed to test and develop new or improved saline water conversion processes. A demonstration plant on the other hand is designed as a production unit, with much larger capacity than a pilot plant, to provide data on engineering, operating and economical potential of a conversion process. A number of pilot plants are in operation and more are planned. Two distillation research facilities are operating at Harbor Island, Wrightsville Beach, North Carolina and one at the Battelle Memorial Institute, Columbus, Ohio. Four electrodialysis units are under test at the Bureau of Reclamation Laboratories, Denver, Colorado. A 15,000 gallons per day freezing process pilot plant was developed by the Carrier Corporation and is in operation at Wrigntsville Beach, North Carolina. It utilizes a direct freeze-evaporation process. Three solar distillation plants are under development at Daytona Beach, Florida. A 35,000-gallons-per-day pilot plant is located at St. Petersburg, Florida. This was developed by Blaw-Knox Company and utilizes an iso-butane direct contact freeze process.

Extension of Work of Office of Saline Water

In view of the importance of and interest in this program and the fact that original appropriations and time limits are running out, Congress has taken up the matter of extending this work. Hearings were held by Congressional Committees this spring and summer with the result that the House of Representatives passed a bill authorizing an additional $50 million for the saline water conversion program and extended its time for an additional five years beyond 1963. Shortly thereafter the Senate approved legislation to spend $100 million over a ten year span. The final compromise was $75 million for a six year period (fiscal 1962 through fiscal 1967). This bill (H. R. 7916) has been passed and become law. It is apparent, therefore, that a vast stepup of governmental activities in this field will take place over the coming years.

The future program will emphasize broad basic, fundamental research to supply new ideas and data to develop the best and most economical processes and methods for converting saline water into water suitable for beneficial consumptive purposes. Low cost desalination is the ultimate objective. Methods of recovering and marketing commercially valuable byproducts resulting from saline water conversion will also be studied.

Cost Factors in Saline Water Conversion

In its work thus far, the Office of Saline Water has accomplished many satisfactory results. One of these has been to reduce the cost of producing fresh water through conversion of saline water. During the period in which existing legislation has been operative the cost of converting water has been reduced from $5 to $1 per 1,000 gallons. Much credit for this result must go to private companies that have been active in this field for some time, but the Office of Saline Water has pushed forward the work and directed efforts to develop processes and plants which have been of great help in reducing costs. It is expected that demonstration plants now operating or scheduled to operate will be a factor in further cost reductions. It must be recognized, however, that achievements have been largely engineering, and from this point on, it will become increasingly difficult to lower conversion costs any further with existing processes. Some benefits will derive from larger plant size, of course. It is possible to extrapolate a specific plant into one of greater capacity and envision cost savings up to optimum maximum.

In determining the cost factor, the capital costs of the converting plant are included on a basis of 20 year amortization and an interest rate of 4%. The desired objective is to provide water at a price of 40¢ or less per 1,000 gallons to make it economically attractive for industry and municipal uses in the more critical areas. However, in determining what is a competitive price, it must be understood that there are wide variations in water rates throughout the country. A number of additional factors should be taken into consideration also. For one thing, the figure of natural water cost may not actually be as cheap as the consumer is led to believe. In a town using highly mineralized water where the monthly water bill may be $4-$5, the following additional water expenses might be commonplace: (1) purchase of bottled drinking water $3-$6 per month; (2) home softening $3-$10 per month; (3) excess corrosion due to the highly mineralized nature of the water $4-$6 per month; (4) excessive consumption of soaps and detergents $4-$5 per month. Thus the actual cost in such a town is likely to be far higher than the water bill. All of these extra expenses would be avoided with distilled water. In suburban areas some people have their own wells and facilities. In this case expenses include amortization of the original cost, interest, maintenance, power and salt for regeneration and softener. When you add these all together, it is likely to be found that costs per 1,000 gallons used may well exceed $1.

* * *

It should also be remembered that many areas of the country are actually paying far higher water bills than the 40¢ per 1,000 gallons figure. These are arid places or those that have some special problem in obtaining adequate supplies of fresh water. For example, the city of Coalinga, California was forced to haul fresh water in by tank cars when its own supply became too salty. Its costs for this water was $9.35 per 1,000 gallons. About two years ago Ionics, Inc. constructed an electrodialysis plant here by which the city is now getting its domestic water supply at about $1.45 per

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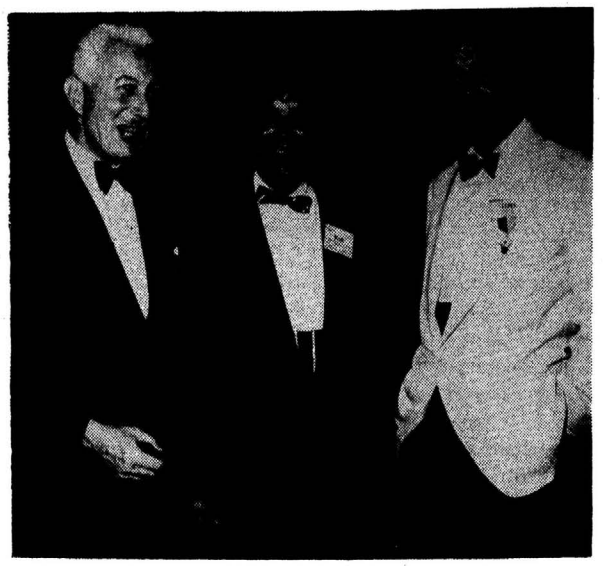

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1,000 gallons. For this location such a price is cheap.

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 basked 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 president pointed 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 has become 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 boost supply.

Water for irrigation is generally available at far lower prices perhaps in the area of 12¢ or less per 1,000 gallons. Agricultural water is measured in terms of acre-feet. There are 326,000 gallons in one acre-foot. It does not now appear that any presently used conversion processes will be able to provide water for irrigation at less than $100 per acre-foot. This compares with the highest price now being paid in the United States of $25 per acre-foot for special crop purposes. Normal prices run from $1.50 to $4.00 per acre-foot. Thus at this point conversion 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 multi-million gallons per day capacity plants. Additional factors determining suitability are associated with location, such as fuel costs, weather conditions, waste disposal conditions 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)
Westinghouse
Kuwait (Persian Gulf)
Weir & Westinghouse
Nassau, Bahamas
G. & J. Weir
Curacao (Caribbean)
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Isle of Guernsey
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Las Piedras, Venezuela
Griscom-Russell
Kuwait (Persian Gulf)
Richardson, Westgarth
Marcus Hook, Pa.
Westinghouse
Mirafiori, Italy
Escher-Wyss
Virgin Islands (U. S. Govt.)
Aqua-Chem
Kindley Air Force Base (Bermuda)
Aqua-Chem
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All manufacturers
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Aqua-Chem
Dharan Air Force Base (Arabia)
Aqua-Chem
Pacific Gas & Electric (Morro Bay, Calif.)
Lummus Company
Buenos Aires, Argentina
Escher-Wyss
Thule Air Force Base (Greenland)
Mechanical Equipment
Govt. of Ecuador (Salinas)
Aqua-Chem
Arrowhead & Puritas Co. (Los Angeles, Calif.)
Aqua-Chem
Southern California Edison (Oxnard, Calif.)
Aqua-Chem
Bermuda (Hotel Service)
Griscom-Russell
Destroyers (each)
All manufacturers

Other distillation units are in use on atomic submarines and surface ships run with heat provided by the atomic reactors, and on ocean-going vessels of many types, with the heat source being supplied by turbine bleed steam.

Aqua-Chem, Inc. has been especially active in navy and commercial ship installations. Over the past twenty years this company has designed and manufactured over 4,000 distillation units with a total fresh water capacity of 16,000,000 gallons daily.

*Table also includes total installed capacity and type of system.—Ed.

Arid Regions of the World

Besides our own country, throughout the rest of the world there are many regions that can be classified as arid or that are plagued by a chronic inadequacy of fresh water. These include the

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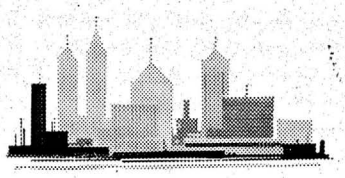

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Southern coast of Israel, the North coast of Australia, the West coast of South America especially Chile, Kuwait, Pakistan, Cyprus, Aruba, the Virgin Islands and Hong Kong. Other large areas have nothing better than brackish water supplies. These embrace the whole belt across Central Asia, the Middle East, parts of India, Pakistan, Iran, South America and Australia, North Africa, West Africa, South Africa, Mexico and the Caribbean Islands.

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 90% 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 proportion. Indeed, grave as 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 agri-

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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
- Blaw-Knox
- Carrier
- Chance Vought (now Ling-Temco-Vought)
- Curtiss-Wright
- Dow Chemical
- E. I. du Pont de Nemours
- Ets-Hokin & Galvan
- Electric Storage Battery
- Fluor
- FMC
- General Electric
- W. R. Grace
- Griscom-Russell
- Ionics
- Koppers
- Monsanto Chemical
- Struthers Wells
- Westinghouse Electric
- Whiting

Saline Water Conversion Devices
- American Machine & Foundry
- Aqua-Chem
- Bendix
- Bethlehem Steel
- Fairbanks Whitney
- General Electric
- Griscom-Russell
- Ionics
- North American Aviation
- Westinghouse Electric

Water Conditioning & Treatment
- Crane
- Culligan
- Fischer & Porter
- General American Transportation
- Hagan Chemicals & Controls
- Nalco Chemical
- Pfaudler Permutit
- Union Tank Car
- Wallace & Tiernan

Water Softeners
- Culligan
- Hagan Chemicals & Controls
- Nalco Chemical
- Pfaudler Permutit
- Union Tank Car

Sewage and Waste Disposal
- Dow Chemical
- Dravo
- B. F. Goodrich
- Sterling Drug
- Union Tank Car

Construction
- Fluor

Allied Equipment
- Allis-Chalmers
- American Meter
- Badger Meter
- Chain Belt
- Dorr-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 Office of Saline Water. It has also been indicated that more and more communities in this country, to say nothing of the rest of the world, are gradually feeling the pinch of inability to supply adequate amounts of fresh water in the face of a burgeoning demand imposed on diminishing or at best static supplies, often of a brackish quality. Faced with rising costs to satisfy demand, if it is possible to take care of needs at all, the prospect of using conversion plants with cost reductions rapidly enhancing economic feasibility is likely to become increasingly appealing to them.

The Congressional Bill extending the Saline Water Act and expanding 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 processes must be considered as at least 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 also 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 basic research with the objective of attaining low cost desalination. There will be, therefore, opportunity for banking institutions to arrange private or public financing. The Government's declared approach to this problem is not from the standpoint of trying to get into the utility business, but rather to stimulate, encourage provide consultation 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. What constitutes reasonable terms is largely determined by the rate at which the Administrator can lend money which as recently reduced is as low as 3⅝%. 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 conversion and attend-

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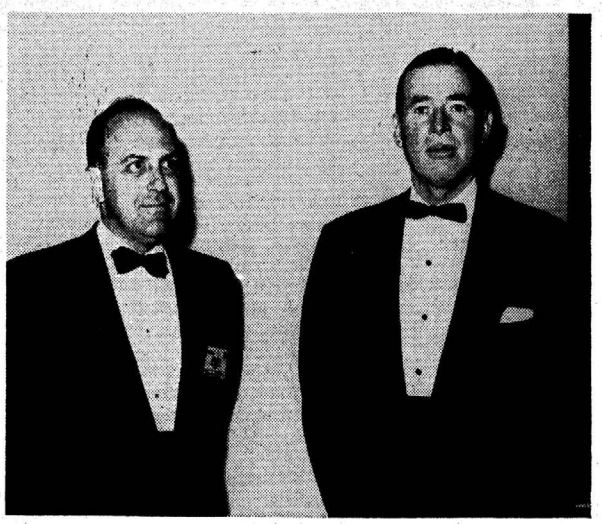

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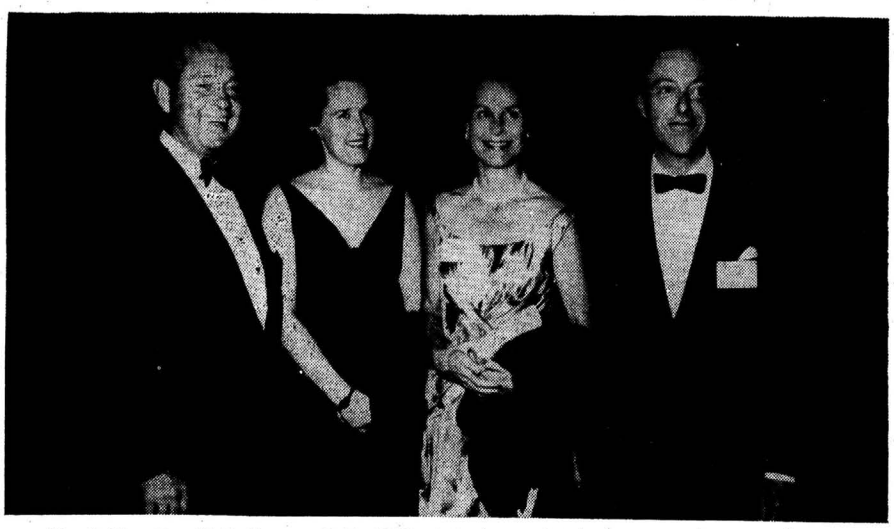

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ant water problems and improving economies.

Investment Opportunities

Many attractive investments exist in companies now actively engaged in various phases of the water treatment industry. These include companies producing commercial applications of saline water conversion equipment, those heavily committed in research and development work in newer areas of conversion and refinements in existing processes, those involved in the diversified facets of water softening and purification for domestic and industrial usage and those providing important processes for sewage treatment and disposal and purifying of waste. There are also a large number of companies on the fringes 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 companies and those whose business is largely confined to their water treatment activities. Provided their management is capable, growth characteristics of the industry are likely to benefit these concerns to a greater degree. For numerous large corporations operations having to do with water treatment or conversion presently constitute an insignificant part of the total corporate effort.

Inasmuch as the Governmental program calls for spending essentially only for research, companies strong in this area will be the prime beneficiaries over the next few years. Here again in the smaller concerns sizable research contracts will reflect markedly in sales and earnings. If in addition their commercial business rises, a sharp growth pattern may very well unfold.

There is always the possibility of some sort of scientific breakthrough developing from research investigations in conversion processes, which might invalidate existing methods. This is one of the risks involved in investments in companies committed to accepted processes. As they are all conducting their own research, it also offers substantial rewards.

The future burgeoning of this industry seems undeniable. It is likely to gain momentum rapidly. New vistas of development and emphasis may open up. In this environment many companies now participating in the field will surge forward. Some new ones may come to the fore. Selected investments in this area could well reward the investor handsomely for many years to come.

Respectfully submitted,

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Report of IBA Nuclear Industry Committee

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guaranteed by the Government; purchase by fuel fabricators, who would then, in turn, lease to reactor operators. The Atomic Industrial Forum, which represents most of the equipment manufacturers and utilities, is now studying the matter. Their recommendation will undoubtedly be along the lines of a sufficiently long transition period to minimize the economic impact of the changeover from leasing to ownership of nuclear fuels.

The Uranium Industry

Up to this point, we have placed the emphasis on the reactor itself. Uranium, of course, is the starting point of atomic energy. The mining and milling industry, which is entirely in private hands today, has performed beyond expectations. As you know, there was a rush some 10 years back for contracting foreign uranium before we realized how much we had in this country. After we had entered into contracts with South Africa and Canada, we soon began to find better and higher grades of ore in this country. Today, Canadian contracts have been extended until 1966 without increasing the total poundage originally due to be delivered in 1962. Therefore, Canadian production will taper off gradually and by 1963 or 1964 the supply sent to this country should not exceed 5,000 tons of uranium oxide per year. Under a revised contract with South Africa, effective Jan. 1 of this year, the United States will purchase 18,900 tons of uranium oxide between Jan. 1, 1961 and Dec. 31, 1966. The main difference from the previous arrangement is that purchases of South African uranium will be transacted by the United States and Britain under separate contracts, rather than jointly as was the case previously through the Combined Development Agency.

In our country, the present production level of 17 to 18,000 tons will be maintained until the end of 1966. The former Belgian Congo is no longer a supplier, nor were deliveries important before independence was granted to the Congo. Our total supply thus calls for average deliveries of approximately 30,000 tons of uranium oxide each year until the end of 1966.

In a projection of the future consumption of uranium, our forecast must necessarily take into account the time when atomic energy will begin to be competitive. We indicated in our report for 1959 that about 1,500 tons of uranium oxide are required to yield the inventory for each million kilowatts of electrical generating capacity. If, in addition, we want to earmark the burn-up or consumption of uranium over a 20-year period (which is what we have done with Euratom when we guaranteed their supply for the next 20 years), we will have to commit an extra 3,000 to 3,500 tons of uranium oxide per million kilowatts.

Therefore, by adding the fuel consumption of one million kilowatts of nuclear power for 20 years to the initial inventory, we reach an amount of about 5,000 tons of uranium oxide. Even if we earmark or commit future consumption for 20 years, it would take 6 million kilowatts of new nuclear capacity each year to absorb our yearly supply of uranium oxide. Even if atomic reactors begin to be competitive in some areas of the United States by 1965, it will probably be 1975 before anything like 5 to 6 million kilowatts of nuclear electrical capacity is added each year. It is entirely a matter of economics.

Today, we are adding about 11 million kilowatts capacity to our electrical 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. At that time, a fraction of at least 10% of that additional capacity will be nuclear and the percentage may grow to 25% after a few years. Some time between 1970 and 1980, we will have to think of expanding 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 only be erased once. We should also dispel the common belief that the conversion of our Navy to nuclear power will take care of uranium surpluses in the next few years. Quite a number of submarines and other warships can be built before even the equivalent of 1,500 tons of uranium oxide is used.

The only thing that will definitely absorb our future uranium production is the peacetime use of atomic energy in the production of electricity. Other future applications such as reactors for

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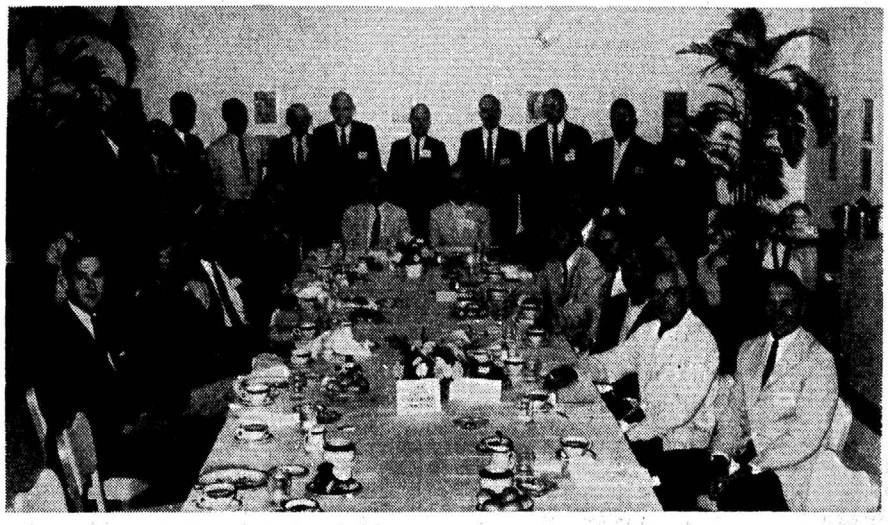

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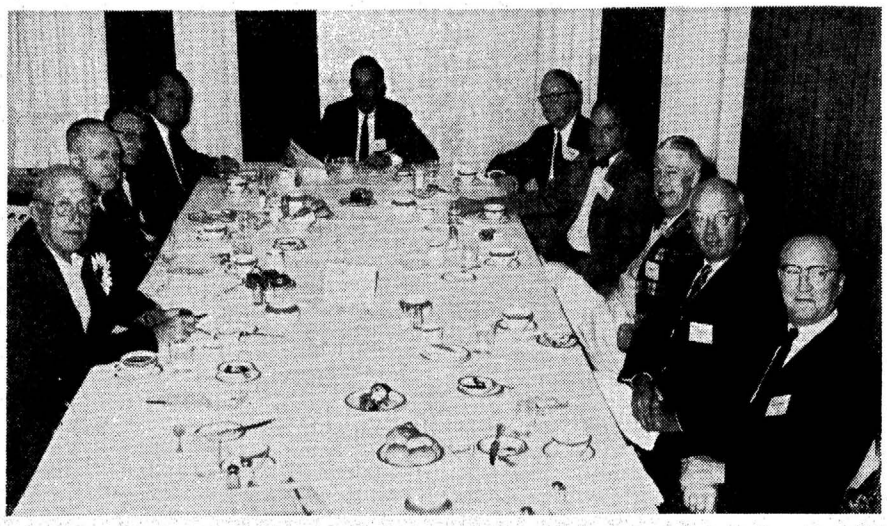

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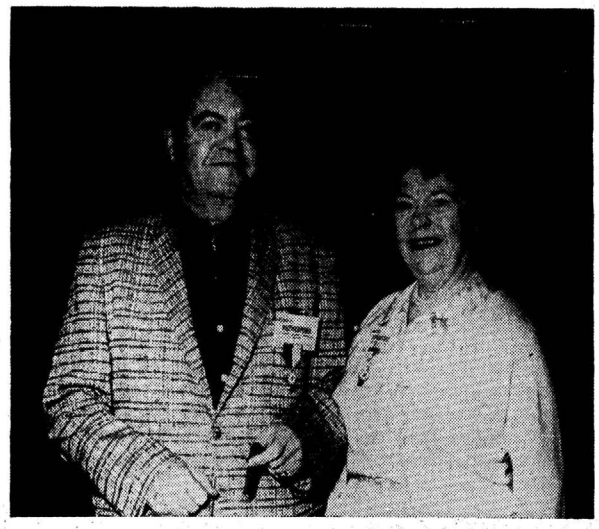

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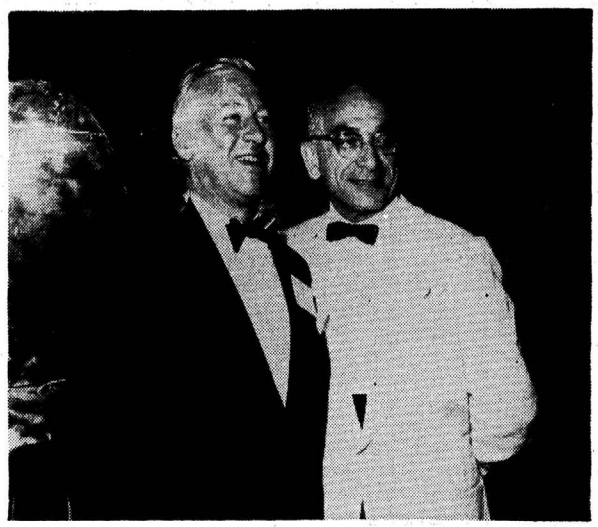

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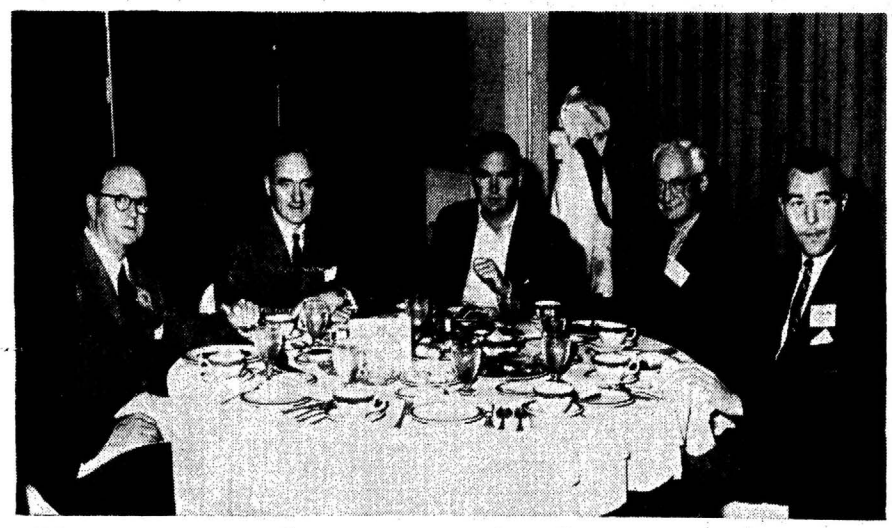

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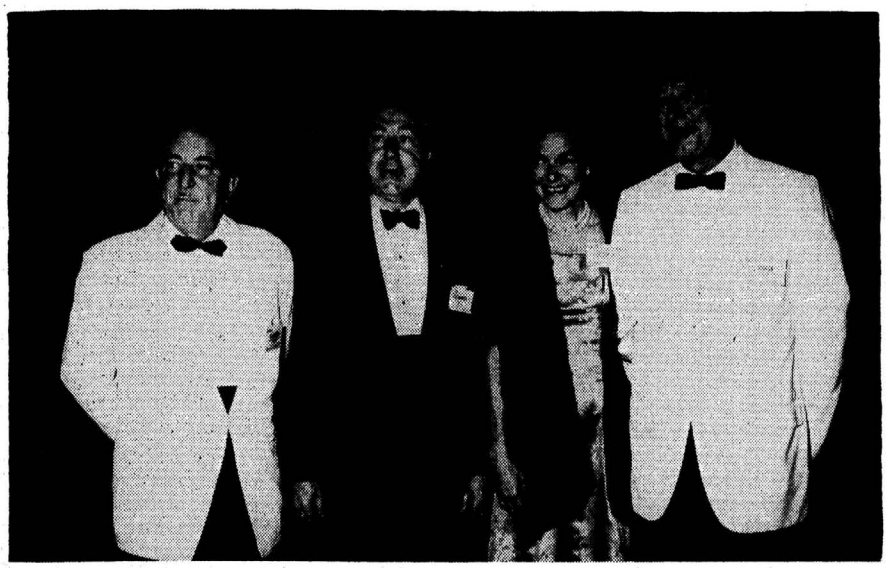

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process industries will come about only after atomic energy becomes competitive in electrical nuclear power plants. In the course of the year, several companies expressed interest in the AEC's demonstration process heat reactor project. The capacity 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 those 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 this additional uranium to Great Britain by means of a contract. The price agreed upon in a letter of intent is US $8 per pound, which is below the price of $10 or $11 per pound we pay 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 but a small impact on the ultimate cost of nuclear fuel.

Chemical Reprocessing

The industrial steps which follow mining 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 thes 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 Olin 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 Sabre-Pinon and United Nuclear might merge, subject to the approval of shareholders of both companies. Sabre - Pinon, 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 logical that in time such a company might go into chemical reprocessing. Certainly, their combined skills give them the capability and know-how to handle the chemical reprocessing phase, which deals with hot chemistry (radioactive products). Davison 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 300 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. It will be the first internationally-owned fuel reprocessing facility. 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 SENN calling for the construction of a 150,000 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 proffered under the first invitation: sale (or lease) to the Community of a new amount of up to 30,000 kilograms of contained U-235 for a 20 year as-

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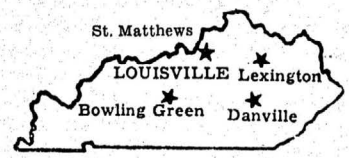

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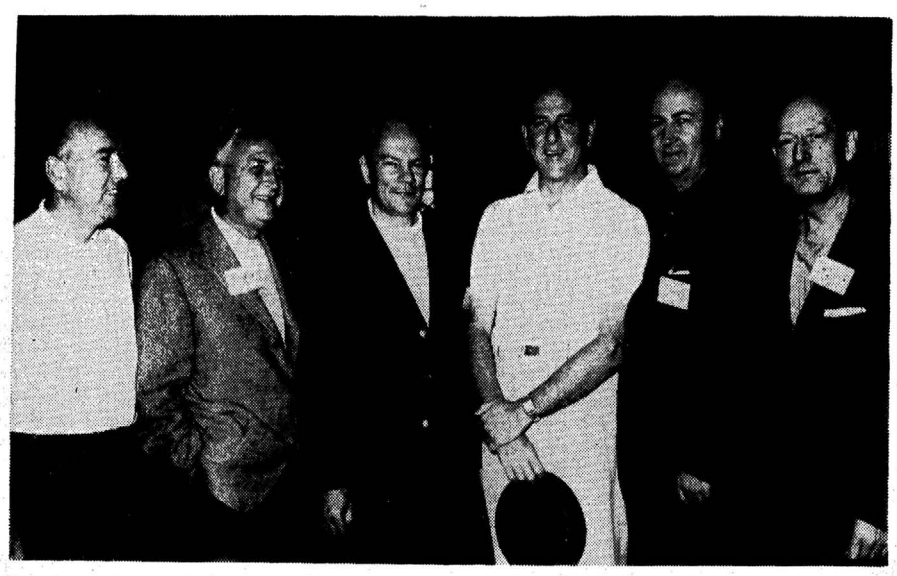

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surance of enriched fuel supply at prices comparable to those offered to U. S. industry; a deferred payment plan under which payments of principal for fuel purchase would be deferred up to ten years with a 4% interest rate —the principal would be paid in the second ten year period in equal installments; availability of 4.5% — 20 year loans from the U. S. Export-Import Bank to cover U. S.-supplied plant components and services up to 40% of the capital cost of each plant, with an aggregate total of $135 million.

It appears that the Belgian-French SENA group (Societe d'Energie Nucleaire Franco-Belge des Ardennes) has decided to build a large 260,000 kw. reactor in the French Ardennes, near the Belgian border. The German KBWP group (Kernkraftwerk Baden - Wuerttenberg Planungs-GmbH) of Stuttgart is considering a 150,000 kw. reactor plant.

In the latter part of September, the President of the United States determined that the amount of enriched uranium to be made available for peaceful uses at home and abroad will be increased to a total of 165,000 kilograms of contained uranium-235. Of this total, 100,000 kilograms is to be available for distribution within the United States and 65,000 kilograms for distribution to other countries. The material will be distributed as required over a period of years and will be subjected to prudent safeguards against unauthorized use. The last Presidential determination was made in 1957 and the present amounts are about 40% over the previous total. The President's announcement should allay the fears of foreign nations in so far as the supply of enriched uranium is concerned. The supply to foreign nations will be made either directly as in the case of Euratom 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 Sterling Cole of the United States, who led the Agency under sometimes trying conditions during its first four formative 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, there are eight similar reactors in operation in the U. K., four at Calder Hall itself and four at Chapel Cross 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 Euratom that the cost of nuclear power in many areas, including the U. K., will have fallen below the cost of conventional power by 1970. It appears that 1965 will also be the year of the economic breakthrough in Europe.

France's goal of 850,000 kw. of nuclear power by 1965 probably will be achieved. Nuclear power plants are under construction in Italy, Germany and Japan. Seven U. S. and foreign firms have submitted bids for the construction of a 300,000 kw. nuclear plant near Bombay, India. Brazil is seeking bids for a 300,000 kw. nuclear plant to serve the Rio de Janeiro-Sao Paulo area.

The atom abroad is burgeoning.

Radioactiveisotopes

In the United States, there are around 1,900 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 ways.

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 into electricity. The discovery of the principle of this conversion goes back to the early 1800's. What is new is the use of radioisotopes for that purpose. The first satellite carrying out its mission by means of nuclear power is in orbit around the earth. Launched in June by the Navy, TRANSIT 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 between 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 TRANSIT is one of the units of the "Special Nuclear Auxiliary Power" or "SNAP" program. The United States expects to have an operational TRANSIT system in service by late 1962. Four satellites will give accurate navigational information anywhere on the globe.

Outside of thermoelectric SNAP systems, the AEC is also studying thermionic SNAP devices with curium-242 isotopes 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 sustain these high temperatures for any length of time because of the limitations of present structural materials.

Beyond a few kilowatts, electrical power needs can only be satisfied by a nuclear reactor. Other SNAP systems using nuclear reactors for power up to 30 or 60 kw are being developed in a joint AEC-NASA 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 a wide variety of products, often improving their qualities or bringing about new properties and new products. Irradiation machines and services are now supplied by several companies. In line with AEC policy to make room for private industry wherever the latter is ready to take over any of the industrial phases of atomic energy, during the year the AEC announced that 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 AEC 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, preservation of foods and processing of petroleum products. In solid state physics, radiation also will play an important part because of its impact on alloys, semi-conductors 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 BTUs of coal, oil and natural gas energy will continue to rise everywhere because of inflationary pressures in the Free World. Through increases in thermal efficiency and size of conventional plants, utilities have succeeded in paring down the cost of the electrical kilowatthour. The trend is likely to change in the future, mainly because it will be extremely difficult to increase the efficiency much further. On the other hand, the cost of nuclear energy can only come down in spite of inflationary pressures. The construction of large size reactors and their standardization will tend to reduce capital costs. Much has already been achieved in this direction. Many improvements in the nuclear fuel cycle, to which we have referred, will further contribute to the reduction of nuclear fuel cost.

It is encouraging to see that developments in Great Britain, the European Common Market and Japan parallel and supplement our own experience. The cross-over point between costs of conventional and nuclear power is very likely to be reached in 1965 in the high fuel cost areas of the United States and Europe.

Meanwhile, radioactive isotopes find an ever increasing usefulness in industry. Radiation is moving from the laboratory to new revolutionary applications in industry. In the field of space technology, it becomes increasingly clear that atomic energy will play the leading role.

Respectfully submitted,
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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 plane 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 aircraft in the general aviation fleet will increase by more than 35% 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 ever 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 inescapable 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

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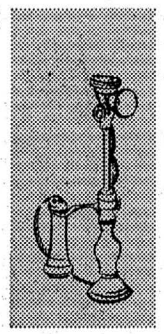

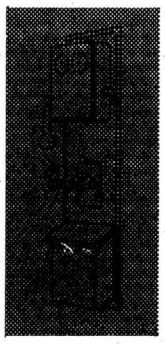

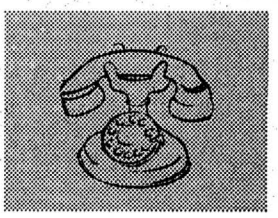

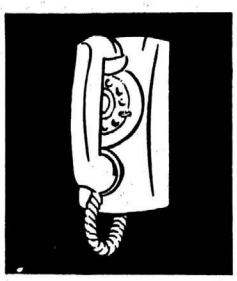

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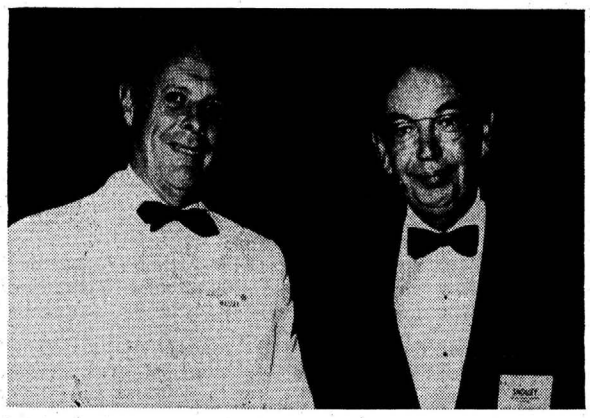

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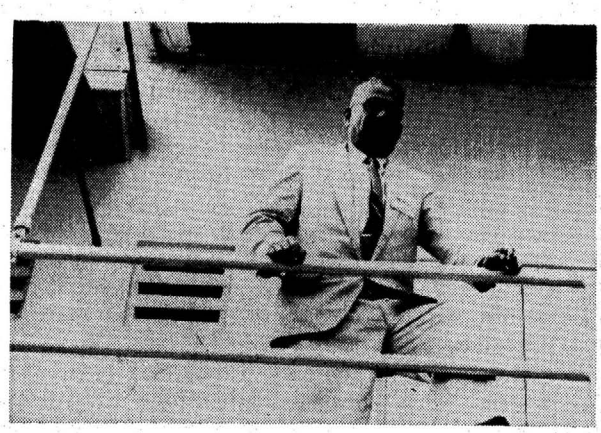

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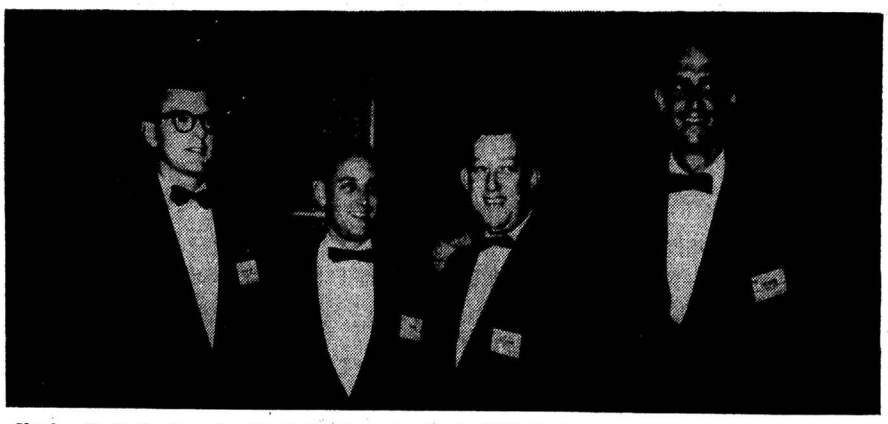

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investment in new and sophisticated equipment and facilities, "very large companies, or groups of companies, and a narrowing of competition may be an unavoidable part of maintaining a strong aerospace industry." The financial attrition in the industry as a result of the rigors of the current jet transport program and the huge sums which will be at risk, even after allowing for possible governmental assistance, in the development of a supersonic transport give further credence to this trend of thought. So far, however, there has been no evidence of any consistency of government policy with respect to possible mergers within the industry designed to alleviate the situation.

AIR TRANSPORT

Domestic Trunklines:

The trunk airline industry in the United States is currently completing the initial phases of a revolutionary program which involves replacement of substantially all of its piston engine equipment with turbine powered aircraft. In conjunction with the large-scale purchases of new flight equipment, the industry has been engaged in a massive program for the expansion and modernization of its ground facilities. While much remains to be accomplished, particularly in the latter area, the industry has truly made tremendous strides in the last several years. At the beginning of 1961, U. S. certified airlines had in service 224 turbojet aircraft, together with about 115 large turboprop planes. By the end of the year the lines will have received more than 100 additional jets plus about 40 turboprops. It is estimated that by the end of 1962 virtually all long and medium flights will be jet powered. Air service by jet is expanding rapidly throughout the United States. Approximately two years ago jet service was available to only six major terminals. By May 1 of this year such service had been extended to 47 airports throughout the country and the total is expected to grow to well over 100 in about five years.

The accomplishments of the industry are indeed remarkable and we are certain that today's air traveler can have nothing but admiration for the results which the industry has achieved, even in spite of minor inconveniences which he may from time to time experience. Unfortunately however the industry needs more than admiration if it is to be successful in completing its transition to the jet age and in preparing itself for the giant step into supersonic travel which may be expected to take place some time in the 1970s. For it is abundantly clear to anyone reasonably familiar with the basic statistics of air transport and, in fact, to almost anyone who occasionally glances at the financial pages of his morning newspaper, that the airlines face many challenging problems.

"Profitless Growth"

The oft-used expression "profitless growth" continues to be descriptive of the industry. The trunk lines generated approximately $2 billion of revenues in 1960 from which they were able to bring down to net income only $1.1 million. Revenues in 1961 should be somewhat ahead of 1960 but the industry is expected to show a considerable loss for the year.

Operating revenues for the eight months ended Aug. 31, 1961 were $1.48 billion, up slightly from $1.44 billion for the same period in 1960. Operating expenses, however, increased by about $57 million resulting in net losses for the industry of $12,410,000 for the eight months period of this year, compared with profits of over $10.4 million in the comparable period last year. Of the 11 domestic trunk lines, only five were able to report profitable operations for the eight months and only two showed an improvement in earnings this year as against 1960. Trunk line common stock prices, which climbed appreciably during the first five months of the year in expectation of favorable airline operating results rising out of generally healthier business conditions, expected economies of jet operations, etc., began to sag noticeably after mid-year as the airlines' operating results become clearer and, with few exceptions, these shares have continued to perform rather poorly.

There are a number of specific reasons for the unsatisfactory operating results of the trunk lines in 1961.

(1) In many areas of the economy there was a somewhat slower than expected recovery from the recessionary conditions which prevailed last year, particularly during the latter months thereof. Furthermore, consumer spending has not shown the resurgence this year which had been expected in line with a generally healthier economy. Unlike the experience of previous years, when airline traffic has usually been quick to reflect improving economic conditions, industry traffic trends in 1961 have been quite disappointing. Total revenue passenger miles of the domestic trunks for the first nine months of 1961 were 9/10ths of 1% lower than in the first nine months of 1960. For the third quarter, which had been expected to show a more normal growth rate, revenue passenger miles flown by the domestic trunklines were only one-half of 1% higher than during the corresponding period last year.

(2) The industry suffered from costly strikes in the early months of 1961.

(3) Operating costs, including the continued break-in costs of the new jet equipment, have risen in 1961. Interest charges and depreciation accruals have likewise been higher this year.

(4) There has been a continuation of the strong trend toward broader use of coach travel versus first class. The relatively brief flight time of the average jet trip, which minimizes passenger discomfort, has increased coach usage. Coach travel on the trunk lines during the first nine months of 1961 represented 57% of the total as compared with 48.6% last year. First class travel declined about 16.5% during the nine-month period.

(5) There is presently a considerable degree of excess capacity in the trunk line industry and the situation has continued to worsen as new jet equipment is introduced into service.

(6) The rapid increase in capacity, together with traffic declines experienced throughout most of 1961, has been reflected this year in further decreases in passenger load factors (the percentage of available seats actually sold in scheduled service). Load factors have shown almost continuous monthly decreases since the introduction of the jets in late 1959. Average load factor for the trunk line industry was 57.2% for the nine months ended Sept. 30, 1961, as compared with 60.4% in the comparable period last year.

Too Much Competition

While certain of the reasons set forth above for the airlines' relatively poor performance in 1961 are obviously beyond the control of either the industry or the various regulatory authorities, most of the industry's current and past problems are clearly a reflection of the inescapable fact there is an excess of competition within the industry. There is too much parallel service in most of the industry's principal markets, far more than is necessary to satisfy the basic tests of convenience and necessity. As a result of the fierce competitive forces prevalent in the industry each line must, of necessity, endeavor to put itself in the best competitive position by purchasing the most advanced flight equipment and by constant improvement of its ground facilities for servicing flight equipment, handling its passengers, etc.

Capital expenditures by the industry, both for flight equipment and ground facilities, in connection with its jet program amounted to over $3 billion through 1960 and further heavy outlays have been made in 1961. In the next four to five years it has been estimated that the domestic trunks will require approximately $1.3 billion for additional equipment plus $600-$700 million to meet payments on aircraft now in operation. While the carriers may be expected to have a respite from additional major capital expenditures during the latter half of the 1960s, they must prepare for large outlays in connection with the introduction of supersonic transports by perhaps the mid-1970s.

The industry has financed its jet equipment program to a large extent through the medium of borrowed funds. Average debt to equity ratio of the certificated carriers at Dec. 31, 1960 was approximately 1.6 to 1 as compared with an average ratio of 0.4 to 1 at Dec. 31, 1955. This heavy debt structure has resulted in increased interest charges which must be serviced if the lines are to maintain the necessary credit standing to enable them to complete their present program and to prepare for the supersonic era. In addition to such interest charges most of the airlines have incurred extensive lease obligations in connection with the purchase of flight equipment and to support expanded and modernized airport and maintenance facilities. While it is true that depreciation and amortization accruals on the vast amounts of new equipment currently in operation and to be

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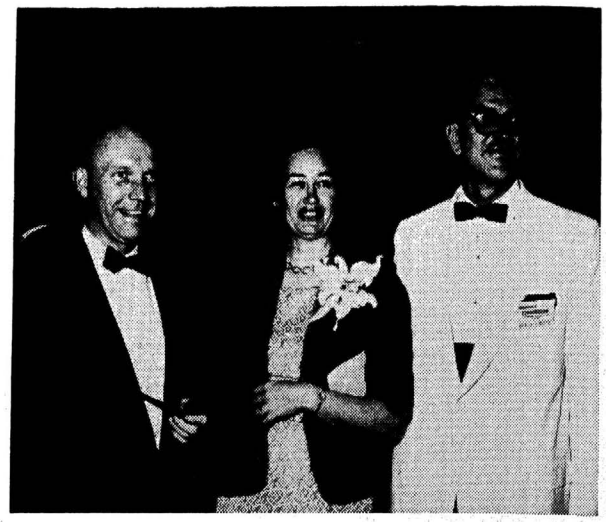

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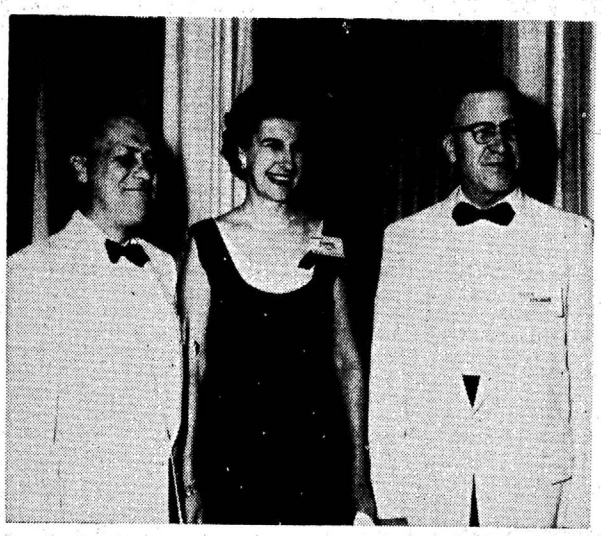

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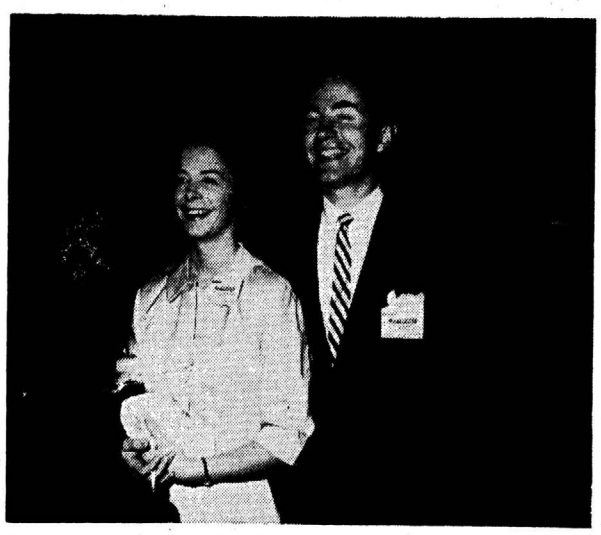

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acquired may be expected to provide large amounts of cash to meet interest, rentals and debt amortization schedules, it is obvious that such cash throw-offs do not necessarily occur unless depreciation and amortization charges are earned.

Airline Fares

It is clear that the industry must be assured of attaining and maintaining a reasonable level of earnings if ever 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.

In November, 1960, after a four-year investigation of domestic airline passenger fares, the Civil Aeronautics Board concluded that a fair over-all rate of return for the domestic trunk line industry is approximately 10.5% of invested capital, based upon a somewhat lower return for the four largest carriers and a somewhat higher return for the remaining trunk line carriers. No airline met this standard in 1960 and it is virtually certain none will meet it in 1961. United Air Lines, one of the few carriers that have been showing profits this year, recently estimated that it will earn only 2% of its investment in all of 1961.

The industry has been seeking methods by which the level of airline earnings might be improved. In an effort to generate new traffic, and at the urging of the CAB, a number of the lines earlier this year introduced various kinds of promotional fares, including the much publicized "youth fare" which has since been abandoned by all of the trunk lines. Other innovations this year include so-called "air bus" and shuttle service designed to attract more travel business from private automobiles, railroads and busses. One line recently announced plans to offer special, economy jet service at prices about 25% lower than present jet coach fares. There is a considerable difference of opinion within the industry, however, as to whether or not such developments are attracting new traffic or in the long run will prove to have been mainly diversionary by enticing passengers who might otherwise have gone via first class or regular coach flights at higher fares.

It now appears that some selective upward adjustments in airline fares may be forthcoming, although the nature and timing of any such increases is presently uncertain. One of the large trunk-lines has filed for a general increase in fares and two others have filed for increases pertaining primarily to coach fares. Here again, however, there is far from unanimity of opinion among the lines as to the wisdom of fare increases at this time. Certain of the carriers have felt that a new fare increase might drive away so much business that it wouldn't help earnings. The generally disappointing results, to date, of the promotional fare program, coupled with what appears to be a cautious willingness on the part of the CAB to at least discuss the question of fare increases, may bring the industry closer together in its thinking on this subject.

The CAB has urged that the lines concentrate their efforts to cut expenses through such immediate steps as the elimination of free coach meals and the institution of penalties designed to reduce the problem of "no-show" passengers. A long range cost reduction program suggested by the CAB is the joint use of ticketing facilities, airport equipment and maintenance bases. This Committee recognizes the desirability of such "belt-tightening" procedures. It believes, however, that in view of the severely depressed level of the industry's earnings, time is of the essence and, therefore, more drastic and immediate measures are necessary. The Committee feels that favorable consideration should be promptly given by the CAB to requests by the industry for some reasonable form of selective fare relief.

Regulatory Climate

The extent to which the regulatory authorities have been concerned with the industry's problems is indicated by the fact that the airlines have been the subject of some 75 governmental studies over the past ten years. The latest of these, Project Horizon, recognizing the seriousness and urgency of the situation, has recommended a number of approaches to the problem. Included in such recommendations are (a) the refusal of the CAB to certificate new competition except wheer it is clearly justified on economic grounds: (b) a more sympathetic approach to mergers that would alleviate situations involving excessive competition except where it is clearly carriers are competing against stronger lines; (c) the encouragement of new rate plans designed to tap new sources of traffic; (d) the development of a sound plan by which all first class mail would be carried by air.

Many of the suggestions made by Project Horizon have been urged before but with little consequence. There are signs however that the regulatory authorities, who are charged by Act of Congress with the grave responsibility of maintaining a sound and healthy industry, may be adopting a more enlightened attitude. Earlier this year the CAB for the first time set up a planing bureau, a primary purpose of which is to enable the Board to anticipate and possibly head off problems which arise in the industry rather than merely attempting to correct them after they have become chronic.

The recent action of the CAB upon the conclusion of its two-year-old "non-priority mail rate case" is likewise an encouraging sign. Its decision in this case laid

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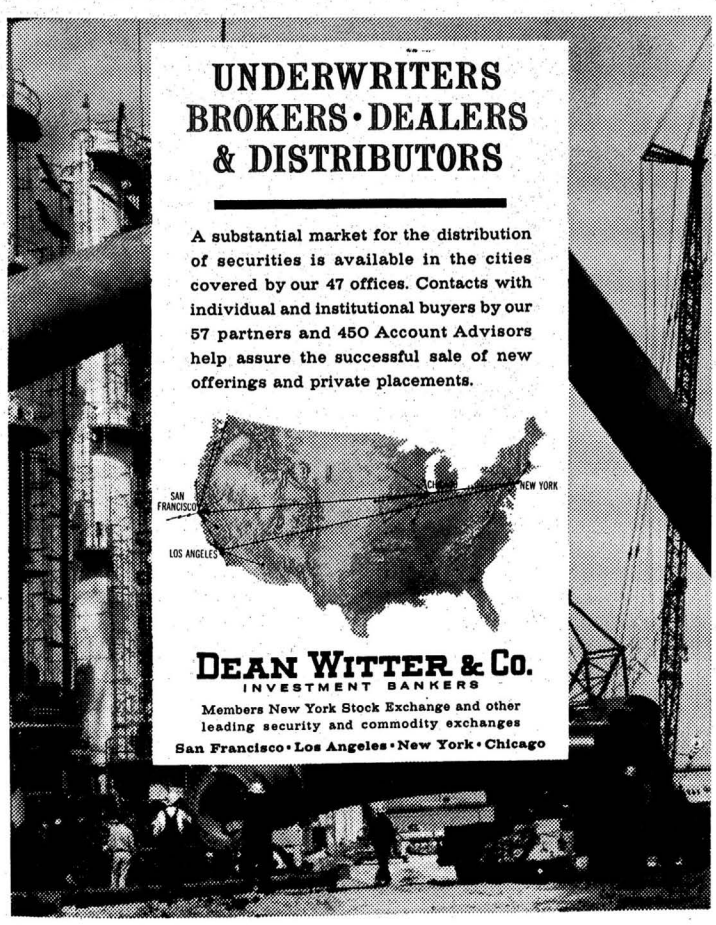

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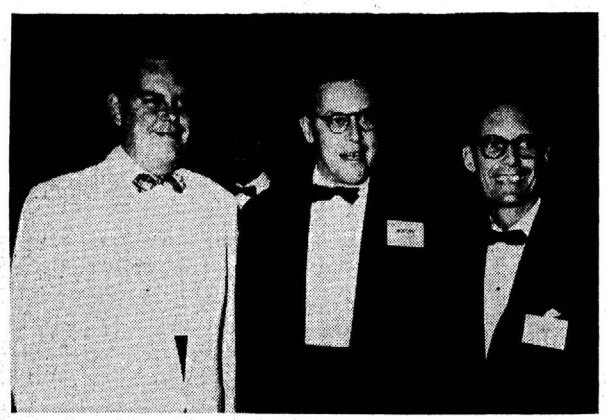

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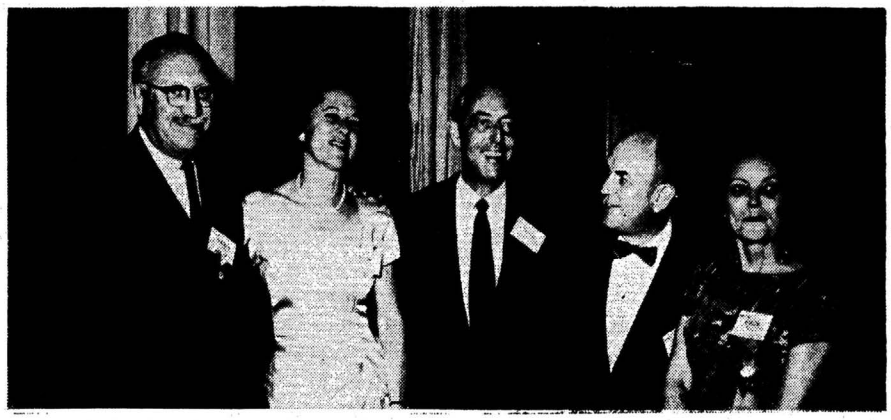

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out broad new authority for the airlines to obtain a large portion of new mail carrying business. The final decision as to whether the carriers will be able to avail themselves of this authority must be made by Congress however and it is expected to 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 contract 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 10% 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 10% 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 decision 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) where United now has no airline competitor due to its merger with Capital Airlines. Most of the ten airlines which are seeking authority to operate in certin 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 certificate 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, plying 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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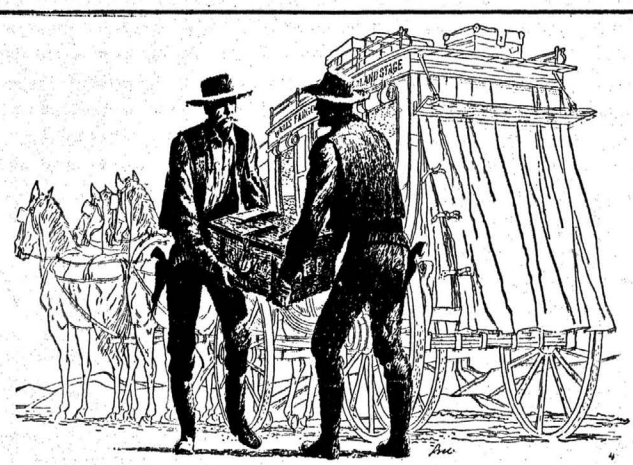

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about 53% this year, down from 68% in the 1960 period.

Even more so than in the domestic market, air travelers on the international routes are favoring economy class accomodations 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 1950, 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 1960, down from about 80% in 1950. Their percentage of the Pacific business has recently been about 67% as compared with almost 79% in 1953.

It has been a logical expectation that U. S. international air transport, which had carried the preponderance of post World War II international air traffic up to and including the early 1950's, would tend to decline as other countries strengthened and expanded their 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 certain of 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 coutry 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 governmets 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 al-

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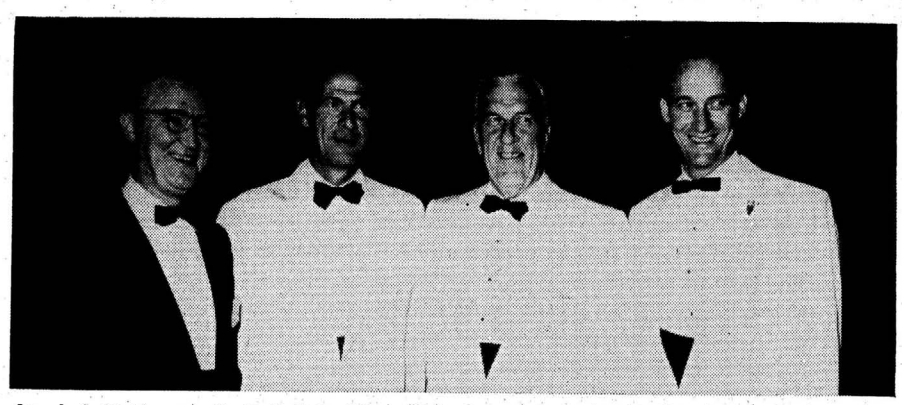

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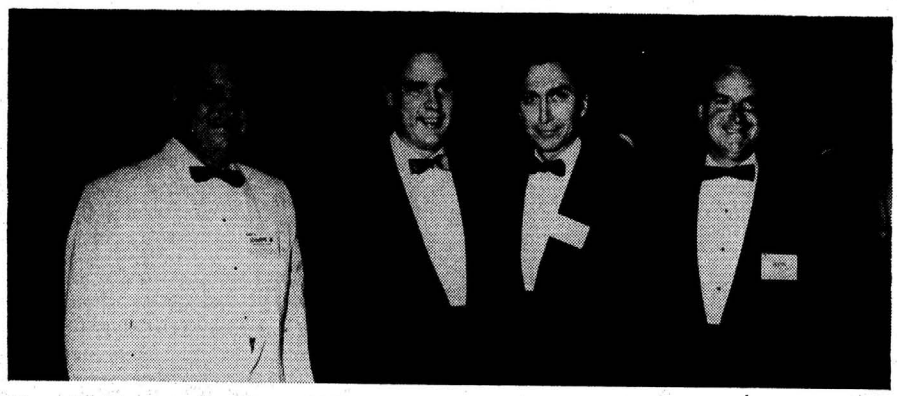

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lowed to extend their routes into U. S. cities beyond their gateway points of entrance into this country affects not only the U. S. international carriers but also creates additional competition in the domestic trunk line markets.

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 postures of many nations, but also the delicate areas of diplomacy and politico-economics. 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 a comprehensive study of U. S. international aviation relations be undertaken to "review our objectives 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 who 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, equities of the local service lines have shown price appreciation this year, although the down trend in airline stock prices in general, 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.

Helicopters

The three U. S. certificated 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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as last year. Total revenue passengers carried by the three lines in the first six months of 1961 decreased about 10% from the same period last year. Revenue passenger miles, however, were up 7%. Operating revenues in the six months this year aggregated about $4,114,000, down slightly from 1960. The continued rise in operating expenses, however, resulted in operating losses of $334,000 in the six months period this year compared with operating profits of $129,000 for the 1960 period. The lines continue to be heavily subsidized and indications are that subsidy needs will remain substantial for the foreseeable future. However, on a per available seat mile basis, subsidies have dropped from about $3.61 in 1954 to $0.26 in 1960. While break-in costs relating to the new large turbine-powered helicopters currently being introduced into service will initially require larger subsidy, it is expected that operating economies of the new equipment should result in a downward trend in subsidy payments.

The introduction of these new machines constitutes a major development in helicopter transport. With a capacity of 25-28 passengers, virtually double the capacity of the largest piston engine craft, and substantial improvements in speed, operating economy, all-weather capability, etc. the new helicopters should pave the way for eventual self sustaining operations by the carriers.

CAB Subsidies

Congress ruled this year that that the CAB can spend no more than $6,000,000 in helicopter subsidies during the fiscal year ending next June 30. The CAB had requested $6,900,000. As a result of this action by Congress, the CAB has told the three scheduled carriers that their operations and expansion plans will have to be curtailed this year. Several of the Committee members have expressed the viewpoint that it was unwise of Congress to take action which may hinder the activities of these carriers just when they appear to be reaching a crucial point in their development.

The so-called "commercial helicopter" field, which includes all helicopter operations other than those of the three scheduled passenger lines, has continued its impressive growth. A survey conducted earlier this year indicated that there are approximately 245 U. S. and Canadian commercial helicopter operators which last year did $50 million of business involving 57 different types of service. The greatest activity is in five areas—charter and taxi, photography, forestry, power-line patrol and crop spraying.

All-Cargo Carriers

Turning to the subect of air cargo we find again the specter of excess capacity and the effect thereof upon the profitability of the all-cargo operators. The air freight business has been growing at a healthy rate for a number of years and its growth has continued this year. However the total volume of present air freight traffic is still not sufficient to fill the available capacity. The situation has been aggravated by the introduction of jet equipment, not only because the jets can carry more freight faster but also because the trunk lines and U. S. flag carriers have pressed certain of their surplus piston engine engine equipment into use as all-cargo carriers. The total movement of freight by air is, of course, still very small in relation to the overall freight business. Less than 1% of total domestic inter-city freight traffic was carried by air in 1960.

Two Domestic Carriers

There are only two U. S. certificated all-cargo carriers in scheduled domestic service plus a third which operates scheduled service over the North Atlantic. Operating revenues of the two domestic carriers have been running ahead this year and one of the two, Flying Tiger, showed a net income of $169,000, before capital gains from sale of aircraft, for its fiscal year ended June 30, 1961. The carrier recently reported that it lost money in its fiscal first quarter ended September 30, primarily due to expenses connected with putting new equipment into service. Seaboard World Airlines, the North Atlantic all-cargo carrier, showed a drop in revenues and experienced operating losses of about $2.6 million in the first eight months of this year, reflecting the extremely competitive conditions in that market. Even these losses represent an improvement over the 1960 eight months period, however, when the carrier suffered operating losses of $6,383,000. Most of the total air freight continues to be carried by the large trunk line and U. S. flag carriers. The all-cargo lines' portion of total air freight in 1960 amounted to only about 25%.

Lower Rates Essential

A key to the successful development of the air freight market continues to be lower rates, both domestically and on the international routes. The magnitude of the rate reduction task is indicated by the fact that, according to studies conducted by the Air Transport Association, air freight rates range anywhere from two to ten times the rates for surface transport of materials and products suitable for carriage by air. Other major hurdles in the development of this market exist on the ground. Not only is there need for expanded and modernized ground facilities for handling increases in air freight volume but the customers themselves must learn to tailor their surface distribution systems so as to obtain more fully the benefits offered by air freight.

Several of the all-cargo carriers are planning to place into initial operation, sometime in early 1962, new turbo-prop aircraft, such as the CL-44, a swing-tail design which is expected to reduce operating costs considerably. Leading U. S. jet transport manufacturers have developed and currently are offering to cargo carriers various cargo configurations or combination cargo/transport configurations of existing military and commercial turbofan powered transport aircraft such as the C-135, 707, and DC-8. Use of turbo-fan powered equipment, with its increased ton-mile capability, promises not only substantial reduction in operating costs but requirements for fewer aircraft and therefore less investment on the part of the carrier. Within four to five years it is expected that there will be available a civil version of the C-141, a jet cargo aircraft, employing turbofan power plants, which is being developed for the Air Force. Its proposed pay-load of about 75-95,000 pounds compares with the 50-65,000 pound pay-load of the CL-44 turbo-prop. The industry is confident that the advent of such specialized turbine powered equipment and the expected operating economies thereof will be conducive to the development of a more competitive rate structure.

Besides the introduction of new equipment, the past year has seen other developments of importance to the air freight industry. The CAB, for example, in October of this year removed its longstanding minimum freight rates. Although many of the trunk line carriers disapprove of this action by the CAB, fearing posible rate wars, the Board has stated that it was removing the rate floor in order to allow the carriers "maximum flexibility and opportunity to expand with promotional rates." As previously mentioned, the CAB has also continued to urge that the Military Air Transport Service contract more government business to private lines at prifitable rates. The CAB chairman recently suggested that joint air-rail and air-truck rates be explored as a possibility for expanding the use of air freight.

A controversial point is that relating to the currently proposed legislation for making low interest rate, government guaranteed loans available to finance purchases of all-cargo aircraft. Members of previous aviation securities committees have indicated a belief, with which we concur, that (a) such government guaranteed loans would not necessarily be of major importance in the development of the air cargo business and (b) that implementation of such loans is contrary to our nation's basic philosophy of free enterprise. In this connection several of the all-cargo carriers are currently asking that they be made eligible for direct subsidy. The CAB has been reviewing the subject of subsidy, both direct and indirect, to these carriers and a ruling is expected shortly.

Conclusion

This has been another difficult year for the air transport industry. Nevertheless, in spite of the many serious problems which the air carriers continue to face, there are encouraging signs that satisfactory solutions to these problems may be found before too very long. The increasing indication of a more realistic and sympathetic attitude on the part of the regulatory authorities is perhaps the most hopeful of these signs. Much remains to be accomplished however, and it is incumbent upon the airlines, the authorities and all others directly or indirectly concerned with this vital industry to exert maximum effort toward meeting its problems.

The following is an excerpt from a talk recently given by Mr. James F. Oates, Jr., president of the Equitable Life Assurance Society of the U. S.:

"May I remind you as a representative of a substantial investor, that institutional investors, which have for many years financed all types of transportation carriers, hope to continue to do so.

"They will, however, be forced out of this type of investment if it becomes much more difficult to see a clear prospect of adequate earning power under private management. The alternative is Government ownership-nationalization. We cannot afford that alternative."

It so happens that the principal subject of Mr. Oates' remarks was the railroad industry and the bitter experiences with government operation thereof which had been suffered by this country, in World War I, and by a number of foreign nations. It is a sobering thought that the speaker's words with respect to government ownership-nationalization as the alternative of "adequate earning power under private management" might equally be applied to the air transport industry.

Respectfully submitted,

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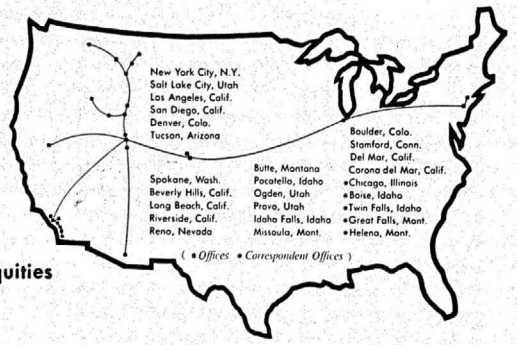

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Report of IBA Oil, Natural Gas Securities Committee

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rates and rate of return on pipeline operations.

Mention was made in last year's report of the adoption by the Federal Power Commission of a broad program for regulating rates of independent natural gas producers on an area price basis, instead of confining itself to the utility rate base method which it found was not workable. In the meantime area rate proceedings for two large producing areas—the Permian Basin and southern Louisiana—have been commenced. Into these proceedings have been consolidated a number of individual cases which involve the prices of gas produced in these areas, but it is still not clear what principles of price regulation are going to be applied in the outcome of these proceedings and others which may be held in the future.

In an address before the Independent Natural Gas Association last spring, Mr. Joseph Swidler, the new Chairman of the Federal Power Commission, expressed some of his own views on this subject. There has been a great change in the membership of the Commission, which shortly will be comprised entirely of new appointees. The comments of the new chairman may perhaps be regarded as the best available indication at this time of what to expect in the way of FPC policy on regulation of producer prices.

New Chairman's Philosophy of Price Reassuring

The new chairman stated very clearly that he does not believe that the production of natural gas lends itself to a utility-type cost of service and rate of return approach. He recognized that the independent producer takes real financial risks in the hope of a large reward if he is successful, and that he cannot be expected to risk his money without the hope of something more than the type of return which is usual for utility-type enterprises. He expressed the view that area prices should serve as ceilings and not as floors. He alluded to the fact that the major parties to these proceedings have been ordered to furnish extensive information on costs and stressed the point that area rates cannot be put into effect without a knowledge of at least the overall cost of producing gas within the area.

In general, his views on this subject may be considered reasonable and reassuring but, of course, it remains to be seen whether the administration of these policies and the final treatment of prices is reasonable. After all, it is often possible for two parties to agree on a set of principles but all too easy to disagree on what it takes to implement those principles. In any event, it will still take a great deal of time for any working policy to develop from these area price proceedings; in the meantime many individual applications which appear to have merit are being held up to the detriment of those producers affected.

Pipeline Stocks in Disfavor

Turing to the subject of rate of return for pipeline companies, the industry is still awaiting evidence that the Commission is going to allow adequate increases in rate of return in order to offset the increasing cost of senior capital. The Commission has issued several opinions on rate of return in the last year or so, from which emerged an apparent pattern of allowing an overall rate of return 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 183,830 miles of pipe; distribution main increased by 5.4% and field and gathering facilities were up 4.9%. Residential gas customers exceeded 30 million in number for the first time. Proved recoverable reserves of natural gas reached a new peak of 263.8 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. Second, 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 continuance of poor operating results in the refining and marketing sector of the oil industry stemming from overcapacity and intense competition.

The most important new development in the Canadian oil industry in 1961 has been the enunciation 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 540,000 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 imported export markets, particularly on the U. S. West Coast where other imported crudes, 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

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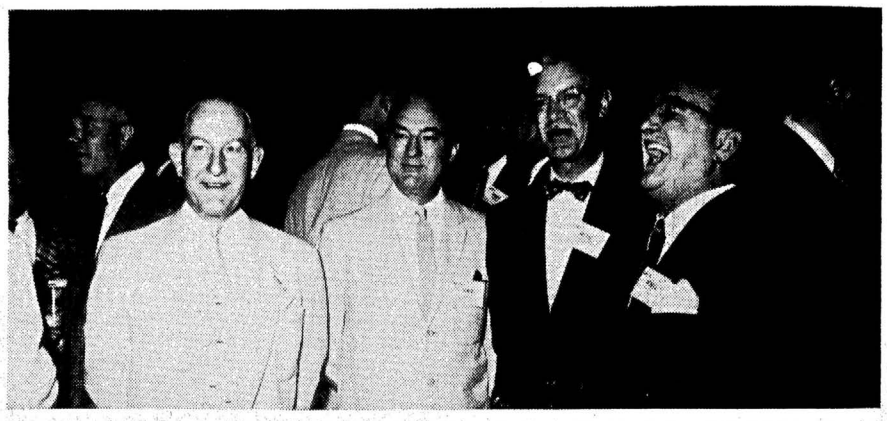

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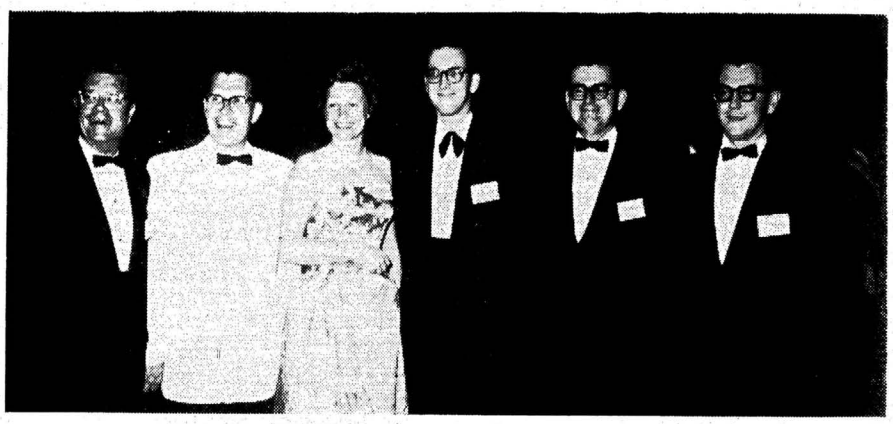

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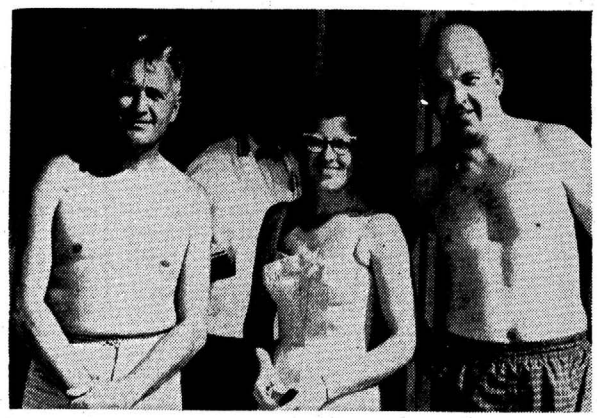

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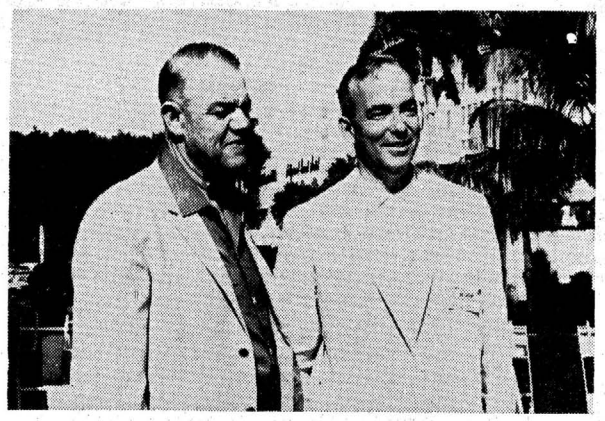

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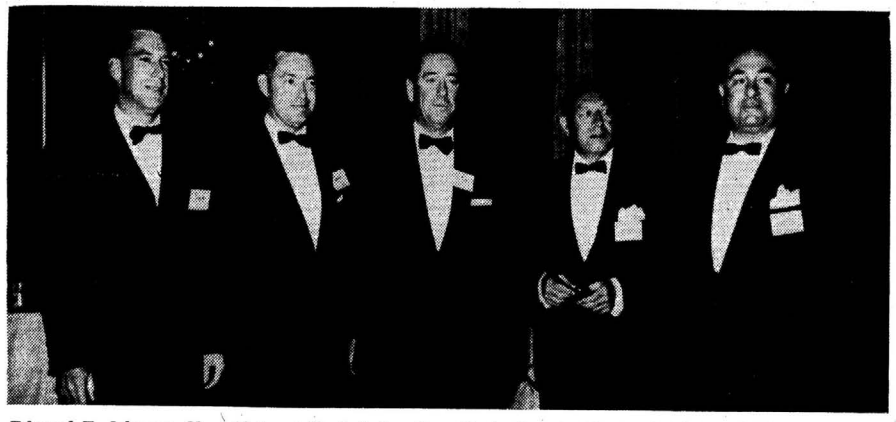

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average of 640,000 barrels per day over the whole of 1961, and an average of 800,000 barrels per day in 1963.

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 rigidities 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 633,000 barrels per day against the target figure of 625,000. Toward the year end it became apparent that the overall 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 50,000 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 65,000 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 areas.

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 cutback in levels of Canadian oil exports to the U. S. is currently expected, some easing of their rate of growth now 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 oposed 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 unproprated 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, rising 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

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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 Westalta 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 Hydrocarbons 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 pipeline systems 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 and 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 is 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 to Chicago comprehensive system 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 substanially 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 well 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 4¼% 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

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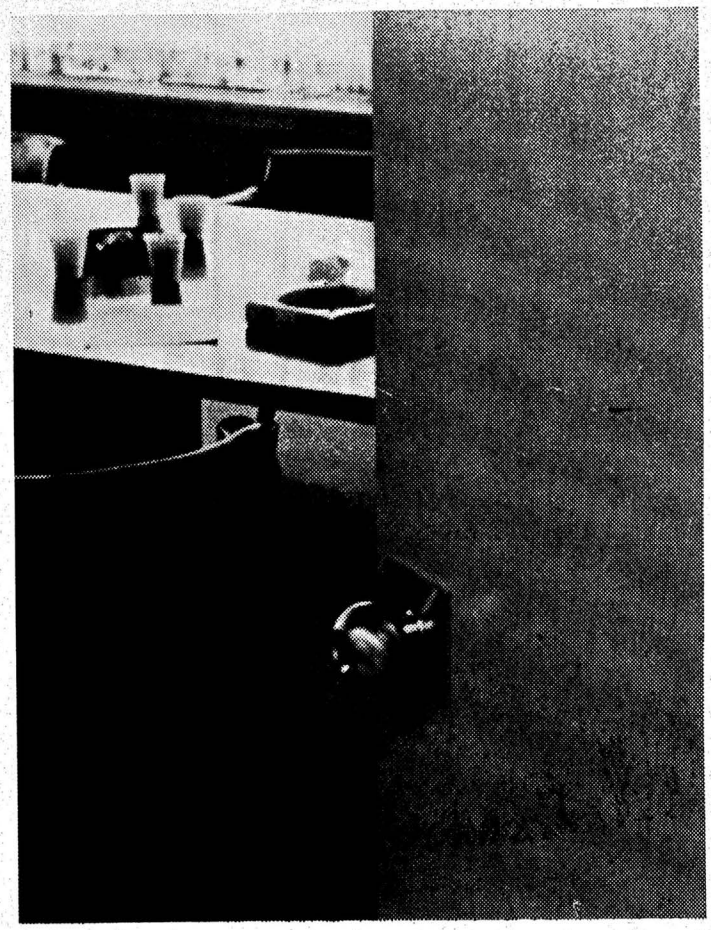

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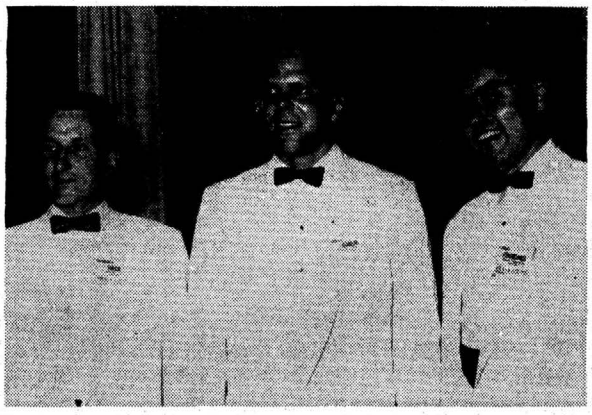

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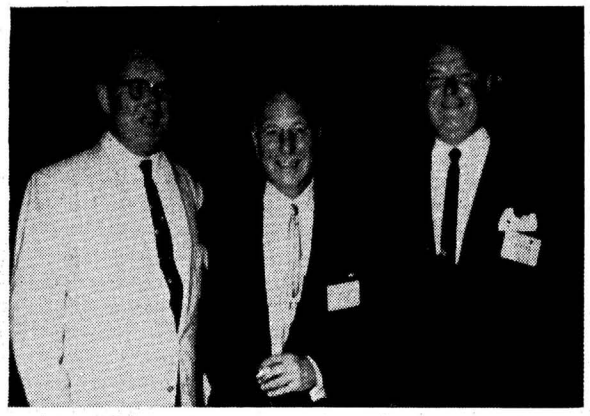

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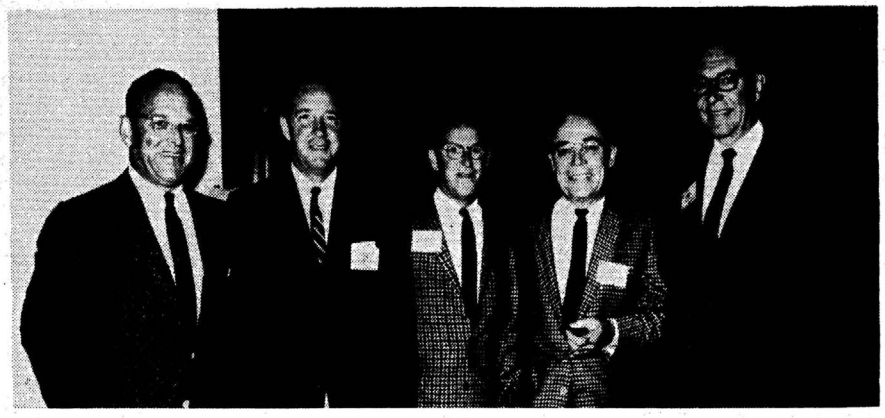

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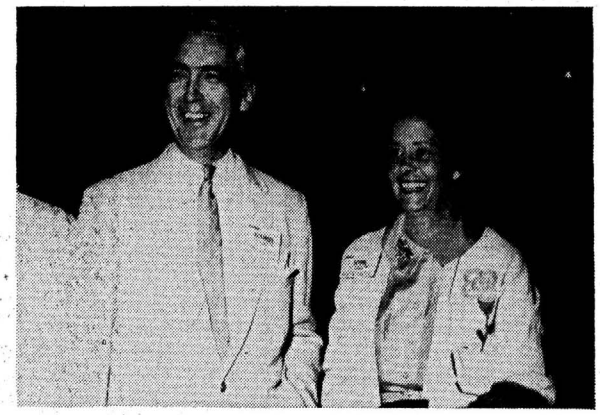

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larger. While the United States should add 37 million people by 1970, free foreign population should increase by 250 million. In addition, since the per capita consumption in the free foreign area is only about one-ninth that of the United States, the prospective rate of per capita growth is three times faster than in the United States. At the present time a citizen of the United States utilizes 43.5 barrels of oil or its equivalent per year. Canadian consumption is comparable. However, the rate in Australia is 40 barrels, Western Europe 15 barrels, Japan seven barrels and Latin America not quite four barrels.

A noticeable trend in recent years has been the desire by people in foreign areas to own an automobile. This has resulted in the growth of registered privately-owned cars from 12 to 32 million in the past decade. Also, while the number of people per car is still very much higher than in the United States, it has declined from 120 to 52 in the past decade. Most of the foreign growth in car ownership has occurred in Western Europe. Over the past decade, automobile registrations there rose from six million to 21 million while the ratio of persons per car declined from 47 to 15.

The continued high level of industrial activity in Western Europe has supplemented this trend. The economies of all of the nations in this area continue to operate at close to capacity as standards of living are constantly being raised. Consequently, European companies have steadily increased plant capacity and many American companies have entered the continent. It is likely that industrial activity in Western Europe will remain at high levels for several years notwithstanding periodic business fluctuations.

Reserves Unevenly Distributed

There is little doubt that crude oil reserves are more than ample to support the estimated growth in demand over the next 10 years. However, these reserves, currently in excess of 230 million 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 15% 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 assured.

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 9.7 millon 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 17.7 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 1.4%. Thus the pronounced trend of recent years continued with the United States showing a decline as both a consumer and producer of petroleum products, relative to the rest of the free world.

Competition for "International" Companies

Until the past two or three years producing activities outside the United States were almost completely dominated by the seven major international oil companies. Through increased earnings, combined with low capital expenditures, these companies were able to show a steady increase on the return on their foreign invested capital through 1955 when a figure of 30% 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 Venezuelan concessions in 1956 and 1957. The existing internationals, in order to maintain their dominant position, bought their share of these concessions. When oil in large quantities was found in Lake Maracaibo, and Middle Eastern production continued to expand, resulting competition for markets caused lower prices and profit margins. Also in 1959 the Venezuelan Government imposed higher income taxes.

All of these factors resulted in a precipitous decline in the return on foreign invested capital to 13% in 1960. Many of the "newer" international companies which made initial foreign expenditures in the middle 1950's have yet to report foreign profits. Moreover some of them may be forced to give up part of their producers' profit 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 foreign production.

Furthermore, exports of crude by the Soviet Union are continuing to increase to the detriment of the worldwide price structure but are still relatively unimportant volumetrically.

Within the past month Standard Oil of New Jersey began shipments of crude from its Zelten field 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. Initial shipments through the latter line will approximate 100,000 b/d with 60% of this for the Oasis group. Within the past year, Ohio Oil has completed arrangements with the Spanish Government for the construction of a minority-owned refinery in that country and has recently announced that a similar type deal is being negotiated in West Germany. Also, Continental Oil has announced the acquisition of marketing companies in West Germany and Great Britain.

Production Controls Thwarted

During 1960, production in the Middle East once again forged ahead to new highs, and to date in 1961 is also somewhat ahead of the pervious year. Despite the entry of Libyan crude to world markets, further gains in Middle Eastern output are 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 non-competitive levels. Further increases in consumption will likely be met by Middle Eastern and North African production.

Efforts by the Venezuelan Government and some representatives of Middle Eastern producing countries to form an alliance for the purpose of limiting the supply of crude oil have so far been ineffectual. Within the producing countries, there is still a great deal of sentiment toward receiving a higher share of the profits. However, the resistance of the oil companies, as well as the creation of alternative sources of supply, have limited recent pressures along this line.

During 1960 the tanker fleet of the Free World increased 2.8 million tons or 4.7% with the delivery of 5.6 million tons which was partially offset by 2.8 million tons scrapped or converted to other uses. The trend toward the construction of larger tankers of the 50-60 DWT size is still in progress while older, smaller tankers are retired. There is ample tanker capacity available; thus, rates are still low, making

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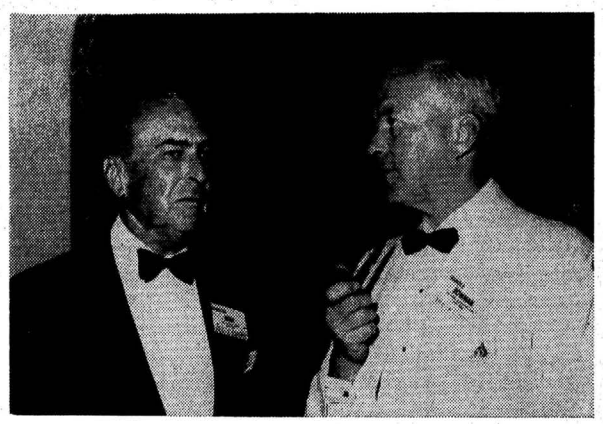

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Middle Eastern oil competitive in any part of the Free World.

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 $105 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 refiners 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 African increment is fitted into world markets.

Over the past two or three years the United States major internationals (Standard Oil of New Jersey, Texaco, 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. Managements 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 Monterey 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.

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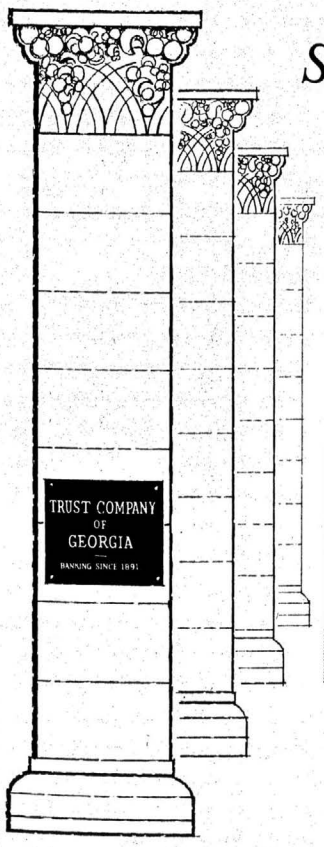

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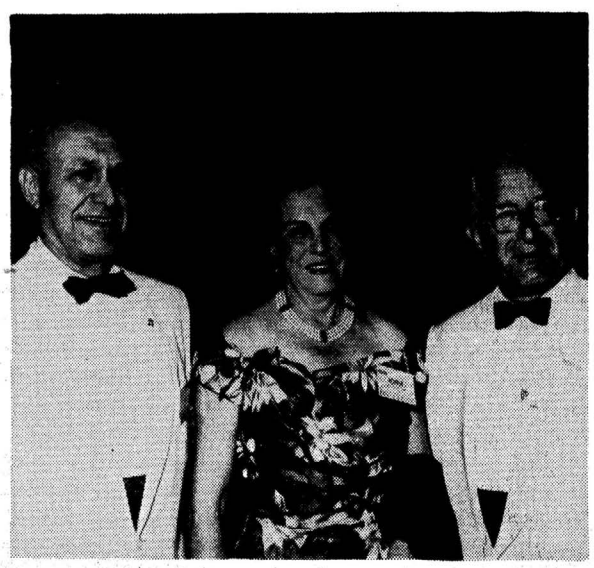

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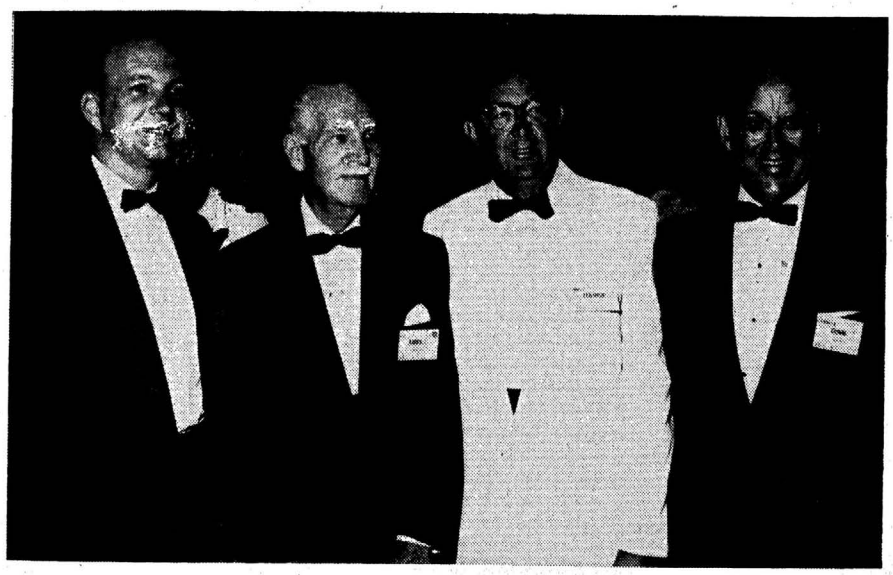

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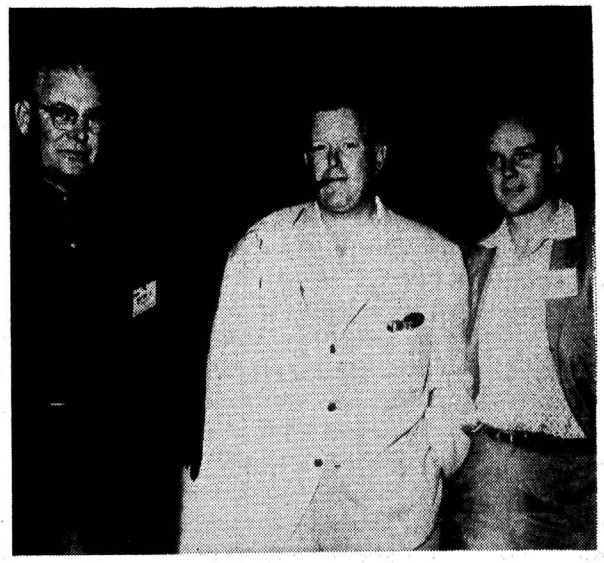

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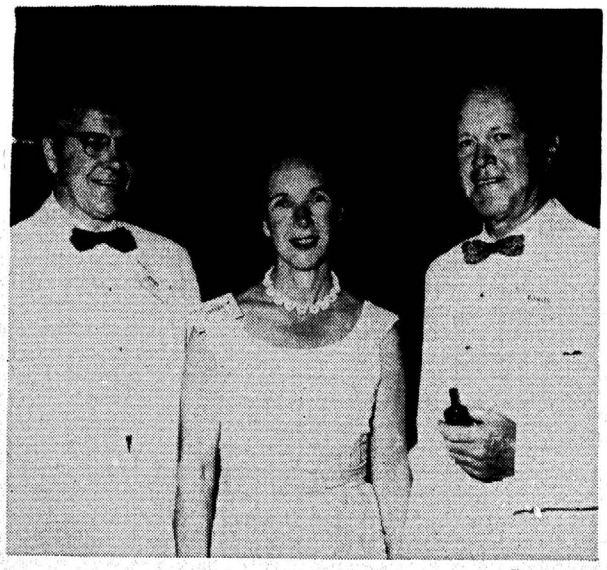

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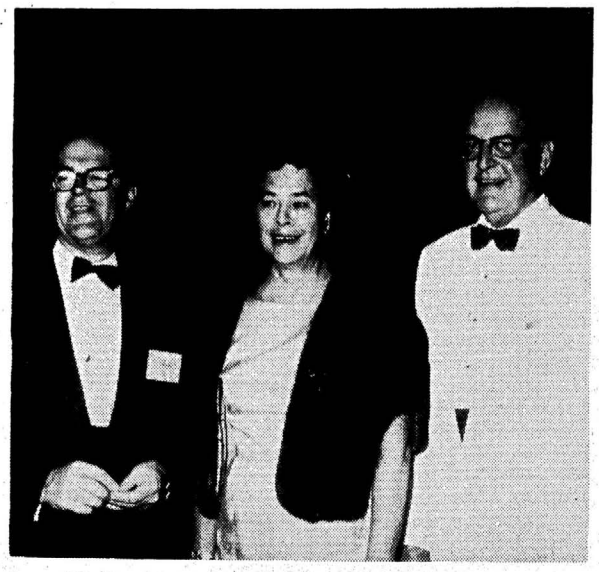

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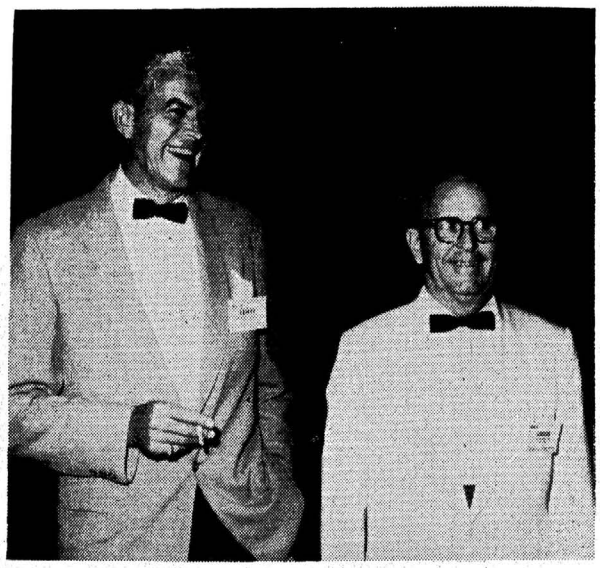

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Report of IBA State Legislation Committee

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 investments 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 meets the requirements of the tax law, is exempt from the corporate tax if 90% or more of its otherwise ordinary taxable income is distributed annually to its beneficiaries who will 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 by the trust 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 21, 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.

V

Uniform Act for Simplification of Fiduciary Security Transfers

This act has now been adopted in the following 35 states and the District of Columbia:

Alabama	Nebraska
Arizona	Nevada
California	New Jersey
Colorado	New Mexico
Dist. Columbia	New York
Florida	North Carolina
Georgia	North Dakota
Idaho	Rhode Island
Illinois	South Carolina
Indiana	South Dakota
Kansas	Tennessee
Louisiana	Texas
Maine	Utah
Maryland	Virginia
Michigan	Washington
Minnesota	West Virginia
Mississippi	Wisconsin
Missouri	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 correct description of the fiduciary relationship, and thereafter the corporation and its transfer agent may assume without inquiry that the newly registered owner continues to be the fiduciary until the corporation or transfer agent receives written notice that the fiduciary is no longer acting as such with respect to the particular security.

(b) The corporation and transfer agent may assume without inquiry that a transfer is within the authority of the fiduciary and is not in breach of fiduciary duty, even though the transfer is to the fiduciary himself or to his nominee. They may assume that the fiduciary has complied with any controlling instrument and with the law, including any law requiring court approval, and they are not charged with notice of court records or other documents even though in their possession.

(c) No person (including a bank or dealer) who participates in the acquisition, disposition, assignment or transfer of a security by or to a fiduciary including a person who guarantees the signature of the fiduciary is liable for participation in any breach of fiduciary duty by reason of failure to inquire whether the transaction involves such a breach unless it is shown that he acted with actual knowledge that the proceeds of the transaction were being or were to be used wrongfully for the individual benefit of the fiduciary or that the transaction was otherwise in breach of duty.

VI

North American Securities Administrators Meeting

The President of the IBA this year urged chairmen of group legislation committees to attend the Annual Meeting of the N.A.S.A. (whose members are the admin-

Continued on page 124

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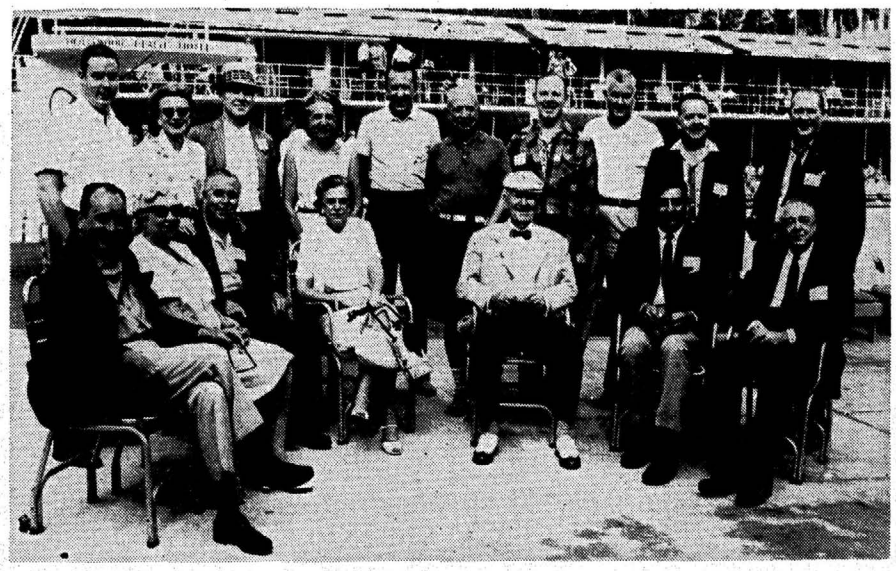

St. Louis Room—Relaxing

St. Louis Room—42 years since it started

Continued from page 123

istrators of the state blue sky laws) in Seattle. The Chairmen of Legislation Committees of the IBA New York, Northern Ohio and Southeastern Groups, in addition to the Chairman of the Committee and the Assistant General Counsel of the IBA, attended the meeting. We believe that other IBA Groups would find it helpful to have the Chairmen of their Legislation Committees attend this meeting each year in order to understand better the attitude of the securities administrators of different states and to provide informed comment to the administrator on the subject under discussion at their meetings.

Respectfully submitted,

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APPENDIX A
Summary of Amendments to Securities Acts of 23 States

ALASKA

The Alaska Securities Act was amended effective April 18, 1961 to add requirements for the registration of non-exempt securities, based on provisions of the Uniform Securities Act, and to make the necessary conforming changes in other sections of the Act. The Alaska Act previously did not require registration of securities.

ARKANSAS

The principal amendments to the Arkansas Securities Act, effective July 1, 1961, were the following:

(1) Section 3, requiring the registration of broker-dealers or agents, was amended by adding a new Subdivision (e) requiring the registration of mortgage loan companies and loan brokers.

(2) Section 4, relating to the registration of broker-dealers and agents, was amended by deleting a provision that registration of a broker-dealer automatically constitutes registration of any agent who is a partner, officer or direc-

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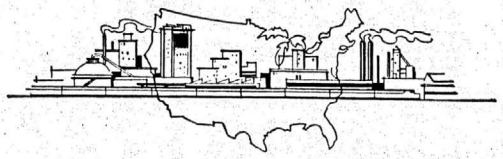
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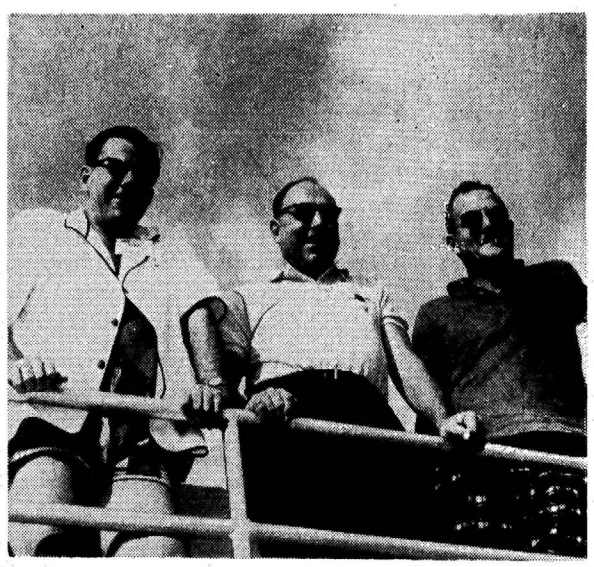

Edward B. Burr, *William Street Sales, Inc.*, New York; Edward S. Amazeen, *William Street Sales, Inc.*, New York; Richard W. Jones, *Mitchum, Jones & Templeton*, Los Angeles

tor, 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 SEC 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 examiners are to be absent from the capitol building for the purpose of making such examinations, and in addition thereto 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 6(b), regarding written examinations by applicants for registration as an agent, broker-dealer or investment adviser, was amended to provide (i) each agent taking such examination is required to pay a fee of $5 for each examination and (ii) 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 6(b) 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 shall 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 require a filing fee of $5 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 (5) of Section 14(a), exempting any security issued by and representing an interest in or a debt 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), (8) or (10) of Section 14(a) and before any transaction shall be executed as an exempted transaction under Subdivisions (2), (9), (10), (11) or (12) of Section 14(b), a proof of exemption must be filed with the Commissioner, containing a statement of the grounds upon which the exemption is claimed and a declaration of the subdivision under which the exemption is claimed, with a filing fee of $10 for every such proof of exemption filed with the Commissioner.

(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

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, salesman, investment counsellor 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, trans-

Continued on page 126

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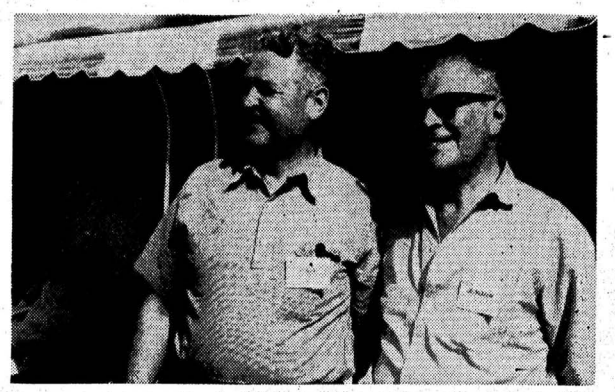

Frank Ronan, *New York Hanseatic Corporation,* New York; Kurt Grunebaum, *New York Hanseatic Corporation,* New York

Continued from page 125

fer or delivery of securities to a bank, savings institution, trust company, insurance company, corporation or to a broker or dealer "by the issuer of such securities 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 eliminate the provision which limited the exemption to sales by the issuer or the representative of the issuer.

(3) Subdivision (7) of Section 517.06, exempting bonds or notes secured by mortgage upon real estate or tangible personal property where the entire mortgage together with all the bonds and notes secured thereby are sold to a single purchaser at a single sale, was amended by adding the following proviso:

"provided, however, that such bonds or notes are not offered for sale in connection with an express recourse agreement or guarantee as 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 Statutes, or insured or guaranteed by an agency of the federal government."

(4) Section 517.08 (relating to registration by notification) was amended (a) to eliminate Subdivision (g) which authorized registration 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 notification of securities which are substantially 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 simultaneously holds a securities license and a life insurance license, he shall prepare and leave with each prospective buyer a written proposal, on or before delivery of any investment plan. Investment plan shall mean a mutual funds program, and the proposal shall consist 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 original 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 standardized proposals filed with the commissioner may be obtained and held by the licensee.

GEORGIA

Section 6(j) of the Georgia Securities Act (exempting the sale of securities not involving an underwriting 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 investment, the commissioner is authorized to require from the issuer and affiant such additional information 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 Securities Act, with modifications.

KANSAS

Section 17-1252 of the Kansas Securities Act (definitions) was amended by including in Subsection (j) defining security, "thrift certificates or investment certificates or thrift notes issued by investment companies"; by adding as Subsection (1) a definition of "investment company"; and by adding as Subsection (m) a definition 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 providing for the creation of an advisory committee.

MICHIGAN

The Michigan Securities Act was amended effective Sept. 8, 1961 as follows:

(1) Subdivision (n) of Section 451.105 (exempt transactions) was amended by adding the underlined language to read as follows:

"(n) The offering and sale by an issuer of its securities pro rata to its stockholders, and the subsequent offering and sale within 3 months after such offer of any unsubscribed portion of such securities to 1 or more stockholders upon terms not less favorable to the issuer than 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. 451.105 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 concern to a small business investment company or to a development company for equity capital provided or loans made, or (3) the sale of securities by a small business investment company to a small business concern as a condition to providing the latter with equity capital or loans."

MISSOURI

Section 409.050 (exempt transactions of the Missouri Securities Act was amended effective Oct. 13, 1961 by inserting a new Subsection 12 to exempt, with specified exceptions, secondary market sales by registered dealers of securities about which specified information is available in a recognized securities manual.

MONTANA

Montana adopted a complete new securities act effective July 1, 1961 based on the Uniform Securities Act, with modifications.

NEW MEXICO

The New Mexico Securities Act was amended effective March 3, 1961 to provide that the difinitions and provisions relating to securities of an investment fund contained in Section 10 of the act

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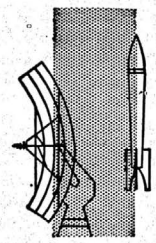

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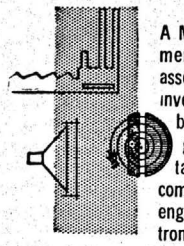

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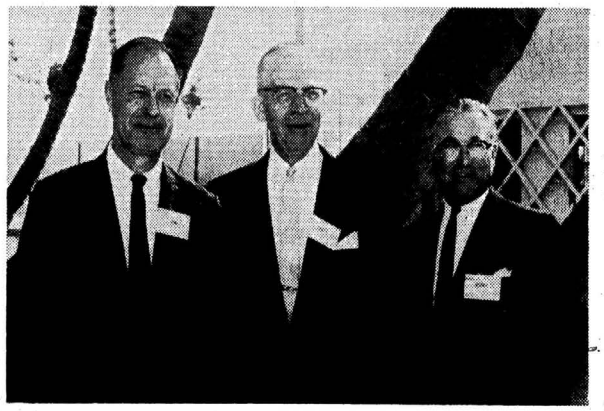

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John de Milhau, *Chase Manhattan Bank*, New York; Mr. & Mrs. Andrew K. Marckwald, *Discount Corporation of New York*, New York

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, 102-4(2) of the New York Law relating to real estate investment trusts, 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 not later than 15 days after such filing, shall issue such a letter or, in the alternative, a notification in writing indicating deficiencies in the offering statement 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 35c 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 it also unlawful to "offer for sale." Section 10-04-08.2 (requiring the filing of advertising matter regarding registered securities) 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 order 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.

(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 written confirmation of the order which clearly identifies the commissions paid to the registered dealer.

(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 paragraph (f) 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 104-04-07.1 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 requires a $10 fee.

(7) Section 10-04-08 (relating to fees) was amended by adding a new subsection (b) regarding registration fees for open-end management companies, mutual funds, investment trusts, unit investment trusts, contractual plans and face amount certificates.

(8) Section 10-04-10 (regarding the registration of dealers, salesmen and investment counselors) was amended by adding a section providing that the commissioner shall require as a condition of registration that the applicant and, in the case of a corporation or partnership, all officers or directors of the partners doing 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.

(9) Section 10-04-03 (1), regarding administration of the act, was amended to provide for administration by a securities commissioner 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 offico administrator).

OKLAHOMA

The principal amendments to the Oklahoma Securities Act were the following:

(1) Section 2(b), defining "agent," was amended to exempt individuals representing an issuer in effecting transactions in securities exempt under Subdivisions (4), (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(g), defining "issuer," was amended to eliminate references to an oil, gas or mining title or lease. Section 2(c), defining "dealer," was amended by eliminating Subdivision (4) which subdivision ex-

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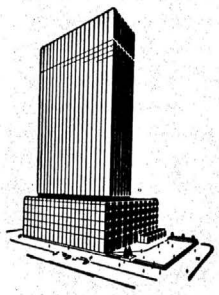

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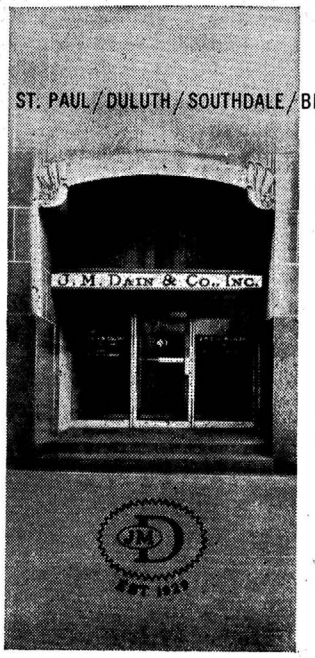

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cluded a person who engages in the exploration or production or refining of oil, gas, coal, uranium, sulphur or any other minerals and who is not principally engaged in effecting transactions in securities. Section 401(a) (12) was eliminated, which section exempted certificates of interest or participation in an oil, gas or mining title or lease embracing a specifically described tract of land more than one-tenth of an acre or a fractional undivided interest in a specifically described tract with an acreage equivalent of more than one-tenth of an acre.

(3) Section 401(a) (10), exempting commercial paper, was amended by adding a proviso that the exemption shall apply only to obligations to pay money, sold or offered for sale to the persons described in Section 401(b) (8).

(4) Section 202(b) was amended to increase from $5 to $10 the filing fee for initial or renewal registration by an agent.

(5) Section 305(b), previously providing 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 $25 and a maximum 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 $250,000; one-twentieth of 1% from $250,000 to $500,000; one-fortieth of 1% from $500,000 to $1,000,000; and 1/100 of 1% on the excess of $1,000,000 with a minimum fee of $50 and no maximum fee.

(6) Section 305(c) was amended by adding a provision that every registration statement shall contain an undertaking by the applicant to promptly file correcting amendments with the administrator under such rule as he may prescribe at any time when the information contained in any document required to be filed with the administrator is or becomes inaccurate or incomplete in any material respect.

OREGON

The Oregon Securities Act was amended effective April 28, 1961 as follows:

(1) Subdivision (f) of Section 59.170(3) was amended to eliminate a requirement that the balance sheet accompanying registration by qualification had to be dated within 90 days of the date of filing, so that the balance sheet must now be dated as of the latest practicable date prior to the date of delivery. Subdivision (k) of the same section was amended so that articles of incorporation filed with a registration by qualification do not have to be certified.

(2) Section 59.230 was amended by adding provisions that the commissioner may require applicants for a license as a dealer, including the partners of a partnership, the executive officers of a corporation or association or any person occupying a similar status or performing similar functions, or as a salesman, to submit to and pass successfully an oral or written examination as evidence of the applicant's knowledge and understanding of the securities business.

(3) Section 59.230 was also amended by adding provisions that applicants for licensing as dealers shall pay an examination fee of $50.00 and applicants for licensing as salesmen shall pay an examination fee of $10.00.

SOUTH CAROLINA

South Carolina adopted a complete new securities act effective June 14, 1961 based on the Uniform Securities Act, with modifications.

SOUTH DAKOTA

The following amendments to the South Dakota Securities Act were adopted effective July 1, 1961:

(1) Section 55.1901 (relating to administration of the act) was revised to provide for administration by a securities commissioner appointed by the Governor by and with the advice and consent of the Senate.

(2) Subdivision (5) of Section 55.1903 (exempting securities listed on any national securities exchange) was amended to exempt also:

"over - the - counter securities which may be legally traded in interstate commerce under the provisions of the appropriate regulations of the Federal Securities and Exchange Commission and all securities senior to any securities so listed or traded over-the-counter or represented by subscription rights which have been so listed or traded over-the-counter under the appropriate regulations of the Federal Securities and Exchange Commission such securities to be exempt only so long as such listing or legal over-the-counter trading shall remain in effect."

(3) Section 55.1907 (relating to registration by application) 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, cancelled or revoked.

(4) Section 55.1908 (relating to registration by notification) was amended (a) to add to the information required to be filed a copy of the security, a current financial statement and, if required, a consent 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 55.1912, 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 approved 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 $35 the minimum fee of securities, from $10 to $25 the minimum fee on notification of intention to sell and from $100 to $200 the maximum fee on notification 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 accountant, was amended to permit certification by a public accountant licensed by the State of Tennessee. Section 48-1619 (exempt securities) was amended by adding a new Subsection (K) to exempt securities of corporations organized pursuant to the cooperative 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 necessaary to administer and enforce provisions of the Act. A requirement that the commission hold weekly meetings was deleted.

(2) Section 61-1-4(4), defining "dealer," was amended to include every person who "holds himself or itself out as a securities investment counselor."

(3) Section 61-1-4(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 partners of a partnership and the executive officers of a corporation or other association registered as a dealer 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 such an agreement, or the incorporators signing the articles of incorporation."

(5) Section 61-1-10, relating to registration of securities by notification, was amended by increasing from $1 to $10 the fee to be paid 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 of the registration is granted the applicant shall pay a fee of $1 per $1,000 of the aggregate offering 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 $10 to $25; to eliminate a provision that in case of stock having no par value, 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 except, from the requirement that applicants pass a written examination, an issuer whose securities 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 more than one person or to a corporation shall entitle such dealer to designate one of its officers or members

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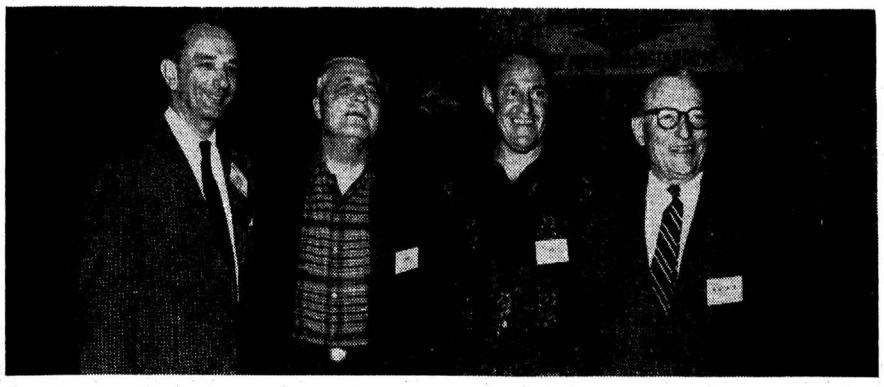

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who, upon compliance with the Act and without payment of further fee, upon issuance of the license shall be entitled to perform all of the acts of a securities salesman. The person so designated must make application for a salesman's license accompanying 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 salesman, 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 comes within the definition.

(2) Section 21.20050 was amended by deleting a provision that registration of a broker-dealer automatically constitutes registration of all partners, officers or directors as salesmen (except any partner, officer or director whose registration as a salesman is denied, suspended or revoked) without the filing of applications for registration as salesmen or the payment of fees for registration as salesmen.

(3) Subdivision (2) of Section 21.20.190, requiring that a registration statement shall have been 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 interests in oil and gas leases or property are acquired by a partnership or joint enterprise.

(5) Subdivision (1) of Section 21.20.340 providing the registration fee for all 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 proviso was added that an issuer may upon the 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 189.06 by adding the underlined language to read as follows:

"(1) Any security issued by, or the principal and interest of which are 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 not less than one year 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 there be a sinking fund. These issues included the following: Montgomery Ward Credit Corp. debentures; General Motors Acceptance Corp. debentures; John Deere Credit Company debentures.

Vermont: Several underwriters stated that they do not file for registration in Vermont because issuers object to a required consent to service of process which grants blanket jurisdiction over the company and is not limited to matters arising out of the sale of securities.

California: Several secondary offerings of stock sold to underwriters by stockholders, where the issuer paid part of the expenses, were not registered in California. In some cases the selling stockholders held close to one-half of the outstanding shares. The California Division of Corporations would not grant registration unless the stockholders consented to the payment of expenses by the issuing company.

One underwriter commented: "We normally do not attempt to qualify in California unless pressed to do so because of the unusually complex nature of the filing required, the extreme position taken by California on cumulative voting rights, etc."

Texas: One issue which was registered in most of the other states where applications were filed (including California, Kansas, Illinois and Wisconsin) was rejected in Texas because of stock options to employees. Under a restricted stock option plan shares aggregating slightly more than one fourth of the number of shares offered to the public were subject to options granted to employees of the issuing company at a price substantially below the public offering price.

Another issue was rejected in Texas because the Commissioner considered the stock over priced, that too much of the income of the company was from government contracts and that fixed payments of the company were too heavy.

Missouri: One issue (which was registered in California, Illinois and Texas) was rejected in Missouri because options outstanding to some of the management of the issuer (who were also selling stockholders) were exercisable at a price lower than the public offering price. The securities subject to such options were only about 1/17th of the total shares outstanding after the offering.

Another issue was rejected in Missouri because the Commissioner 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 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 that: "In the case of at least two of these states, Nebraska and Tennessee, we were required to withdraw our applications not because the offering would not qualify under the

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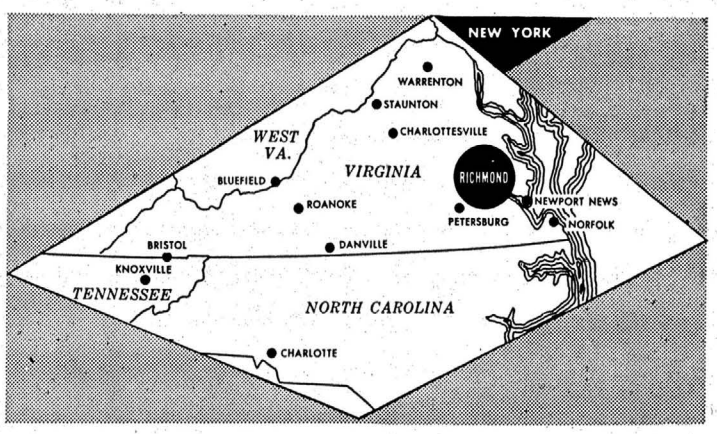

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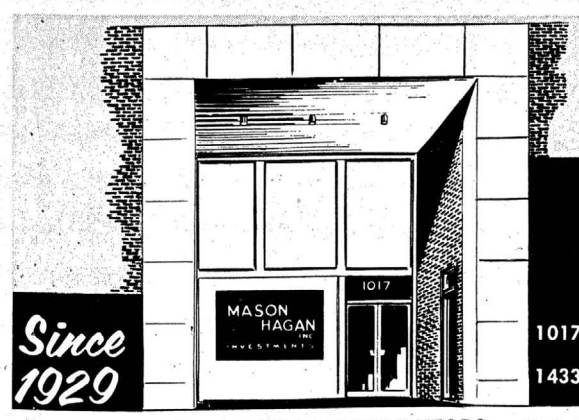

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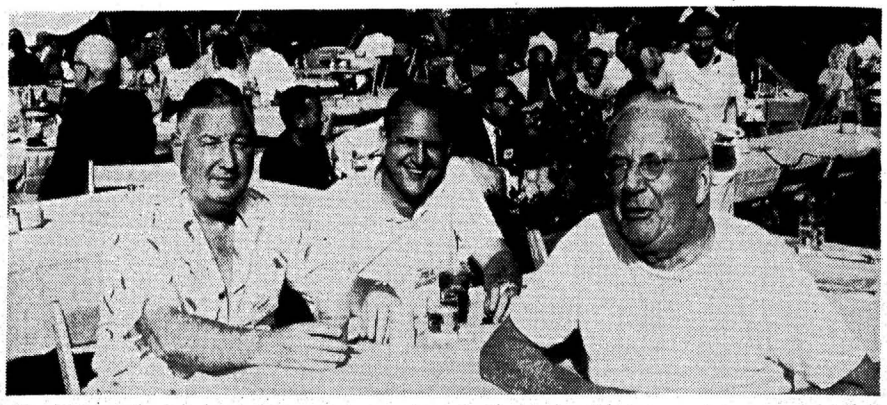

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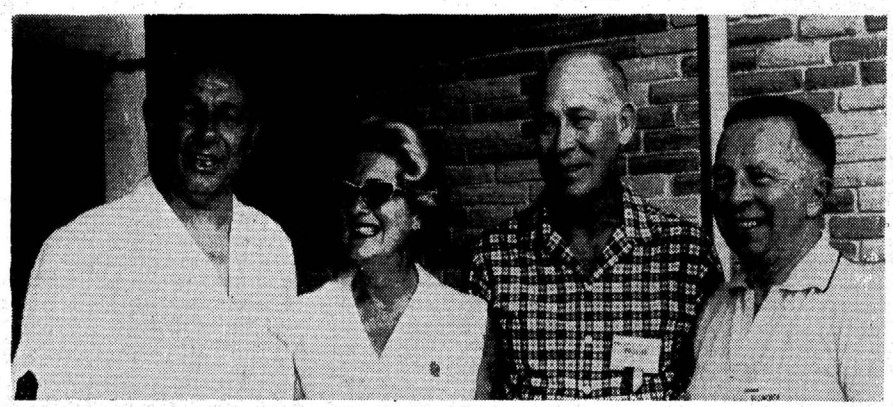

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statutes and regulations of these states, but rather because our applications were not acceptable to states like Illinois and Indiana. It is our opinion that these administrators were stretching their administrative discretion. It should be said that all state administrators 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 background . . . 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 Commission there not to register any small business investment company securities, and there was also a suggestion of requiring officers and directors to deposit stock of the company held by them in escrow in a Tennessee bank.

Illinois: Indiana: There were several complaints that these states required a special sticker to be attached to the prospectus stating "These are speculative securties," despite the fact that the cover page of the prospectus carried the legend required by the SEC that "These securities are offered as a speculation."

Options and Warrants: There were many reports of difficulties in registering in various states issues involving options and warrants. On this subject it is suggested that underwriters check the statement of policy on options and warrants adopted by the North American Securities Administrators and also the report as to which states follow all or portions of that statement of policy.

Real Estate Investment Trusts: Several underwriters reported difficulties in registering shares of real estate investment trusts in states which have adopted the statement of policy of the Midwest Securities Administrators.

APPENDIX C

Statement of Policy on Options 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 hereafter be looked upon with great disfavor and will be considered as a basis for denial of the application except in unusual instances and the burden shall always rest on the applicant to justify their issuance. The number of warrants sought to be issued, the exercisable price, the terms in which they are exercisable and the absence or adequacy of a step-up rate in the exercisable price will all be taken into consideration.

This committee suggests the following standards or guides for the use of administrators in determining whether the issuance of stock options under the Statement of Policy is justifiable:

(1) That options to management in the nature of restricted stock options for incentive purposes, if reasonable in number and method of exercise, be generally looked upon favorably;

(2) That options to employees, or their nominees, pursuant to stock purchase plans or profit sharing plans, if reasonable in number and method of exercise, be generally looked upon favorably;

(3) That the Statement of Policy be given a liberal interpretation as to options or warrants issued to underwriters in connection with a public offering price, if:

(a) They are issued to the managing underwriter under a firm underwriting agreement and are not assignable or transferable, except to partners of the undewriter when the underwriter is a partnership.

(b) The number of shares covered by the warrants or options do not exceed 10% of the securities to be outstanding at the completion of the offering, such percentage including warrants to employees.

(c) The initial exercise price of the options is at least equal to the public offering price with a "step-up" of the exercise price of 7% each year they are outstanding, or in the alternative, an over-all 20% step-up. The step-up shall commence 12 months after the grant of the option or warrant. The election as to the step-up rate must be made at the time the option or warrant is issued.

(d) The options or warrants do not exceed five years in duration and are exercisable no sooner than 11 months after issuance, and;

(e) The options or warrants are issued by a relatively small company in the promotional stage where it appears from all of the facts and circumstances that the issuance of such options is necessary to obtain competent investment banking service, provided that the direct commissions to the underwriters are lower than the usual and customary commissions would be in the absence of such options or warrants.

(4) That in those states where it is necessary to include the value of the options in the computation of commissions the market value of such options, if any, be used. That in those cases where no market value exists an arbitrary value of 20% of the original exercise price of options be used unless evidence indicates that a contrary valuation exists.

(5) That the same tests be applied to options issued by "selling shareholders" as has been recommended herein, unless evidence indicates that the selling shareholders are so separated from the corporate entity and so lacking in control of the corporate entity as to require more liberal treatment.

APPENDIX D

Statement of Policy in Real Estate Investment Trusts of the Midwest Securities Commissioners as revised June '61

Applications to register securities issued or issuable by a real estate investment trust shall generally be looked upon with disfavor unless the following requirements are met

(A) Definition: A real estate investment trust is defined as an unincorporated trust or association which intends to comply with Sections 856, 857 and 858 of the Internal Revenue Code of 1954, as amended.

(B) Declaration of Trust: The declaration of trust, or other instrument forming the trust, shall, among other things, ordinarily contain provisions providing for the following:

(1) TRUSTEES.

(a) Number and Election — A real estate investment trust shall have a minimum of three trustees all of whom are elected annually by the outstanding shares of beneficial interest.

(b) No Assets Acquired From Trustees and Others—No assets of the trust shall be acquired, directly or indirectly, from or through or conveyed to any trustee, investment adviser of the trust, officer, independent contractor of the trust or employee, except for the acquisition of assets at the formation of the trust, or shortly thereafter, and then only if the acquisition price or such assets is based on an independent appraisal acceptable to the administrator; nor may any such person receive a commission or other remuneration, directly or indirectly, in connection with the disposal or acquisition of trust assets.

(c) Liability of the Trustee— The declaration of trust, or other instrument forming the trust shall not contain any provisions relieving any trustee from liability to the trust or its security holders to which it or he might otherwise be subject by reason of acts constituting bad faith, willful misfeasance, gross negligence or reckless disregard of its or his duties.

(d) Removal of Trustee — A trustee or trustees may be removed by the vote or written consent of the holders of two-thirds of the outstanding shares of beneficial interest.

(2) INVESTMENT POLICY.

The investment policies intended to be followed by the trustees should be stated with reasonable particularity;

(3) LIABILITY OF BENEFICIARIES.

That the shares, or certificates, are non-assessable. That the shareholders or beneficial owners shall not be personally liable on account of any of the obligations of the trust. To reinforce this objective, it should further be provided that all written contracts to which the trust is a party shall include a provision that the

Continued on page 132

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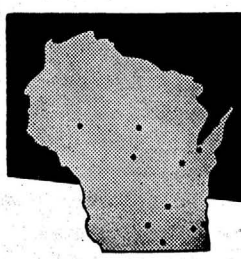
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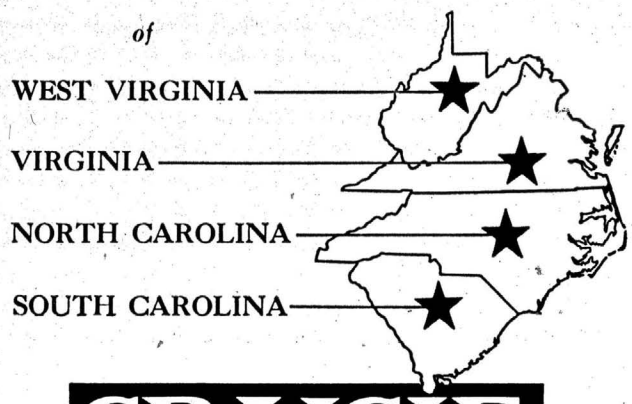

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Continued from page 131

shareholders or beneficial owners shall not be personally liable thereon. The trustees must further be required to maintain adequate insurance against possible liability on the part of the trust, *ex delictu;*

(4) REPORTS.

(a) For preparation of an annual report consisting of 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 surplus of the trust and an opinion thereon of an independent certified accountant or independent public accountant based on an examination of the books and records of the trust not materially limited in scope, and made in accordance with generally accepted auditing procedures;

(b) For the filing of such annual report with the trustees, and the Administrator, and the delivery of a copy thereof to each shareholder or beneficial owner, within 90 days after the close of the period covered by the report. The copies delivered to the trustee and administrator shall be manually signed.

(c) For furnishing to the shareholders or beneficial owners and to the Administrator, of interim reports, at least quarterly, containing a current balance sheet which may be unaudited; and other pertinent information regarding the trust and its activities in the quarter covered by the report;

(5) ANNUAL MEETING.

For an annual meeting of the shareholders, or beneficial owners, at a convenient location on proper notice to the shareholders, or beneficial owners, following delivery of the annual report required in 4 (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 shall be called by any officer of the Trust upon written request of shareholders holding together not less than twenty-five per cent (25%) of the outstanding shares of the trust entitled to vote at such meeting. The call shall state the nature of the business to be transacted and no other business shall be considered.

(7) INSPECTION OF RECORDS.

For the inspection of the trust records by the Administrator at a reasonable time; and inspection of trust records by a shareholder or beneficiary of the trust as permitted under local law to the same extent as is permitted corporate shareholders;

(8) DISTRIBUTION.

That any distributions to shareholders or certificate holders shall be accompanied by a statement in writing advising of the source of the funds so distributed. In case there may be doubt as to this matter, the communication may so state, in which event, the necessary statement shall be forwarded to shareholders, or beneficiaries, not later than 60 days after the close of the fiscal year in which the distribution was made;

(9) CHANGE IN TRUST.

That no change shall be made in the declaration of trust, or other instruments forming the trust, without the vote or written consent of the holders of two-thirds of the outstanding shares of beneficial interest.

(10) TERMINATION OF TRUST.

That the trust may be terminated at any time, by a vote or written consent of the holders 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 property and the disposition thereof. An investment advisory contract entered into by the trustees ordinarily may not be for a period longer than one year. The total compensation of the investment adviser shall not exceed ½ of 1% annually, of the net assets of the trust managed. In the case of real property it shall be calculated on the basis of cost less depreciation or, in the judgment of the trustees, fair market value of the net assets of the trust, whichever is less.

(12) EXPENSE LIMITATION.

(a) Selling and Promotion Expense—That there shall be a reasonable limitation on selling and promotional expenses, based on requirements of local law.

(b) Annual Expenses—The aggregate annual expenses of every character, exclusive of interest, taxes, maintenance and upkeep of trust assets, payments to independent contractors, compensation to investment adviser, and reasonable sales commissions in the disposition of properties shall not exceed $5,000 or 1% of the average net assets of such trust calculated on a semi-annual or more frequent basis, consistently applied, whichever is greater. In the event the trust has no investment adviser, or if the compensation of the adviser is less than ½ of 1%, the expenses, including such compensation to the adviser, if any, may not exceed 1½% annually. The maximum amount of such expenses shall be stated in the prospectus.

(13) APPRAISAL.

The consideration paid for real property acquired by the trust shall ordinarily be based upon the fair market value of the property as determined by a real estate appraisal prepared by a qualified, disinterested, independent appraiser, acceptable to the administrator.

(14) PROHIBITED ACTIVITIES.

No real estate investment trust shall:

(1) Invest more than five (5) percent of its assets in unimproved real property. Unimproved property includes, among other things, vacant land, lots on which the permanent buildings have not been completed, and agricultural or ranching land;

(2) Invest in commodities;

(3) Invest in any mortgage or trust deed on unimproved real property or in any mortgage or trust deed other than a first mortgage or first trust deed not in a greater percentage of value, as confirmed by a competent independent appraiser, than permitted under local law to a savings and loan association;

(4) Invest more than one (1) percent of its assets in real estate contracts of sales;

(5) Invest in any real property which is subject to a mortgage or trust deed or other encumbrance to other than a bank, insurance company, or other institutional lender, and then only if the unpaid balance of said mortgage or trust deed, or other encumbrance at the time of such investment, is not greater than 66⅔% of the fair market value of said property as confirmed by a competent independent appraiser;

(6) Engage in any short sale, borrow, unsecured, more than 8% of the net value of its net assets; nor encumber any of its real property more than 66⅔% of the fair market value of said property as confirmed by a competent independent appraiser.

(7) Acquire or convey any interest in any property in which any trustee, adviser of the trust, independent contractor, or employee for the trust also has an interest, directly or indirectly, except as permitted in Rule B(1)(b);

(8) Engage in trading as compared with investment activities;

(9) Issue securities of more than one class;

(10) Issue redeemable securities;

(11) Hold securities in any company holding investments or engaging in activities prohibited by this section;

(12) Engage in underwriting or agency distribution of securities issued by others;

(13) Issue warrants, options, or similar evidence of a rights to buy its securities; other than to all the shareholders ratably.

(C) Minimum Capital: A real estate investment trust shall ordinarily have a net capital of not less than $100,000 represented by outstanding shares or certificates of beneficial interest.

(D) Contracts With Independent Contractors: A copy of all contracts with independent contractors for the management, operation or furnishing of services to tenants of trust properties shall be filed with the Administrator accompanied by satisfactory evidence that the fees therein provided are in accord with the prevailing costs for such services in the area in which the property is located.

(E) RECORDING: That the declaration of trust, or other instrument forming the trust, shall be filed for record in the office of the County Recorder in the country where the principal business of the trust is located and in any other county where property of the trust is located.

Report of IBA Foreign Investment Committee

Continued from page 21

announced by the Export-Import Bank of Washington. Both plans are designed to broaden the facilities available to United States exporters on short and medium-term transactions (usually up to five years, but up to seven years for jet aircraft). Both plans encourage the exporter to deal directly with his private commercial bank.

New Private Insurance Protection

The first plan is based on a new private Insurance Association, organized and owned by private insurance companies, which will be backed up by the Export-Import Bank. Comprehensive insurance policies will be issued by this Association through insurance agents all over the country, the policies to cover the exporter to the extent of 85% on his credit or commercial risks, and to the extent of 90% or 95% on his political risks. The Export-Import Bank and the Insurance Association will be co-insurers to the extent of 50% with respect to credit risks, and Eximbank will be the sole insurer with respect to political risks. When an exporter offers such a policy to his bank as collateral, his opportunity to obtain financing is obviously enhanced.

The second plan is designed for the exporters and commercial banks who do not feel the need of an insurance policy. In this case, the exporter retains 15% of both the political and commercial risks. The commercial banks may then obtain from Eximbank a political risk guaranty with respect to the first one-half of the instalments of a 1 or 2 year credit, or the first 18 months of instalments of a 3, 4 or 5 year credit. The later maturities will be fully guaranteed against both political and commercial risks by Eximbank and should be readily saleable to other commercial banks, insurance companies, pension funds or other investors. This fully guaranteed paper could also serve as collateral for the issuance of debentures by financial institutions.

These programs of AID and Export-Import Bank are an interesting and potentially important step in our opinion in encouraging a broader participation by private institutions in the field of foreign investment. They open up a new field of activity for both commercial and investment bankers.

Among the international financial agencies several developments are worth noting.

Inter-American Bank to Offer Bonds in U. S.

The Inter-American Development Bank is now a fully operational lending agency, and at the rate it is now putting its capital to work it appears likely that it will be offering its bonds for sale in our market sometime within the next year.

The International Finance Corporation is studying proposals that it facilitate the public or private sale of foreign equity securities both in the United States market and in certain foreign markets by backstopping private bankers on a portion of their underwriting commitments in connection with the distribution of such securities.

The World Bank and certain other agencies are studying the possibilities and problems involved in forming an international investment insurance corporation which would provide on an international basis insurance for foreign investments such as that now offered by the governments of the United States, Japan and Germany for their own citizens.

The World Bank has also taken the lead in exploring the possibilities of establishing a special forum for the conciliation or arbitration of financial disputes between private parties and governments. This study was initiated at the request of certain member governments in view of the need for such machinery and the experience which the World Bank has already had in this field.

Conclusion

We recognize that the activities of this Committee relate to what is today only a small part of our investment banking business in the United States. There are still relatively few of our member firms who are actively engaged in foreign investment. The question is frequently raised "Is it worthwhile?"

We believe work in the foreign investment field is worthwhile for those United States investment banking firms with sufficient background training, diversification in their activities and patience to devote a portion of their work to the development of this business. We believe it is worthwhile for the same reason that a progressive industrial corporation devote a portion of its resources to research and development of new products to tap new markets.

We believe it is worthwhile because we cannot help observing the rapidly expanding interdependence in business, trade and finance between the nations of the world. Political boundaries have already lost much of their importance to businessmen and bankers within the Common Market. Convertible currencies now in existence and increasing discussion of the need for closer coordination of trade and monetary policy between the leading industrial nations all point the way to an increasing international flow of private investment capital between the various financial markets.

The potential market is as broad as the Free World. The existing demand for funds is tremendous. The flow of this capital will be managed by investment bankers somewhere and they will be paid for the service they render. We believe investment bankers in the United States will "find it worthwhile" to play a leading role in this expanding market for "foreign investment."

In closing I want to express my appreciation and thanks to the members of the Committee and of our IBA staff for their contribution of time and knowledge to our work this year.

Respectfully submitted,

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APPENDIX A

Purchases of Foreign Stocks
By U. S. Investors
($ Millions)

Year	Gross Purchases	Net Purchases
1946	$65.6	$0.4
1947	42.6	—14.6
1948	96.7	15.0
1949	70.8	—18.0
1950	198.2	24.4
1951	348.7	76.4
1952	329.6	35.8
1953	303.4	—6.8
1954	644.9	251.6
1955	877.9	214.3
1956	875.2	126.1
1957	621.9	29.1
1958	803.7	336.4
1959	803.8	237.7
1960	591.7	82.6
Jan.-Aug. 1961	$580.5	$196.7

Source: Treasury Bulletin

NOTE: The above data related to the total amount of money debited or credited to U. S. Accounts as the result of transactions in foreign securities, including Canadian securities. The gross purchases figures reflect both new and outstanding issues. The differences between the gross purchases and net purchases figures primarily reflect: (1) sales of foreign securities by U. S. investors to foreign investors; (2) redemption of foreign securities, either in the U. S. or abroad; and (3) purchases for sinking fund purposes.

The statistics cover only securities transactions (including transactions in the securities of international organizations, such as the World Bank.) They do not include direct foreign investment by U. S. corporations, nor do they cover inter-company account transactions of U. S. non-banking firms with their own branches and subsidiaries abroad or with foreign parent companies. The statistics are based on monthly reports to the Treasury Department by banks and security dealers and brokers on transactions with foreigners for their own account and for the account of customers. They, therefore, do not cover transactions carried out entirely abroad 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) branches or agencies of foreign central banks; (2) other official institutions of foreign countries; and (3) international organizations.

APPENDIX A

PURCHASES OF FOREIGN SECURITIES BY U. S. INVESTORS—1960

($ thousands)

Country of seller	Gross Purchases			Net Purchases		
Europe—	Bonds	Stocks	Total	Bonds	Stocks	Total
Austria	$1,290	$36	$1,326	$—210	$13	$—197
Belgium	11,348	5,059	16,407	—15,307	922	—14,385
Denmark	1,974	386	2,360	—492	315	—177
Finland	3,299	23	3,322	—3,305	23	—3,282
France	10,507	25,951	36,458	—14,531	4,206	—10,325
Germany	60,322	32,793	93,115	24,056	17,674	41,730
Greece	1,512	635	2,147	981	583	1,564
Italy	750	16,878	17,628	—39,485	12,517	—26,968
Netherlands	20,570	155,997	176,567	—263	87,906	87,643
Norway	18,267	564	18,831	7,666	—847	6,819
Portugal	1,009	155	1,164	—293	—121	—414
Spain	427	190	617	—1,432	23	—1,409
Sweden	9,030	1,389	10,419	6,618	—11,889	—5,271
Switzerland	92,245	46,920	139,165	—441	6,312	5,871
Turkey	------	16	16	—5	—97	—102
United Kingdom	79,011	58,267	137,278	43,531	—42,147	1,384
Other Europe	59,159	413	59,572	35,025	—186	34,839
Total Europe	$369,862	$345,497	$716,392	$42,113	$75,207	$117,320
Canada	$418,957	$197,826	$616,783	$209,738	$—13,889	$195,849
Latin America	160,939	42,189	203,128	83,224	24,207	107,431
Asia	76,100	4,136	80,236	39,874	753	40,627
Other countries	61,814	1,864	63,678	39,313	—2,869	36,444
International	356,456	4	356,460	147,831	—785	147,046
Grand Total	$1,444,986	$591,691	$2,036,677	$562,093	$82,624	$644,717

Source: Treasury Department.

APPENDIX A

Purchases of Foreign Bonds
By U. S. Investors
($ Millions)

Year	Gross Purchases	Net Purchases
1946	$490.4	—$265.5
1947	634.3	—24.5
1948	291.4	79.8
1949	311.5	—9.8
1950	710.2	121.0
1951	801.0	300.6
1952	677.4	182.1
1953	621.5	79.0
1954	841.3	48.8
1955	509.4	—183.9
1956	991.5	385.0
1957	1,392.0	693.1
1958	1,915.1	1,026.1
1959	1,457.6	512.0
1960	1,445.0	562.1
Jan.-Aug. 1961	$710.4	$320.7

Source: Treasury Bulletin

APPENDIX A

Total Purchases of all Foreign
Securities by U. S. Investors
($ Millions)

Year	Gross Purchases	Net Purchases
1946	$556.1	—$261.1
1947	676.8	—39.0
1948	388.2	94.8
1949	382.3	—27.8
1950	908.4	145.4
1951	1,149.7	377.0
1952	1,007.0	217.9
1953	924.9	72.2
1954	1,486.1	300.4
1955	1,387.3	30.4
1956	1,866.8	511.1
1957	2,014.0	722.1
1958	2,718.8	1,362.5
1959	2,261.5	749.7
1960	2,036.7	644.7
Jan.-Aug. 1961	$1,290.7	$517.5

Source: Treasury Bulletin

APPENDIX C

AGENDA—Meeting of the Washington Subcommittee

IBA FOREIGN INVESTMENT COMMITTEE
Washington, D. C.
Nov. 15, 1961

10:00 a.m.

Meeting at the Treasury, with Mr. Robert V. Roosa, Under Secretary for Monetary Affairs.

11:15 a.m.

Meeting at the Inter-American Development Bank, with Mr. Felipe Herrera, President, Mr. T. Graydon Upton, Executive Vice-President, et al.

12:30 p.m.

Luncheon—at which Mr. Fowler Hamilton, Administrator for the Agency for International Development, will be our guest.

2:15 p.m.

Meeting at the International Finance Corporation, with Mr. Martin M. Rosen, Executive Vice-President.

3:30 p.m.

Meeting at the Export-Import Bank, with Mr. Harold F. Linder, President and Chairman, and Mr. James S. Bush, Director, et al.

Appendix B

Foreign Dollar Bond Offerings (1956-1961 inclusive)
(Offered by Investment Bankers)

11-14-61
RLD

Year	Issuer	Amount ($000)	Aggregate Amount of Concurrently Offered Short Term Debt ($000)	Term	Coupon	Date of Bonds	Date of Maturity	Payment Clause	Public Offering Date of Prospectus	Public Offering Price	Public Offering Yield to Maturity	Concurrent World Bank Financing ($000)
1956	Commonwealth of Australia	25,000	None	15 yrs.	4 1/2%	6-15-56	6-15-71	Dollars	6-20-56	98 1/2	4.69%	None
	Total	25,000										
1957	Commonwealth of Australia	20,000	None	15 yrs.	5	3-1-57	3-1-72	Dollars	3-13-57	100	5.00	None
	High Authority of the European Coal & Steel Community	25,000	10,000	18 yrs.	5 1/2	4-1-57	4-1-75	Dollars	4-9-57	100	5.50	None
	Kingdom of Belgium	30,000	None	15 yrs.	5 1/2	9-1-57	9-1-72	Dollars	9-10-57	97 1/2	5.75	50,000
	Totals	75,000	10,000									
1958	Union of South Africa	15,000	None	10 yrs.	5 1/2	1-1-58	1-1-68	Dollars	1-20-58	98 1/2	5.69	None
	City of Amsterdam	15,000	None	15 yrs.	5 1/4	3-1-58	3-1-73	Dollars	2-27-58	99	5.35	None
	The Belgian Congo	15,000	None	15 yrs.	5 1/4	4-1-58	4-1-73	Dollars	4-15-58	98 1/2	5.40	None
	Commonwealth of Australia	25,000	None	15 yrs.	4 3/4	5-1-58	5-1-73	Dollars	4-22-58	99	4.84	None
	City of Oslo (Norway)	8,000	3,000	15 yrs.	5 1/2	6-1-58	6-1-73	Dollars	5-28-58	97 1/2	5.75	None
	Federation of Rhodesia & Nyasaland	6,000	None	15 yrs.	5 3/4	5-1-58	5-1-73	Dollars	6-16-58	97 1/2	6.00	19,000
	High Authority of the European Coal & Steel Community	35,000	15,000	20 yrs.	5	7-1-58	7-1-78	Dollars	6-24-58	97	5.20	None
	Kingdom of Norway	17,500	None	15 yrs.	5 1/4	10-1-58	10-1-73	Dollars	9-23-58	98	5.45	None
	Republic of Panama	16,800	None	40 yrs.	4.80	11-1-58	11-1-98	Dollars	10-21-58	101.17	4.73	None
	Commonwealth of Australia	25,000	None	20 yrs.	5	11-1-58	11-1-78	Dollars	10-22-58	97 1/2	5.20	None
	Government of New Zealand	10,000	None	12 yrs.	5 1/2	12-1-58	12-1-70	Dollars	11-19-58	99	5.62	None
	Republic of Austria	25,000	None	15 yrs.	5 1/2	12-1-58	12-1-73	Dollars / Austrian Schillings / Pounds / W. German Marks	12-3-58	96	5.91	25,000
	Union of South Africa	10,000	15,000	10 yrs.	5 1/2	12-1-58	12-1-68	Dollars	12-2-58	98 1/2	5.70	25,000
	Totals	223,300	33,000									
1959	Kingdom of Denmark	20,000	None	15 yrs.	5 1/2	2-1-59	2-1-74	Dollars	2-5-59	97 1/2	5.75	20,000
	Japan	15,000	15,000	15 yrs.	5 1/2	1-15-59	1-15-74	Dollars	2-17-59	98	5.70	10,000
	Government of Jamaica	10,000	2,500	15 yrs.	5 3/4	3-1-59	3-1-74	Dollars	2-25-59	95 1/2	6.22	None
	KLM Royal Dutch Airlines	18,500	None	20 yrs.	4 3/4	3-1-59	3-1-79	Dollars	3-10-59	100	4.75	None
	Southern Italy Development Fund	20,000	10,000	15 yrs.	5 1/2	5-1-59	5-1-74	Dollars	4-21-59	97 1/2	5.75	20,000
	Montecatini	10,000	None	20 yrs.	5 1/2	6-15-59	6-15-79	Dollars	6-30-59	100	5.50	None
	Commonwealth of Australia	25,000	None	20 yrs.	5 1/2	9-15-59	9-15-79	Dollars	9-16-59	97	5.75	None
	Credit Foncier de France	50,000	None	20 yrs.	5 1/2	12-15-59	12-15-79	Dollars	12-8-59	95 1/2	5.89	None
	Totals	168,500	27,500									
1960	Commonwealth of Australia	25,000	None	20 yrs.	5 1/4	4-15-60	4-15-80	Dollars	4-19-60	97 1/2	5.46	None
	City of Oslo (Norway)	10,000	None	15 yrs.	5 3/4	6-15-60	6-15-75	Dollars / Pounds	6-21-60	99	5.85	None
	Commonwealth of Australia	25,000	None	20 yrs.	5 1/4	10-1-60	10-1-80	Dollars	9-28-60	98	5.46	None
	High Authority of the European Coal & Steel Community	25,000	10,000	20 yrs.	5 3/8	10-15-60	10-15-80	Dollars	10-18-60	97	5.63	None
	Totals	85,000	10,000									
1961	Kingdom of Norway	18,000	None	15 yrs.	5 1/2	5-1-61	5-1-76	Dollars	5-2-61	97 1/2	5.75	None
	Nippon Telegraph & Telephone Public Corporation	15,000	5,000	15 yrs.	6	4-15-61	4-15-76	Dollars	5-2-61	95 1/2	6.47	None
	Commonwealth of Australia	25,000	None	20 yrs.	5 1/2	7-1-61	7-1-81	Dollars	6-27-61	97	5.75	None
	Japan Development Bank	15,000	5,000	15 yrs.	6	10-15-61	10-15-76	Dollars	10-3-61	95 1/2	6.47	None
	Government of New Zealand	20,000	None	15 yrs.	5 3/4	10-15-61	10-15-76	Dollars	10-24-61	97 1/2	6.00	None
	Totals	93,000	10,000									

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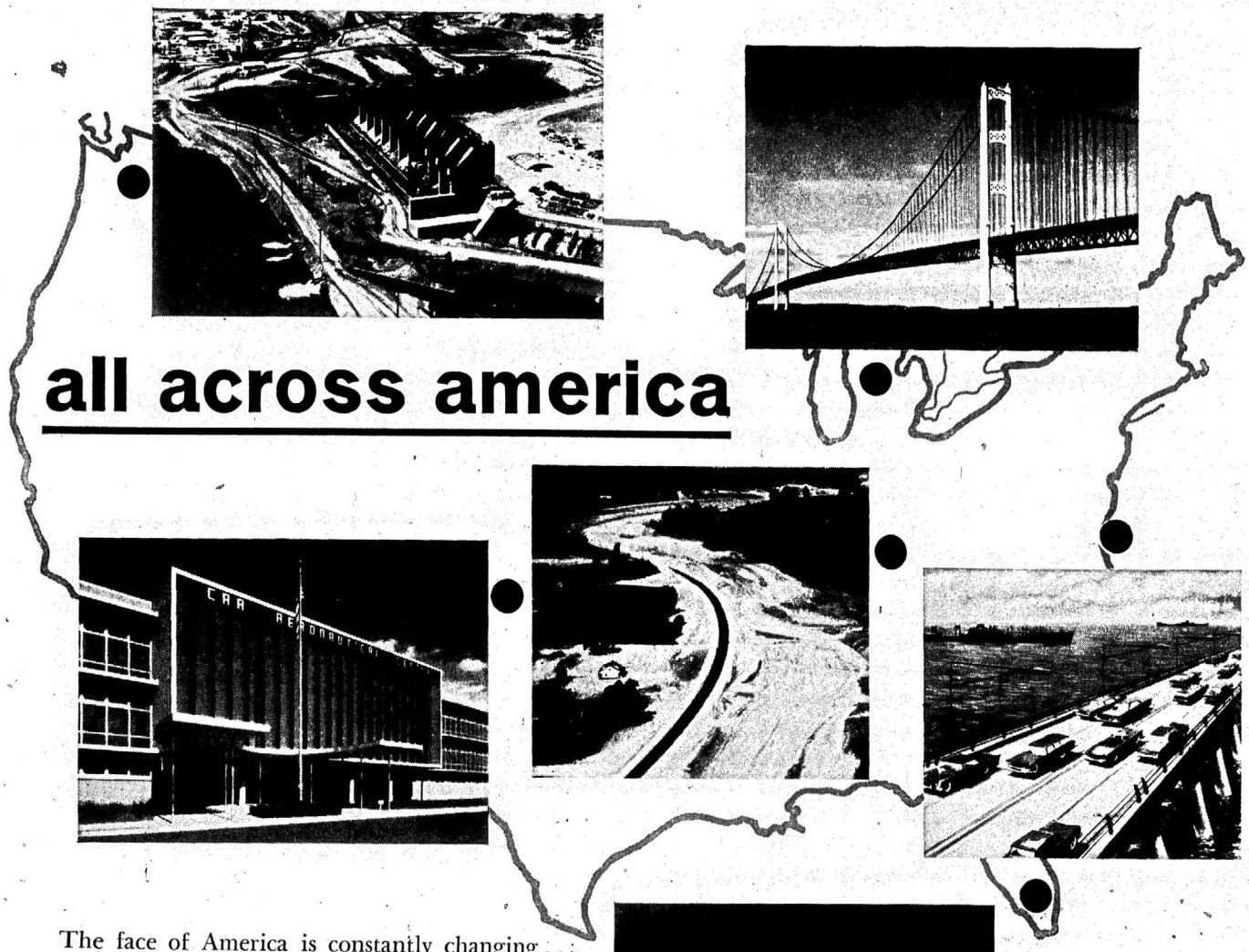

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> *All* have profited from creative new financing formulas, derived from Allen & Company's long experience and soundly-based revenue financing theories.

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ALLEN & COMPANY

Established 1922

New York 4, New York

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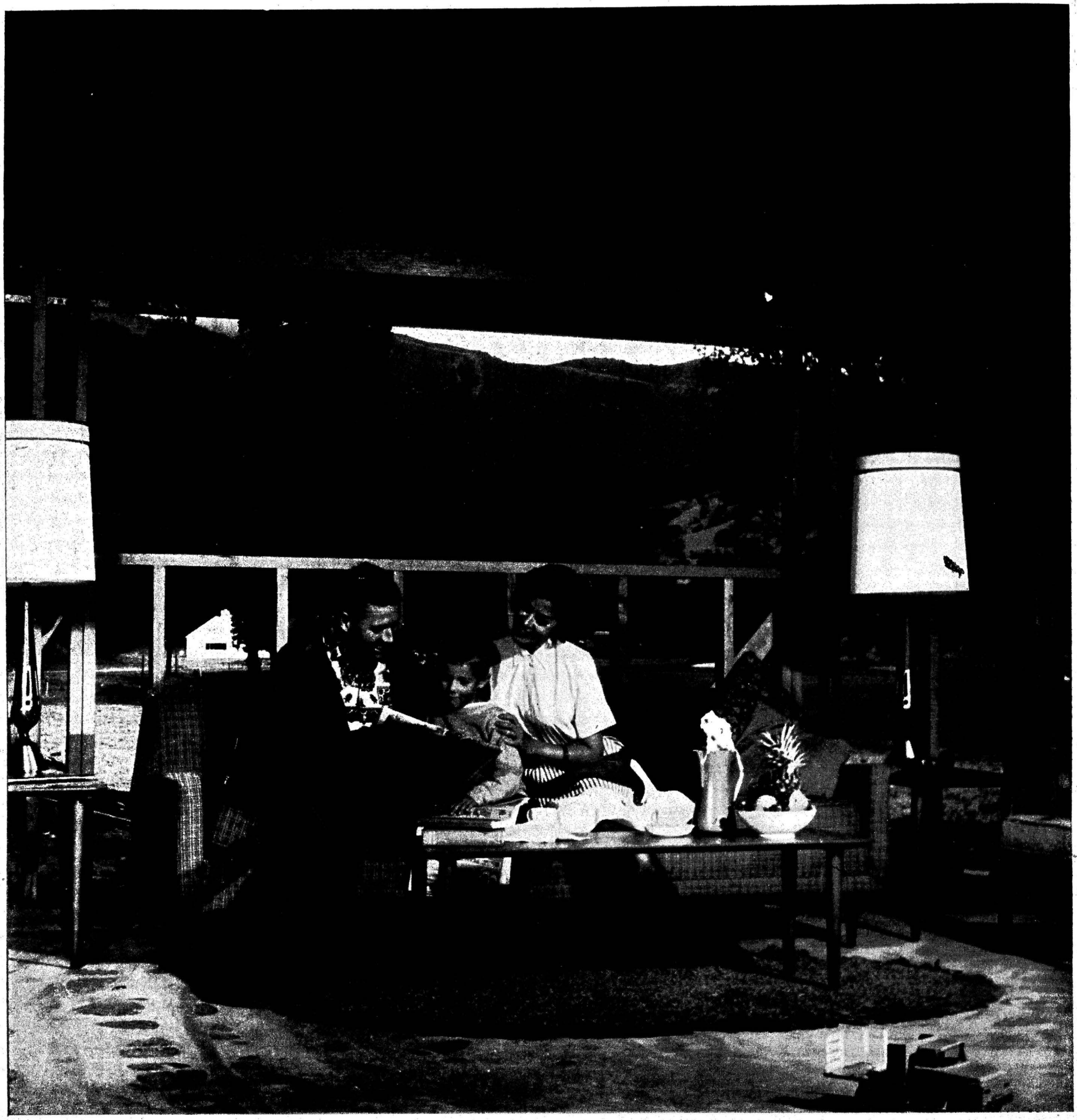

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