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CONTENTS OF THIS ISSUE

IBA Officers for 1962-1963........................................ 4
IBA Governors for 1962-1963........................................ 6, 7
IBA Regional Group Chairmen for 1962-1963.................. 8
Bibliographies of New President and Vice-Presidents........ 20
"Golden Dates" of the IBA (1912-1962)..................... 21
Official Staff of the IBA........................................ 116

* * *

TEXTS OF THE ADDRESSES MADE DURING THE CONVENTION

Incoming President's Inaugural Address—Amos Ames...... 9
The IBA's Accomplishments and Tasks Which Lie Ahead—
Curtis H. Bingham, Retiring President....................... 10
Self-Regulation in the Securities Industry—
William L. Cary, SEC Chairman............................... 11
We Need a Strong Economy to Meet All of Our Objectives—
Lammot du Pont Copeland....................................... 12
Value of Tax Immunity on Municipal Bonds—Henry J. Fraz... 14
"Keep Government at Our Sides—Not on Our Backs"—
Earl L. Butz....................................................... 15
Don't Go Short on the Future of SBICs—Joseph W. Powell, Jr.. 16
Canada's Objectives Now That Stability Is Achieved—
Dudley Dasso................................................... 17
Progressive Tax System Is Contrary to National Interest—
Art Linkletter.................................................. 18
IBA Municipal Conference Site and Date for 1963.......... 21
IBA Announces 1963 Convention Site and Dates........... 40
List of Those in Attendance at the Convention........... 100
Winners of IBA's 1962 All-Institute Essay Competition—
(John W. Hanes, Jr. and John M. McCarthy)............. 112
Roster of Advertisers........................................ 130

IBA COMMITTEE REPORTS

Education Committee—Robert Mason, Chairman............ 19
Municipal Securities Committee—George B. Wendt, Chairman.... 22
Joint Report on the First Municipal Conference—
Russell M. Ergood, Jr., and George B. Wendt, Chairman.... 24
Report of Special Committee for Public Education on Municipal
Securities—Fred D. Stone, Jr., Chairman................... 28
Report of the Toll and Transportation Facilities Subcommittee—
William F. Morgan, Chairman.............................. 29
Remarks of Subcommittee on Industrial Aid Financing—
Marston B. Pratt, Chairman.................................. 40
Governmental Securities Committee—
George B. Kneas, Chairman............................... 23
Foreign Investment Committee—Andrew N. Overby, Chairman... 26
State Legislation Committee—Robert A. Podesta, Chairman.... 27
Public Utilities Committee—Milton F. Lewis, Chairman... 30
Nuclear Industry Committee—Dr. Paul F. Genache, Chairman... 31
Railroad Securities Committee—
W. Wendell Renat, Chairman.............................. 32
Industrial Securities Committee—Blanche Noyes, Chairman.... 33
Federal Taxation Committee—John B. Haire, Chairman..... 34
Oil and Natural Gas Securities Committee—
Kenneth E. Hill, Chairman................................ 35
Investment Companies Committee—
Herbert R. Anderson, Chairman............................ 36
Insurance Securities Committee—
Shelby Callon Davis, Chairman............................. 37
Canadian Committee—Dudley Dosson, Chairman................ 38
Aviation Securities Committee—Richard W. Millar, Chairman.... 39
Research Committee—Ralph F. Leach, Chairman............. 40

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1962-1963
The New President's Inaugural Address

By Amyas Ames, President-Elect, Investment Bankers Association of America; Senior Partner, Kidder, Peabody & Co., New York City

Inaugural address by new IBA head pledges to the SEC and to the industry that the Association will continue to welcome, cooperatively seek and support the highest standards. Turning to another important subject, the incoming head describes the key importance of profits in creating jobs and advancing economic growth which, he surprisingly finds, is largely ignored in today's literature. Mr. Ames contrasts the performance of profit-incentive vs. non-profit systems in citing illustrative cases ranging from the Pilgrims' rejection and then subsequent acceptance of profit motive to the miraculous recovery of Western Europe; shows effective relationship of profitable investments in advancing the economy; and calls for the nourishment and care of the profit motive.

I am deeply aware of the honor you have done me in electing me President of the Investment Bankers Association. When George Newton first called on me in New York, I was an unsuspecting man. It had not occurred to me that a few months later I would be back on my old stomping ground at Hollywood Beach—but that instead of stamping, I would be taking the office of President.

But I will admit that the idea of my taking this position, was immediately challenging. I expected my partners to say no in the friendly way partners will, but instead of pulling me away, they pushed, and here I am—proud of the honor you are doing me, and challenged by the opportunity of being your President in this particular year.

I would like to begin really at the beginning, by talking about the economic idea which has given our people the highest standard of living in the world. This economic idea, like most good ideas, is a simple one. Men and women when given the direct, personal incentive of profit, work harder for themselves and for their communities. Although surprisingly little is written about it, the incentive of profit for the individual is the key to the remarkable success of the Free Western World since the war. Profit is the most important word in our economic language. Let me trace a little recent history.

Pilgrims Needed Profits
When the Pilgrims arrived in this country, they were attracted by the communist ideal and became Communists. We started as Communists. They had an agreement, signed by the Pilgrim Fathers on July 1, 1620. This agreement specified that each person was to be a joint partner in the common venture for seven years (note that the Communists seem to have borrowed the idea for their seven year plans from our Pilgrim Fathers). I quote: "During these seven years all profits and benefits that are got by trade, teaching, working, fishing or any other means of any person or persons, shall remain still in the common stock" and I quote further, "all such persons as are of this colony are to have their meat and drink, apparel and all provisions out of the common stock and goods of the said colony."

Communism did not work for the Pilgrims any better than it works now. Three years later in 1623, Governor Bradford fell compelled to end it. Listen to his words. "So they began to think why they might raise as much corn as they could, and obtain a better crop than they had done, that they might eat still with good nourishment in misery." Those words or ones like them are heard today coming even from Khrushchev. At length, after much debate—they decided to set corn every man for his own particular, and in that regard trust to themselves...

"And so assigned to every family a parcel of land..." "This had very good success, for it made all hands very industrious, so as much corn was planted than otherwise would have been by any means the Governor or any other could use, and saved him a great deal of trouble and gave for better content." I will quote just one more sentence even though some in this room may think it a little unfair. "The women now went willingly into the field—which before would allege weakness and inability; whom to have compelled would have been thought great tyranny and oppression."

Two hundred years later, a man named Karl Marx picked up the idea that our Pilgrim Fathers had tried and found wanting, and now more than 100 years later the Communists, taking the same old idea from an impractical Karl Marx, are trying it. It took Governor Bradford only three years to cast out communism. The important point is that our democratic profit system evolved out of communism for the simple reason that it works where communism doesn't.

Miracle of European Comeback
How successful has the individual incentive system been in contrast to the communist system? We hear of the troubles in the Communist countries. We know about the differences between East Germany and West Germany, between Red China and Formosa. We have seen the most miraculous comeback of nations destroyed by war, in England, Japan, Germany, France, Italy. Let's take the score; let's look at the record of what has been achieved under the different systems.

It is hard to find really accurate comparative figures. When we ask for a comparison we are often told that the Russians are growing at a faster percentage rate than we are. This is like comparing the improvement in speed of a man who runs the four minute mile, with that of a man who runs a six minute mile. It is not surprising or relevant that with equal training the slower man shows a greater percentage improvement in speed. It is surprising that we hear such illogic coming from otherwise thoughtful men.

The real test of the economic effectiveness of a country is the standard of living it attains for its people. Chart #1 shows such a comparison. Adjustment has been made for currency differentials and propaganda statistics to arrive at the most accurate information we now have on the standard of Living in each country, based on real consumption.

The important comparison is not between the United States and Russia (for we are not devastated by war), but between Russia and England, West Germany, and France. The profit-incentive countries have nearly doubled the standards of Communist Russia in the postwar period. England has reached 65% of our standard, West Germany 58%; France 58%; while Communist Russia has only reached 23%. Is it any wonder that people try to move out of the bureaucratic communist world into the free profit motivated world?

The basic difference between the two systems is the same today Continued on page 71

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The IBA’s Accomplishments And Tasks Which Lie Ahead

By Curtis H. Bingham,* Retiring President, Investment Bankers Association of America, and Chairman, Investment Bankers Association of America, Los Angeles, Calif.

Retiring investment bankers’ spokesman (1) pictures a busy year ahead for the industry and for the Association; (2) ticks off some of the industry’s significant contributions to the economy; and (3) suggests ways of improving the industry’s deteriorating public image.

Mr. Bingham commends SEC Chairman Gary’s approach to the industry and calls for cooperation with the SEC in every way, to elevate the industry’s standards, ethics and self-regulatory activities.

Welcome to the Golden Anniversary Convention of the Investment Bankers Association of America. I am delighted that we have the attendance that we do and to see so many of you here this morning. With recent developments in our market, and in areas only 90 miles to the south of us, I can assure you that the current IBA family deeply appreciates this manifestation of your loyalty, interest and support.

We have planned an interesting program of distinguished guest speakers, and I would urge you to be prompt in your attendance at these sessions of the Convention. I know that the discussions we shall have of current matters by our guest speakers, and in our committee meetings, and in their reports, will be both interesting and informative.

It is customary, I understand, for an IBA President at this point in the program to give something of an accounting of his stewardship for the past year. I plan to do that now, somewhat from this customary point in which we are today celebrating our 50th Anniversary, I want first to make a few observations about our history, and then discuss the past year and the immediate future.

As I have had occasion during this year to review the history of the Association, since its founding in 1912, I must confess that the temptation is strong to attempt to paint that picture for you in some detail. It is an impressive one, and I would like to assure you, however, that Walter Schmitt, the Chairman of our 50 Anniversary Committee, has stolen my thunder here. He very wisely conceived the idea of having prepared and printed, as a part of our 50th Anniversary celebration, a brief historical account of the highlights of the Association over the past 50 years. Each of you may pick up one of these booklets on the table in the lobby after this session. I especially commend it to your attention because I am certain that most of you, who necessarily have not been connected closely with the Association or the industry over all of this period, will be astonished at the great number and variety of problems and challenges that have confronted the industry and the Association in the past half century. You will be equally interested in the man whom in which we have worked to resolve these problems and to prepare the great advancements which have had to be made, particularly in the past 30 years.

IBA’s First Problems

For example, it is interesting to note that at the first annual convention our predecessors were concerned with problems growing out of the emergence of the Blanket Sky laws. The first Federal Income tax law was enacted in 1913, and the law establishing the Federal Reserve System was adopted in 1913. The fast, George B. Chase, the first president of the IBA stated in 1912, among other things, “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 world for the many hours daily springing up having little or no capital, likewise experience and, what is more dangerous, lack of care for what they offer beyond their ability to market and their immediate profit.” Thus you can see at a glance that our predecessors, at the outset, were concerned with many of the same problems with which we are confronted today, even though in different form and context.

You will find in this little booklet also some highlights on the period of the Great Depression, and on the whole series of Federal regulatory laws affecting the bank and securities business which came along in the 1930’s. All of us who were active in the business at that time, had great misgivings not only about the future of the securities business, but of our nation’s “mature economy.” However, the industry and the Association have successfully weathered the period rolled up their sleeves and went to work. We cooperated to help make the new rules work. We made the necessary adjustments to the new order of business, and the results in the interim show that our industry and our country are the stronger and more effective for all these events and efforts.

Post-World War II New Money Raised

Our industry, of course, played a part in raising billions of dollars for the business and local governments during this entire period and made a special effort to help Federal Government finance two wars. This was particularly by a few more recent figures in this booklet. Over the two war period, 1942-1946, $82 billion for the war was raised, of which most of us are personally familiar, $120 billion of new money was raised, $21 billion more particularly by a few more recent figures in this booklet. Over the same period, the various states and municipalities obtained over $122 billion for the construction of schools, public works, hospitals, and again, the investment banker played a major role. When figures such as these are translated into our recent new jobs, plant and equipment, public facilities, services, taxes and all of these other economic and social implications there can be no doubt that all of the vital role which our business and our Association have played and is playing in our economic, social and political system, as we know it today. All of this is history, I believe we have already written another chapter in this booklet, which I hope will give you, reassurance and hope for the future.

How next to make a few observations about this past year.

Past Year’s Accomplishments

As you know, a great deal of the most effective work done by the Association for the industry is done at our annual conventions. I believe, on the National and the Group levels, our meetings in Mary, Murray and I are deeply grateful to the Group Chairmen and their local governors and others who were so kind and hospitable to us.

Of Particular Significance

I am glad to say that these group visits, I want to leave you with just a few general observations on the conclusions which particularly impressed me. (1) I was pleased by the great amount of evidence of acceleration of Association activities at the group level, particularly in the educational, legislative and public relations fields. Of even greater significance, many are taking an active part in local and regional developments. Of even greater significance, our major strength is these service groups, and I call your attention to the strong in connection with the current SEC study of our industry. The SEC, the magistrate, is now noticing, and the areas of training and indoctrinating new salesmen, their supervision, the establishment of controls.

(4) And lastly, I have been both impressed and pleased at the ever increasing cooperation (at both the National and Group levels) between the various organizations in our business. This has been manifest in all phases of our operations, where there is common interest or common problems. Most of us, of course, belong to more than one industry organization. It is just this cooperation, for us to cooperate where practicable and thus avoid duplication of effort, expense and the like.

Deteriorated Public Image

Just a few additional words in connection with the past year. I have been conscious for a long time that the public image of our industry is not what it should be and deserves to be. I am afraid that our public image is disproportionately affected by the spectacular improperities of a few. Thus, in going around the country, I took every opportunity to speak to special dinner clubs and reporters to try and point out, in proper perspective, the great good work which our industry makes to our economy and our way of life. Where we had to go and in all of the aspects of this problem, I believe that such discussions were most worthwhile while from their point of view as they learned that each of you make a point of getting to know your local press to help them get our story in proper lights.

During this past year I have also endeavored to keep thoroughly up to date on the current study which the SEC is making of our industry. Indeed, as I have gone around the country, it was not during the past year, and my good wife, Mary and Murray Hanson accompany me at the least of these visits. Mary, Murray and I are deeply grateful to the Group Chairmen and their local governors and others who were so kind and hospitable to us.

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Continued on page 97
Self-Regulation in the Securities Industry


SEC head delineates the extent to which the securities industry still has to improve the scope and depth of its internal control and the need for additional outside regulation. He particularizes why the Exchanges and the NASD must substantially grow; notes deficiencies in the over-the-counter market, declares it to have a public responsibility and prods the Investment Company Institute to once and for all take on the task of internal regulation. Mr. Cary makes clear that overseeing his agency is not intended to accomplish self-regulation or to interfere with day-to-day details, and takes issue with the suggestion that the exchanges are actively and primarily controlled by public participation in the NYSE and other Exchanges.

I

Self-regulation is a concept more widely cited and relied upon in the securities industry than in any other specifically subject to regulation by federal agency. Indeed, it has the imprimatur of statute in the 1934 Act’s provisions relating to exchanges as well as the more elaborate effort at regulation of the over-the-counter market through the Maloney amendment. This is as it should be: we are dealing with business practices—the spectrum of ways in which day-to-day financial transactions are being conducted—and with evidence in one case, including even the most hardened bureaucrat, would concede that the government’s rule should prescribe a fully detailed pattern of doing business for itself.

Self-regulation is a phrase that calls for definition. Some think it means total autonomy. My view today is to view some impression of what self-regulation means to the Securities and Exchange Commission, and how it can flourish. I should like to suggest that it means autonomy somewhat like the same relative sense as the SEC is said to be autonomous. We are called an independent regulatory agency. But anyone who thinks we are completely independent has not been long in Washington. We are subject to oversight, by the Congress. And that is as it should be! I am always mindful of the experience of another bureaucrat from a university who recently appeared before a Congressional Committee. After he had expounded the law, the Chairman said, “That’s a very good lecture, professor, but remember, democracy is the practice of the marks.” Furthermore, our budget and legislation must pass through the Executive via the Bureau of the Budget. And, finally, on occasion we are reminded that our decisions are subject to judicial review.

Some Oversight Called For

I do not say there is a precise parallel with the SEC. But I do say that it is an analogy with securities, with the complexities which they pose and with liquidity second only to bank deposits, some oversight is called for. Quite properly, the profit motive is at the root of our economic system. But given this motive, regulation of the industry in the interest of the public cannot be left exclusively to the practitioners, public-spirited though they be. That was settled in principle by the 1934 Act and has been proven by experience. Of course, the public part should not be arbitrary or oppressive. As I said a year ago, we have tried to be responsible both in action taken and the way in which our special study is being conducted, and we have tried to keep our promises made on the occasion of last year’s Convention.

II

Furthermore, we believe that oversight need not and should not stifle initiative for self-regulation. Although the need for outside regulation may be accepted by an industry, the leaders within it should nevertheless have the freedom to suggest and effectuate improvements in standards without disheartment. This is true for the exchanges as the NASD on the one hand, and for this Commission on the other. I firmly believe that any institution—private or public—for can be run honestly and tirelessly and yet at the same time it can die. Right mortis will set in if all of us do not re-examine ourselves—find out where the industry has been moving, and accordingly how we should redefine our responsibilities.

III

In recognizing the need for an over-kill for the overkill building. The Commission has expanded by a third since early 1961. It was a necessity. This much was imperative: no one had time to think beyond modest problems and see where we were going. The registration backlog was at an all-time high. We had some notion that all such problems could be cleared up by a fresh mind and we brought in a business executive in reorganizing companies. The answer came back that the problem was manpower. Expansion thus was called for to meet existing problems. At this time I feel our internal job is consolidation and improvement. We are not interested in growth as such. As evidence of our design not to enlarge, we have recently had an ironic difference with the NASD before a House Committee. This during the past two years the SEC has faced with a real regulatory problem in the District of Columbia. We greatly accelerated our enforcement activities, but stringent enforcement could not in any way substitute for high standards. We therefore recommended adoption of a strong Blue Sky Law for the District of Columbia administered by local government as preparatory to expanding SEC jurisdiction. Wallace Fulton, on the other hand, favored broadening our powers to meet the special problems of the District of Columbia. We appreciate the vote of confidence, but we feel our responsibilities are national. And we do not believe our activities should supercede local regulation, nor I might say self-regulation.

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We Need a Strong Economy to Meet All of Our Objectives

By Lammot du Pont Copeland, President, E. I. du Pont de Nemours & Company

In his first address since becoming President of du Pont last August, Mr. Copeland gives his views on a variety of subjects ranging from the difficulty of resolving individuals' diverse ideas and goals to the greater importance of paying for R & D than paying dividends. The industrialist contends that the price of profit is not wholly understood by the public, and he further contends that business and other interests that inform the public are not doing enough to acquaint the people with the facts. Mr. Copeland observes that a strong private economy and not the Government can meet our economic objectives; comments on corporate bigness and chides industry for cheating at anti-trust regulations; and warns that the cruelest tax of all is inflation.

It is a pleasure to be your guest and to pay tribute to the vital role of investment bankers in the economy of the United States. In our system, business growth occurs when enterprising individuals dare to assume risks in the hope of making a profit. You share these risks as suppliers of credit and capital, and it is exceptional when a new venture or an expansion can be undertaken without your faith and help.

The Du Pont Company has had a long and, I believe, mutually rewarding relationship with the investment banking profession. When one of my ancestors came over from France in 1692 to start the manufacture of black powder near Wilmington, Delaware, he had $69,000 in capital raised in France and Switzerland. Then, when his business proved successful, E. I. du Pont de Nemours found he had to borrow more funds from the Delaware banks for growth and expansion. Some years elapsed, and the European creditors, becoming increasingly impatient for some return on their investment, sent a young Swiss over to Wilmington to collect. At this point, the resourcefulness of the first president of our company became apparent. He married the young Swiss into his family and thereby obtained an extension of time. It was more than 50 years before the Du Pont Company was out of debt and, during 32 years of that period, as long as he lived, E. I. du Pont had to ride horseback with great frequency 250 miles to Philadelphia to renew his loans.

It is somewhat comforting for the 11th president to know that the Du Pont Company is debt free. But I can assure you our management has never hesitated, and the President does not believe it would hesitate in the future, to call upon you for assistance. We believe, by investing internally to finance a promising commercial opportunity, we did so some 40 years ago to protect our still unalmoened investment in the Oil and油脂 Research Corporation. We enlisted your help again just before the Second World War, and you made a magnanimous offer, for the sake of two issues of preferred stock. While in recent years we have been able to maintain our growth through retained earnings and depreciation, we had to borrow heavily on two occasions—first again if new products should emerge from our research laboratory, and the second, perhaps, for example—of nylon.

In every ordinary circumstance, I suppose a man talking to investment bankers might be expected to address himself to financial matters, especially if a good deal of his business career had involved visits to Wall Street. And when I accepted your invitation, I must confess it was my intention to do just that.

First Address as New Head

However, between the acceptance of the invitation and the delivery of this talk, there has been something of change in my circumstances, as your chairman noted. This happens to be my first speech as the President of the Du Pont Company and, consequently, I think I should talk more broadly about business.

Our generation confronts serious problems. I doubt whether any of us will see the day when all of them are solved, but perhaps we could make a start by finding at least one area where everyone is in agreement. Let me be specific. I suppose every group in the country supports such objectives as national strength, world peace, better health, education and housing, individual freedom, greater opportunity for cultural pursuits, and generally higher living standards. At the same time, there are vast differences of opinion over the best way to attain these objectives. I have my ideas, you have yours, and political, faith, and labor leaders have theirs.

These differences will not easily be resolved, and I suppose, we will indulge in the democratic luxury of arguing them to a conclusion. There is one truth, however, which seems to me to be self-evident, and it is this: The attainment of even one single one of these objectives depends upon whether we can maintain in the United States a strong, healthy, and expanding economy.

Myth of Something for Nothing

It makes no difference whether we pursue the objectives through what has recently been called the public sector of our economy, or through the private sector. Every cent expended or given away by any branch of government comes from taxes levied on private productive activity, whether this be business, physical labor, or savings put to work. There may be some people who think they get something from government for nothing, and there even may be some who do, but it is their fellow citizens who pay the bill.

So, it is obviously a myth to think that government can provide better health, education, and housing, or achieve any of our other common objectives unless the resources—taxation—are available from a strong private economy. It is equally apparent that no government, toward these objectives will be made through the private sector if a stagnant or declining economy is to be our destiny.

The problem, then, which should be of primary interest to every diverse group in our society, is how a strong, healthy, and expanding economy can be achieved. Here, as one business man, I venture to express some views on what seem to me to be certain fundamentals that must be recognized.

R&D Expenditures

First, let me stress the importance of research and the utilization of its beneficial results for industrial growth. In the 1950-60 decade, annual research and development expenditures in the United States increased from $3.4 billion to $14 billion. These figures, however, should be interpreted with some caution. Of the total 1960 expenditures, $9 billion was for government research and development, largely for defense, and I suspect that current spending is proportionately the same. While some significant commercial developments have stemmed from government research, the economic effect of scientific inquiry to solve a specific defense problem is not the same as the effect of a similar volume of research directed toward discovering new commercial products and processes. Here we have not only the stimulation of large private investment in manufacturing facilities and services, but the added stimulation on the economy of advertising, merchandising, and distribution plus, in many cases, extensive maintenance and servicing.

Nevertheless, fundamental and applied research in the physical sciences is quickly as yesterday so much of our large corporations and many of the smaller ones, and industrial expenditures for this purpose increased from $1.5 billion to $4.5 billion in the decade. The search for something better, or more economical, has been intensified in American industry, and the results over the years have enabled scores of millions to enjoy necessities and luxuries which otherwise would have been denied them.

One of my predecessors, Lammot du Pont, said, at the depth of the depression in the 1930s, that it was more important for our company to continue research than to pay dividends. I am glad of a view prevailed, for, out of that decision to continue basic research came nylon and a host of other new products which constitute more than half of our business in 1962. We also were able to continue to pay dividends. In an age when man is actually reaching for the moon, a product or process can become obsolete almost in the life of a newspaper. We work diligently in our company, therefore, to be sure that we will obsolete products and processes before a competitor beats us to it. As just one example, we had a thriving rayon business until we brought out nylon.

It is through research that I believe we will achieve the kind of growth which is really meaningful. We would hardly call it progress merely to manufacture more goods in the same way. We must look to research for the important new industries of the future, just as it has given

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birth in this century to such imposing segments, its progress in chemicals, electronics, aircraft, and, only recently, space.

**Growth Pains**

Growth, of course, is seldom achieved without growing pains. For example, research has enabled progressive industries to meet the challenge of higher wages and employee benefits, as well as other accompanying changes, by stepping up productivity through mechanization and instrumentation. While this has created new and better jobs, it has also resulted, in many instances, in at least temporary displacement or absorbance of older workers. Staffing and featherbedding, which, in turn, has led to strikes as shutdowns which waste our resources.

I am quite sure that responsible businessmen, with careful planning, are making every reasonable effort to avoid contributing to technological unemployment. The Du Pont Company does so, whenever possible, by trying to phase new operations into locations where older operations will be discontinued and by retraining its employees. It is quite a different matter, however, to be confronted with unreasonable demands whose unreasonable and unnecessary costs would withhold the benefits of increased productivity from customers, employees, and stockholders.

If we are to have a healthy economy capable of competing with the emerging industries of the Common Market and Japan, we can't afford to load up with fat. And, if we fail to meet competition, that stockholder in industry will lose, but the biggest loser will be the jobless formerly employed by industry.

**Profits Misunderstood**

Rather closely tied to this concept is the question of profits. This is perhaps the most misunderstood term in our whole economic vocabulary. It is profoundly misunderstood by the public, and it is all too frequently misunderstood by businessmen. The nature of the misunderstanding differs from one man to another, from one social group to another, from one profession to another. But the sum of these misunderstandings is a serious threat to the survival of our economic structure.

For example, a recent survey by the Public Opinion Index for Industry indicated that 43% of the people favor a great deal or a fair amount of control of profits by the Federal Government. While 88% concede that the profit incentive is essential to our business system, 69% believe that profits of some companies are much too high. The survey also showed that the public believes that the average manufacturer makes a profit of 20% on sales, after paying taxes and all costs, compared to the actual 1961 average of 5.4%.

Fundamentally, it seems to me that the most significant misunderstanding relates to the importance of profit in our system. Importance is, indeed, too weak a word. Without profits, our system literally cannot be maintained any more than man can survive without oxygen. No one would argue that breathing in an objective of life. But no one could deny that, without it, no other objectives would be conceivable. And so it is with profit for a business. Without it, the business dies and takes with it any possibility of improving man's state of affairs.

Somewhat akin to this misunderstanding is another, which is that the size of profit can arbitrarily be determined and limited without any deleterious effect upon the operation of our economic system. We find semantics being used in furtherance of this misunderstanding, as in the case of the so-called excess profits tax of a few years back. A more accurate description would have been an excess tax on profits.

**Competitive Pricing**

We also have been hearing recently about so-called "administered prices." This is a theory that management can add up its costs and then price its products to yield whatever return on investment may be desired. Unless there is collusion among producers—and this is what proper enforcement of antitrust policy should prevent—it just doesn't work that way. In a free market, the price is established by the company which is most efficient, or which is willing to accept the least return on investment, and competitors must meet this price or lose their share of the business.

I am quite sure this audience understands that, while the hope of making a new profit is the sole incentive for launching or expanding any business enterprise it is necessary for profit to be earned. It must be earned by keeping abreast of the most modern technology and by providing better goods and services at a price the consumer is willing to pay. No business can do this without dealing fairly with its employees, its suppliers, and its purchasers, and thus meeting what has been called its social responsibilities.

Yet, as the public opinion survey indicates, there are still too many people in this country—and these people vote—who look upon a profit merely as something to be taxed, to be regulated, or to be eliminated. I think the survey clearly demonstrates not only that business isn't doing enough to acquaint people with the facts, but that it needs far more cooperation than it has been getting from other groups which inform the public. There is nothing dramatic, I suppose, about the role which profits play in enabling a company to expand its business, providing more jobs and better opportunities, pay higher wages to employees, and engage in research to develop new and better products. Yet if we are to have a public climate which will encourage the kind of economy all groups desire, a better understanding of this role is one of today's imperatives.

**Questing Bigness**

The third point I would like to emphasize is that, in a large and growing country, we need large and growing enterprises just as we need small and in-between ones. The size of a business organization should be tailored to the needs it must fulfill, just as a suit of clothes is tailored to fit the individual who wears it.

If there is any way to determine...
Value of Tax Immunity
On Municipal Bonds

By Henry J. Frank, *Associate Professor of Economics, Fairleigh Dickinson University, Rutherford, New Jersey

Searching analysis reveals States and municipalities have more to lose than to gain in surrendering tax immunity in exchange for permissible reciprocal taxation of Federal securities. Based on 1960 data and the assumption of an instantaneous readjustment to higher taxable interest rates, it is calculated that (1) it would cost $827 million in additional interest; (2) no State could recoup in income taxes the additional borrowing costs of issuing taxable securities; and (3) it would produce a net deficit of $700 million of which a dozen State governments might gain by this arrangement, and 20 State and all local governments would lose. Dr. Frank succinctly sums up the case for and against the principle of tax-exemption.

Under the doctrine of intergovernmental tax immunity, the interest income from obligations issued by states and their political subdivisions (Municipals) is not subject to income taxation by the Federal Government; and the interest income from securities issued by the Federal Government or its instrumentalities (Goverments) is not subject to state income or property taxation. Suggestions that this reciprocal immunity be abrogated have been made from time to time during the past four decades, and in 1923 an amendment to the United States Constitution to this effect passed the House of Representatives.

The possible taxation of Municipal bonds by a simple Act of Congress has been considered every few years since the passage of the Sixteenth Amendment to the United States Constitution. The history of these attempts has been traced by George E. Lent in a recent article in The National Tax Journal. Congressional hearings have been held on this subject on many occasions, the most recent being those held in November, 1956 by the Committee on Ways and Means.

The Proponents Case

Pressure for the removal of the income tax immunity of Governments and Municipalities is still felt in the halls of Congress and I suspect will always be there so long as the immunity remains. The most recent appeals for the income taxation of Municipal bonds have been made by the Committee for Economic Development in its publication of last year entitled Growth and Taxes: Steps for 1961, and by Dan Throop Smith, now Professor of Economics at Harvard Graduate School of Business Administration, formerly special assistant to the United States Secretary of the Treasury, in his recent book Federal Tax Reform.

Those recommending the taxation of Municipal bonds are primarily concerned with equity considerations. They view such securities as a tax shelter for the wealthy, since income derived from interest payments by state and local governments is not subject to progressive income tax rates. They believe that the ability of investors to choose between tax-exempt and taxable investments leads to a misallocation of capital, i.e., capital does not go into the most productive uses. They also feel that, because governmental units can borrow so cheaply, many governments abuse the privilege, and those with the most need for funds pay the highest interest rates and get the least advantage from the immunity.

Some protagonists of the taxation of Municipal bonds are concerned with the "tax loss" to the United States Treasury. If Municipal bonds now outstanding had been taxable at the time of issue, the current annual yield to the United States Treasury, at today's differentials and today's individual income tax rates, would be about $1.4 billion.

The "Status Quo" Position

The defenders of the status quo are concerned primarily with the political sovereignty of states and their local governments. Any infringement of intergovernmental tax immunity is considered an opening wedge for centralization into our federal system. They are afraid that the additional costs of financing public works, if interest from Municipal bonds were taxable, would lead to the postponement or abandonment of many desirable projects such as schools, roads, airports, sewers, hospitals, and similar governmental capital items. Since almost all state and local tax patterns are regressive, additional interest costs financed through local taxation would tend to offset Federal revenues derived from the progressive income tax.

Those opposed to the taxation of Municipal bonds contend that a Constitutional amendment permitting their taxation is necessary, while many proponents believe a non-discriminatory tax statute is sufficient. They base their argument on the Supreme Court decision in Helvering v. Gerhardi (1933) in which the Federal Income tax on the securities of the employees of the Port of New York Authority was upheld on the ground that the tax was not "interfering" with the law. In that case Justice Stone declared for the Supreme Court that a tax on Federal obligations which only in that case Justice Stone declared for the Supreme Court that a tax on Federal obligations which only

The Reciprocity Argument

The suggestion has often been made that a substantial amount of Federal income tax immunity would be payable by states and local governments if their securities were subject to Federal taxation, could be restricted to a certain extent of Federal instrumentalities of income tax. The question is then raised of the taxation of Governments? How much income would be spent on state and local bonds and how much would be spent on their own securities? What is the value of the tax immunity on municipal bonds?

If reciprocal taxation were to be introduced, states could tax Federal securities under tax laws; local governments could use them under general property and municipal income tax laws.

In actual practice most of the Municipalities would get nothing from the permitted taxation on Federal securities. Fourteen states permit the assessment of intangible personal property by localities for taxation under the general property tax. Where such property is assessed it is usually assigned a token value. Permission to include Federal securities in the base would not lead to any significant increase in the assessments made by those municipalities. Nine other states provide for local property taxation of various types of intangibles under special legislation but substantial sums would not be raised by the affected local governments from the inclusion of Federal securities in their tax base.

States might tax Federal securities by their property taxes, their income taxes, but only states imposing income taxes could impose substantial sums from the reciprocal taxation on Federal debt instruments. Of the 7 states which include intangible personal property as part of the general property tax base, 10 apply a state property tax rate. Nine states tax intangibles at rates varying from one to five mills, and three of them use alternative taxes on the income derived from investments ranging from 3½% to 5%. Amounts likely to be raised from either of these sources are insignificant.

The Statistical Picture

If the taxation of Federal securities were permitted, about $800 million in 1959 calculations I made for the year 1959, would be raised in those states now imposing taxes on this source. This amount was derived by first computing the Federal income tax paid on Federal securities among the states that own these securities, then prorating it among the states, and finally, multiplying the assumed income tax rates within each state by class of owner by the applicable state income tax rates. The $88 million is the sum of $8 million that would be raised in 28 of the corporation income tax states from businesses that own Federal securities, and $52 million that would be raised in the 34 individual income tax states.

Regardless of whether the reciprocal taxation of Governments were permitted, the ez parte tax rates imposed by the Federal Government would raise the interest rates payable on sub¬ sidiary state and local securities. This increase in interest payments then would be subject to income taxes and the Federal interest rate would be raised, too. If the Federal Government were now taxing interest income from state and local securities. It is estimated that most of the Federal instrumentalities would have had the Federal tax cut about $827 million (over the $714 million paid) in interest on their securities if the income tax were extended to their securities. It was subject to Federal income taxation. Income tax rates would have realized an additional $13 million from this source under their present statutes had such securities been taxable at the time of flotation.

Hypothetical Assumptions

To calculate the hypothetical additional interest payable by states and local governments if their securities had been subject to Federal income taxation at the time of issue, I assumed that in outstanding indebtedness in 1959 was divided into nine groups and the sum in each case was multiplied by an applicable differential. The long-term debt of the states and their agencies and authorities was classified in accordance with Moody's ratings, Aaa, Aa, A, B, C, D, and unrated bonds. Long-term local debt was treated as a group since classification by rating is impractical. Short-term state and short-term local debters were treated as separate units. Additional interest payments for state obligations were calculated for the period July 1958-June 1959 since all but four states use that fiscal year, and short-term local debts for which local obligations was calculated for the Calendar Year 1959 which was the last calendar period for local governments.

The differential, i.e., the additional interest payable would have been calculated for long-term debt as the difference between Moody's Investors Service Index of Yields of New Issues and the net of yields and the average yields on Municipal bonds.

Continued on page 55

Dealers in

State, Municipal and Authority Bonds

LEHMAN BROTHERS
One William Street, New York 4, N. Y.
"Keep Government At Our Sides - Not On Our Backs"

By Earl L. Butz,* Dean of Agriculture, Purdue University, Lafayette, Indiana.

Agricultural expert sees the wellbeing of our economic strength being intimately vitall, and the most critical is the simultaneous goals of national security, personal security and economic growth. He would make private business the senior partner in his relationship with government, and doing as one paces to the Four Freedoms of World War II and continued, he would have the government provide a minimum personal security floor under the aegis of poverty, illness, without, however, undertaking the incentives and initiative that made our economic growth what it has been.

It is obvious to all that a strong military establishment cannot be built only on the base of a healthy industrial and agricultural production. It is less obvious that sustained military strength is possible only if our people have a National Will to make the proof of America down deep in their hearts, if they believe in the ideal that it stands for, if they will fight to defend it. This, and the principles that made America great.

National Will

Our National Will is perhaps the weakest ring in the equation for National Power outlined above. There are among us too many people who believe the United States is the country of individual freedom and responsibility, too many who seek the easy life without productive effort, too many who place politics above principle.

Our national goals are too many and too long for us to mention here. The principle remains that one big goal of the Declaration of Independence. We love to frequent those that make this a great nation.

National security is one of the most expensive single functions of our government. Likewise, it is one of the most essential functions, in these days when the very existence of the free world is threatened by totalitarian madmen. While we may argue among ourselves about various aspects of our defense system, nobody questions the need for a strong program of national security. Yet many of us overlook the fact that national security is much more than military power. It involves a total concept. Our formula for it is as follows:

National Power = Military Power x Economic Power x Spiritual Power.

You will note that this equation uses the multiplication sign rather than the addition sign. The factors are multiplicative rather than additive. In this kind of equation, if one of the factors is reduced to zero, the entire equation reduces to zero. This means that if we are going to attain one of our national security for our time and the future, we must be equally strong militarily, economically, and spiritually. A strong military striking power cannot be sustained without a strong economy and a strong National Will.

Agriculture is the bedrock of our wealth, the time during which nearly all of our food, housing, and clothing are available. The four freedoms are thus also substantially dependent on food, housing, and clothing. The framers of the Constitution recognized this when they adopted the first ten amendments, commonly referred to as the "Bill of Rights." These amendments are essentially a guarantee of protection against government. They recognize that in our system the individual is supreme, and that his personal freedom and security are a very essential part of his personal security.

Four Freedoms and Private Initiative

Early in World War II, out of a meeting between President Roosevelt and Prime Minister Churchill, came a statement of the Four Freedoms for which we fought. They were:

1. Freedom from Want
2. Freedom from Fear
3. Freedom of Speech
4. Freedom of Religion

These Four Freedoms are available in your county jail. You have freedom from want. Your food and clothing are provided with no effort whatever on your part. You have freedom from fear. Your worst enemy can't get at you even to make a face at you. You have freedom of speech. You can curse your jailer, and the law requires him still to feed and clothe you. You have freedom of religion. You can worship or not as you choose. You have perfect security! What more could you want for than these Four Freedoms?

There is a Fifth Freedom that you don't have in the country jail. This is a precious freedom. It is a freedom that men have fought and died and at to. It was conspicuous by its absence from the Four Freedoms outlined above. It is the freedom to go where you want to go and to do what you want to do. This is a freedom that is eroded away bit by bit as government grows and strangles our initiative sector of the economy, increasing responsibility for provision of the necessities of life of the people. Witness for example the growing maze of red tape, increasing regulations over our farmers, over transportation, over commerce, and over business, and so on ad infinitum.

No one argues the need to provide a minimum of personal security for all our people. The United States is so wealthy and so productive that we must not tolerate pockets of poverty, illness, poor housing, low educational opportunities, and the like. The question we face is how to provide the necessary minimum of these and still preserve and maintain the incentives and initiative that made possible this great economic machine that is America. We must recognize that personal security is possible in this country primarily because of our high level of economic productivity—not the result of laws passed by state and federal governments. Indentically the same laws, providing for minimum wages, abolition of child labor, unemployment compensation, old age security, public housing, public health assistance, and so on could be transplanted in nearly any other country in the world without achieving the desired results. The laws work here because this one country would build a base of a high level of economic productivity.

We continue to debate the question of the relative roles of the public versus the private sector.

Continued on page 88

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Mr. Powell's intimate experience with his own firm and knowledge of other SBICs under his administration's guidance, illustrated the SBIC's intrinsic worth because of current market's underassessment which he also believes is as wide as the mark as it was not too long ago overlooked. Mr. Powell lays down yardsticks for investors and analysts in judging an SBIC's investment prospects, and rules and guides for SBIC's to follow in improving themselves and in evaluating the candidature and worthiness of small individual business for financing. Publicly owned SBICs are said to be showing signs of maturity and to fill a market need for them as a part of all financial picture. As the basic and technical problems are solved — assisted by needed pending technical changes by Congress — outstanding progress can be expected and important stock changes and some consolidations bound to take place.

In this article I am going to wear two hats. First of all, in my position as Chairman of the Committee of Publicly-Owned Small Business Investment Companies, which is part of the industry association known as the National Association of Small Business Investment Companies, I plan to examine the situation of SBICs generally and as indicated by the title of my talk, to express my feelings about their future — by which I mean their long term future and not the market action of their shares over the few next months. My second hat refers to my position as President of Boston Capital Corporation, the second largest of the Small Business Investment Companies, or SBICs.

Criticizing Scandals of SBICs — Death Knell

As you know, much has been written and spoken about SBICs and in the past few months not all of it has been favorable. Recently there have been numerous examples of extremely poor publicity, propagated in many cases by people who have had only a superficial knowledge of their subject. For example, in an address to the Bank Creditors' Association of New York on October 16, 1962, Mr. Theodore H. Silbert, president of Standard Financial Corporation, is quoted by his firm's financial public relations counsel as having stated: "SBICs have been doomed to failure since their inception some four years ago, with only a few exceptions. Not only were SBIC's ill-conceived, and their objectives not obtained, but the May 28th collapse of the security markets was the final body blow. The SBIC death knell has been sounded. An SBIC License is a franchise to lose money." In addition to sniping of this kind from sources which may to some extent suffer from a mistaken apprehension of competition from SBICs, and to a general lack of understanding and disenchanted on Wall Street, there has also been confusion in Washington and some fairly unfortunate restrictive legislation. The result of all of these negative factors, plus the general decline in the securities markets, is that SBIC shares are currently seriously depressed and concededly in considerable disfavor in the financial community. Most SBICs are selling at a very substantial discount from net asset value, some even from their cash value per share. There are those of us who question the judgment of the market in this regard — just as there were those of us who questioned the judgment of the market when SBIC shares sold, a little more than a year ago, at a substantial premium over net asset value — sometimes even a multiple of net asset value.

Basic Problems and Business Aspects

What I wish to emphasize with you today are the basic problems involved in the operation of SBICs. A recognition of these problems and an insight into the course being followed by SBIC management to meet and solve such problems will, I hope, be of more significance to you than the temporary considerations of a generally depressed security market, although when I use the term temporary I recognize that current conditions may extend over many months.

In my discussion, I would also like to concentrate on the "business" aspects of SBIC operations, as opposed to the technical factors such as developments in regard to special tax treatment for losses and amendments to the regulations of the Small Business Administration. A brief few comments on these technical considerations are necessary, however, since our industry is particularly sensitive to the actions of Congress and of the SBA. I am glad to say this fact is now being recognized more fully and that two constructive Bills were introduced in the 87th Congress by Senator Sparkman and Congressman Patman. Included in these Bills, and in a third to be introduced in the 88th Congress, are the following provisions:

1. Removal of the limitation of $500,000 as the maximum amount that can be invested in any one small business concern. The original statutory limitation of 20% of paid-in capital and surplus would be removed.

2. Doubling of SBA funds available for borrowing. Loan from SBA would be 50% of paid-in capital to 100%, with a top limit of $5,000,000, as compared with $4,000,000 at present.

3. Establishment of legal reserves against permissible losses up to 20% of invested capital.

4. Exemption of SBICs from certain loan restrictions of Small Business Act of 1948 which prohibit stock options, and relief from the controversial Section 30-4, governing short swing profits.

While there are several other items in these Bills, the foregoing provisions are of particular significance to the health of SBICs. As indicated previously, however, regulations and legislation will not affect the success or failure of SBICs, and I have mentioned these matters primarily to indicate the lack of technical problem with which we are concerned. In the long run, SBICs will stand or fall according to how well they succeed in investing funds in small business concerns which in turn enable small businesses to become larger profitable enterprises.

Conclusions Based on Experience

Since World War II, organized venture capital has played a prominent role in the financing of small business concerns. The first publicly owned venture capital company, Americans Research and Development Corp., with which I served as Vice-President for seven years, was a forerunner of the SBICs of today. Private groups like J. H. Whitney Co., Payson-Trock, Rockefellers and others have been performing the same function of providing organizers for earlier venture capital companies, there should be few surprises on what has happened to date in the SBIC movement. In my opinion, the following lessons can be drawn from the past, and are useful in looking to the future:

1. Attractive profits are possible through properly conducted investment of venture capital.

2. Notwithstanding this profit potential and regardless of the ability and experience of management, there will be failures as well as successes among portfolio companies.

3. Losses will show up faster than gains—a poor investment can be shown up into trouble in a year whereas a good one can show results.

4. Mistakes should be acknowledged and eliminated as rapidly as possible. Too much impunity of time is often spent trying to nurse sick situations back to health.

5. The ability of top management of small business concerns is inordinately important in the success of such companies, market, or competition.

6. Many major investment mistakes result from quick decisions—there is no substitute for thoroughness in making an investment decision.

7. If a venture capital firm can achieve one really successful investment, the overall results should be favorable.

8. Managing venture capital requires a wide business experience and a practiced, professional approach. Any money should be incorporated into basic financing instruments to permit corrective measures to be taken when promptly when weaknesses are apparent.

9. Well informed, mutually respectful relations between a small business and its financial supporters are a necessary con- timanent to a successful operation. Sales should be regarded as guidelines to some of the characteristics of this particular industry and, in that to indicate that there is a fairly good body of experience available to venture capitalists to help them make their decisions.

A New Force in Venture Capital — The SBICs

At this point I must confess that my SBICs have committed more than half a billion dollars to the SBIC concept. And I am of the firm belief that each of the individual companies, of which about $350 million has been entrusted to us, has been properly organized. Only about half of the total amount raised has actually been invested in publicly owned SBICs. I am aware of over a quarter of a billion dollars seeking attractive opportunities in this country. I am sure the government has put enough money to support $2 or 3 billion of sales. The industry is, however, small.

SBICs vary in size, organization concept, investment philosophy, etc. They all have one thing in common, however, in that they have all been working on problems in the small business concerns in which they have invested their funds.

A short time ago, an official of the Small Business Administration, speaking at a meeting of SBIC officials, made the comment that his only interest was in small business concerns and that SBICs were only a means to an end. In a somewhat belligerent mood, he made the comment, "I don't really care what happens to you fellows as long as small business gets its money."

I don't think this particular individual, had he thought about it, would have meant what he said because it is obvious that SBICs and the small business concerns they service are bound together in success or failure. As stated in a full stand or fall with our companies and to the extent we do a good job of selecting and assisting them, we will gain and prosper. To the extent we do not, we will have failed.

The Future of Small Business

I would now like to state what I consider to be the basic function of the SBIC's movement, the reason why a small business needs clicks, or fails to do so. In my opinion, the most problems stem from what I shall describe as "Lack of Sense" in one or more of six areas:

These areas are:

- Sense of Humility
- Sense of Purpose
- Sense of Urgency
- Sense of Direction
- Sense of Planning
- Sense of Humility

Have you ever met any businessman who didn't think he was?
Canada's Objectives Now That Stability Is Achieved

By Dudley Dawson, Executive Vice-President, Greenshields Incorporated, Montreal, Canada

Canadian investment banker averds that the growing informal process of economic integration between his country and ours "may well be reinforced in the future." Mr. Dawson states Canada's principal problem now is to reverse its trade deficit; refers to measures taken and which will be taken that should prove helpful to improving balance of trade; and hopes that any preferential Canadian entry into E.E.C. will be offset by our new trade program and enlargement of the E.E.C. trading area. This, he concludes, should help assist Canada's ability to participate in the new era of worldwide prosperity.

The Canadian Committee of the 1960's is not the most active group in the organization, but nevertheless we are very proud to be a part of this most important segment of the Investment Fraternity in North America. We are particularly pleased that in this Golden Anniversary Year it was decided to name two Canadian Governors for the first time. They are both here as well as the President of the IDA of Canada.

With your permission, Mr. Chairman, the report of the Canadian Committee has been tabled. It is a review of financial and economic conditions in Canada for 1961-1962 to date.

I would like to speak briefly on some of my thoughts concerning Canada's balance of payments position and our prospects in the vital area of foreign trade.

You are probably familiar with the events and, in particular, the exchange difficulties which led to the official pegging of the Canadian dollar at 2.5 cents U. S. and initiated the introduction of an austerity program, coupled with financial assistance from abroad, and the recovery in our official exchange reserves over the last four months.

Canada's Principal Objective

Our prime objective now that stability has been restored, must be to reduce materially our deficit from current international transactions within the context of a fixed exchange rate system, and at the same time maintain a hospitable climate toward foreign investment capital. In order to achieve this, we must obviously improve the competitive position of our industries and strive for a significant expansion of our export markets.

The magnitude of the task ahead is indicated by the fact that Canada's excess of imports of goods and services over her exports in the first half of 1962 amounted to $730 million. In the case of trade with the United States, we purchased $332 million worth of goods more than we sold and our deficit in so-called invisible items (tourist expenditures, freight, shipping, insurance, interest and dividend payments) amounted to $462 million, for a total current account deficit of $794 million during this six-month period. This may seem small to you, but I must point out that if

would, of course, tend to improve the competitive position of domestic industries. An early move in this direction is hoped for, even though the recently appointed Royal Commission on Taxation is not expected to submit its findings and recommendations for some considerable time.

Long-Term Trade Prospects

Turning to our long-term trade prospects, I should say that in Canada this year there has probably been more thought and discussion on this subject than ever before in our history. This is understandable, if you consider the degree to which our prosperity depends on foreign trade. Three major developments have been responsible for this revival of interest:

(1) The accelerated economic integration of Western Europe.

(2) Application by the United Kingdom to join the European Common Market.

(3) Passage of the Trade Expansion Bill in the United States.

If the United Kingdom joins the European Economic Community, it is safe to say that the proposed common external tariff of the Community and the disappearance of the Commonwealth Preference system, will initially create problems for our export trade and our economy in general.

On the other hand, United States initiatives to reduce tariff barriers and the prospective economic growth of an enlarged European Common Market will surely provide opportunities for a considerable expansion of international trade. In order to benefit from these developments, Canada must be ready to participate actively in the forthcoming tariff and trade negotiations. We must also be prepared to accept far reaching economic adjustments at home.

I believe that in seeking to adapt ourselves to the changing patterns of world trade, we will find ourselves more closely aligned to the United States. An informal process of economic integration between our two countries has, in fact, been going on for some considerable time. This may well be reinforced in the future.

Looking ahead at the expansion in the movement of goods, services and capital which are expected to flow in the longer run from a rapid economic growth of industrialized nations and developing countries alike, one must assume that Canada with her natural wealth will be one of the major beneficiaries. Canadian trade and finance will then share in a new era of worldwide prosperity.

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Corporate Issues
Municipalities
Public Revenue Authorities
Private and Interim Financing
Progressive Tax System Is Contrary to National Interest

By Art Linkletter,* TV Star, Actor, and Author

Many-talent-sided Mr. Linkletter questions our tax system which financially penalizes talent and forces business decisions to defer to tax considerations. Talent, he adds, is found in all areas of endeavor and, no matter where it exists, is prey to the disincentives found under our "progressive" income tax. He recommends 23% flat proportions tax and no capital gains tax, and urges passage under the present Democratic Administration in conceding it would not stand a chance under a Republican regime.

Since about 1940 my principal problem as a businessman has been getting money, but rather how to keep it and handle it. Radio and television salaries being what they are and the income tax being what it is...most of us in show-business decide at least some part of each day to hating the Internal Revenue Service.

This hasn't always been easy...particularly on Christmas Day and Easter...but we've kept at it. I suppose that some of you older folks here can remember those luscious Diamond Jim Brady days before income taxes when the money that we now send to Uncle Sam want to buy solid gold show horses and diamond studded slippers for champagne sipping. A typical letter from the revenue department in the year 1908 read: "Dear Mr. Vanderbilt, it is with the greatest reluctance that we must beg you to send in the proper documents before the 1908 end year..." By which of course, means that to contrary to all sensible, moral, reasonable, economically sound principles, I have been making business decisions based on Tax considerations rather than on constructive, efficient business reasons. This is all wrong...but the plain truth is that TALENTED PEOPLE of all kinds in this country are channeling their individual economic efforts and activities because of TAX considerations rather than economic considerations. Of course, the effect on economic growth and productivity is bound to be negative.

If we were to follow the same practice at a time when we are striving for world leadership in science and technology, our American workers that after a certain number of their works were published, the real world might think we were crazy. And yet that's exactly what we are doing. The wonder of it all is that people like you continue to work as you do. Still...we know, many of our most important creators and inventors retire several years before they normally would. Thousands of others will deliberately turn down opportunities because the addition income after taxes simply isn't worth the added effort, and headaches. Hundreds of privately owned businesses are sold each year for a direct pay out of tax, and administrators who motivate and direct the vital work of business there will never be enough of you.

While you enjoy recognizance, prestige, status and power...just as much as artists do...nevertheless, money is still the principal source of economic achievement in our capitalistic society. In the echelons just below you, money is almost the ONLY way by which they can be adequately rewarded.

Evas of Progressive Tax

To deliberately confiscate these rewards with a PROGRESSIVE tax system is not only unjust, it is against the national interest. At a time when everyone in Washington is beating the drum for greater U.S. productivity, and we are being confronted by the Common Market competition, and the Russian menace, we are curtailing the ability of our talent to their capacity to contribute, the very people our nation's economy needs the most.

If we were to follow the same practice at a time when we are striving for world leadership in science and technology, our American workers that after a certain number of their works were published, the real world might think we were crazy. And yet that's exactly what we are doing. The wonder of it all is that people like you continue to work as you do. Still...we know, many of our most important creators and inventors retire several years before they normally would. Thousands of others will deliberately turn down opportunities because the additional income after taxes simply isn't worth the added effort, and headaches. Hundreds of privately owned businesses are sold each year for a direct pay out of tax, and administrators who motivate and direct the vital work of business there will never be enough of you.

While you enjoy recognizance, prestige, status and power...just as much as artists do...nevertheless, money is still the principal source of economic achievement in our capitalistic society. In the echelons just below you, money is almost the ONLY way by which they can be adequately rewarded.

Proposes 23% Tax Rate

I would propose a national income tax of 23%...a progressive income tax with no capital gains tax. This would provide the nation with the same amount of income it now has. It would raise the average tax payer just 3%, and pump new vitality into the economy.

Almost everyone agrees that the progressive rates in the higher brackets are too severe. But almost no one wants to abandon the Progressive Tax theories. These two points of view are difficult to reconcile from an ethical standpoint. If a 91% rate is unfair, then a maximum rate of 23% is not necessarily fair. It is just as unfair. Under a 23% tax, the man with a $100,000 taxable income would pay $23,000. The man with $1,000,000 taxable income would pay $930,000. This seems fair.

It is hard to believe that any group of conscientious thinking people really gives other than 100 times as many benefits from the Federal Government as we give to the Federal Government.

Eighty-six percent of the total taxes paid in this country are collected at a base rate of 20%. By raising this to 23% we would generate the same revenue and put every taxpayer on an equal and equitable basis. (In 1944-45 the base rate WAS 23%.)

Sound Heretical?

Does this sound like heresy? The Gross National Product would steadily increase under this plan so that we could lower the base rate, and cut out costs of the Bureau. A flat 23% would be almost self policing. If you could stay home and save 77 cents on the dollar...what would happen to "21" in New York?

The time to propose this is now. Under a Democratic administration, such a tax law under a Republican administration would have no chance at all. It could be the biggest political coup of the decade.

Woudn't it be refreshing to discover that, for once, it could not only trump over political pretenders, it could politically expedient as well.

The investment Bankers in the last 50 years have accomplished wonders. Income Tax Law has been changed through your Legislative Committee efforts...back in 1913. The Bank Act of 1933 was a milestone in financial history, prohibiting banks from writing business, dealing in corporate securities. That same year the Securities Act created the SEC and required full and fair disclosure of all material facts relating to public issues. The 1934 Securities Exchange Act made these regulations more current.

All through your history the importance of Self-Regulation has been stressed by your educational and management committees.

Why not the principle of Proportional Income Tax Versus Progressive as your next Item?

*Excerpts from a talk by Mr. Linkletter before the Investment Bankers Association of America, Hollywood, Fla., Nov. 26, 1962.

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Education Committee Report

During 1962 two issues of the IBA Educational Bulletin were published (May 36 pages, and December 44 pages) and they constitute in essence the report of the Education Committee supplemented by the oral presentation by Robert Mason, Chairman. In text and pictures these Bulletins provide a record of the training, public relations and promotional activities of the national Education Committee. (The Group Education Committees in the United States, and like activities on the part of member organizations, are frequently described in the IBA Bulletin and elsewhere. But in this issue the emphasis will be placed on the activities of the national Education Committee.)

Investment bankers and securities dealers of the nation are increasingly giving emphasis to popular lecture courses designed to acquaint individuals with the investing process and the advantages of securities ownership. This trend is reflected in the results of a questionnaire survey reported in the December, 1962, IBA Educational Bulletin distributed to the delegates at the recent annual Convention of the Investment Bankers Association of America (held at the Hollywood Beach Hotel, Hollywood, Fla. Nov. 25-30).

During the past year, 173 of the public lecture courses per year. A number of members, however, sponsored a great many more—approximately 800 IBA member organizations sponsored 1,960 popular lecture courses on investing, six members each sponsored 50 or more lecture courses a year and two organizations each reported more than 300 lecture courses naturally. The results of the over-all survey are described in greater detail on the next page. Average attendance figures for the various lecture series ranged from 15 all the way to 1,800, with a typical attendance of 30-50 persons per lecture. Most members sponsoring such programs sponsored by 140

lings showed the frequency and duration of radio programs and the length of the individual presentation. The same information is also provided on television programs. Favored hours for broadcasting and telecasting are also recorded, and a chart of program content is summarized.

Training Programs and Seminars

Robert Mason of Merrill Lynch, Pierce, Fenner & Smith Inc., Chicago, Chairman of the IBA Education Committee, reported on the projects of his Committee and on the activities of the 17 geographic subdivisions of the Association in the fields of training, public relations, and promotion.

More personnel from investment banking organizations utilized Association and Group sponsored training programs during 1962 than ever before, according to Mr. Mason, who briefly discussed the following school and seminar projects:

The Institute of Investment Banking, offered by the IBA Education Committee in cooperation with the Wharton School of Finance and Commerce on the University of Pennsylvania campus, Philadelphia, was attended by 345 persons and partners of member organizations, persons with five or more years of experience in the securities business. This is an executive development program which registrants attend one week each Spring for three years. Those completing the program receive a Certificate of Merit.

In cooperation with Member First National, New York Stock Exchange, the IBA Education Committee for the fourth summer offered a concentrated training program for college graduates and others entering the securities business. This program in 1962 included a course on Fundamentals of Investment Banking and another on Stock Exchange Operations.

The New York Group of the IBA through its Education Committee sponsored two seminars for management personnel; one on Management Functions for policy level administrators and another on Operations Management for officers and partners in charge of "back office" functions.

In Pittsburgh the Western Pennsylvania Group inaugurated an Investment Banking Seminar, a refresher program for seasoned personnel.

The Central States Group of Chicago for the 17th year offered a classification course in Fundamentals of Investment Banking over a three-month period and for the fifth year a Continued on page 117

PRIMARY MARKETS

U. S. Governments

Federal Agency Issues

Municipals

Public Utilities

Industrials

Railroads

Equipment Trusts

Bankers Acceptances

Certificates of Deposit

Finance Paper

Canadian Issues

Preferred Stocks

UNDERWRITERS and DEALERS in CORPORATE, STATE, MUNICIPAL and REVENUE BONDS

Financial Advisors to Cities and Public Authorities
Backgrounds of the New Principal IBA Officers

The slate of officers elected at the Convention on Nov. 29 included a new President and five Vice-Presidents, three of the latter being named for either a second or third consecutive term. The official biographies of each of these officers follow:

AMYAS AMES, President-Elect

Amyas Ames, a Senior Partner of Kidder, Peabody & Co., investment bankers and securities dealers, New York, was elected President of the Association, succeeding Curtis H. Bingham, President of Bingham, Walter & Hurry, Inc., Los Angeles.

Except for service as Administrative Officer of the War Shipping Administration in Washington during World War II, Mr. Ames has been in the investment banking business continuously since 1932 when he associated with his present firm.

He was born in Sharon, Massachusetts, schooled in Boston, and is a graduate of Harvard University (1928) and of the Harvard Graduate School of Business Administration (1930).

In addition to his position as Senior Partner of Kidder, Peabody & Co., Mr. Ames is Chairman of the Executive Committee and Vice-President of the affiliated Kidder, Peabody & Co., Incorporates, and is also Chairman Vice-President of the Investment Advisory Board of the latter organization.

David J. Harris, Vice-President

David J. Harris, Partner, Bache & Co., Chicago, was re-elected for a third consecutive term as a Vice-President of the Association.

Following his graduation from University of Chicago in 1929, 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 Administrative Resident Partner of Bache & Co. in Chicago in charge of the Middle West Regional Area.

Since 1948, Mr. Harris has been active in the Group and national activities of the Association. He has served two terms as Vice-President, 1960-62, 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 Chairman's Committee, 1955-59; Chairman, 1957-59.


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 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 is now Chairman of the Exchange's Executive Committee. He has also been a member of the Institute of Chartered Financial Analysts.

Harris has been a trustee of the New York and Illinois Bar Foundations, and a member of the Illinois and Cook County Bar Associations. He has served on the Board of Trustees of the University of Chicago. He has been a Director of the Inter-American Business School, New York, and a Trustee of the New York Stock Exchange Borough of Queens.

Mr. Harris is married to the former Evelyn Perkins of Hartford, has four children and one grandchild.

He is married to the former Evelyn Perkins of Hartford, has four children and one grandchild.

The family lives in Cold Springs Harbor where Mr. Ames is a director and former president of the Long Island Biological Association. Mrs. Ames is a poet and writer and several of her books have been published.

LLOYD B. HATCHER, Vice-President

Lloyd B. Hatcher, Partner, White, Weld & Co., New York, was elected a Vice-President of the Association. A graduate of the Virginia Military Institute, he received his MBA degree from Harvard in 1931.

Mr. Hatcher has spent his entire career in the securities business, holding positions with various organizations in both Atlanta, his native city, and New York. He joined Kaufman & Co. in 1923 and is a general partner and member of the firm's Executive Committee.

Mr. Hatcher has been active in IBA affairs since 1946, serving as Chairman of the New York Group, 1960-61, Governor, 1961-62, and on the following national committees:

Convention Attendance Committee, 1940-42; Municipal Securities Committee, 1951-52; 1955-56.

Governmental Securities Committee, 1962-63.

Group Chairman's Committee, 1960-61.

His activities in other industry organizations include membership in the Bond Club, Municipal Bond Club, and IBA of New York. Club memberships include: University, Wall Street, Huntington, Inn, and Lloyd Neck Bath Club, all in New York, and the Piedmont Driving Club in Atlanta.

He is married to the former Barbara Holdsworth of Brookline, Massachusetts, and they and their two children live in New York City.

JAMES H. LEMON, Vice-President

James H. Lemon, Partner, John- som, Lemon & Co., Washington, D.C., was re-elected for a second consecutive term as a Vice-President of the Association.

Mr. Lemon has been active in the affairs of the Association since 1942. Mr. Lemon has served as Chairman of the Southeastern Group, 1948-49, Governor, 1951-54, Vice-President, New York Life Insurance Company, 1948-49, Member, 1949-50.

Mr. Lemon is a member of the Board of Directors of the National Association of Securities Dealers and is a Trustee of the American Bar Foundation. He is a member of the Commercial Club, the American Bar Association, and the American Society of Zoologists.

He is married to the former Madeleine Powers and they and their two children live in New York City.
1961-63, and on the following national committees:

Federal Taxation Committee, 1942-53.
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 1945-53. 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.

GEORGE J. OTTO
Vi-c President
George J. Otto, Senior Partner, Irving Lundborg & Co., San Francisco, was elected a Vice-President of the Association. Upon his graduation from the University of California in 1926, Mr. Otto immediately entered the securities business as a salesman for Mitchell, Tully & Company. In June, 1935, he left that organization to become a partner of Irving Lundborg & Co. and now is the firm's senior partner.

Active in the affairs of the Association since 1952, George Otto has served on the Executive Committee of the California Group, 1956-57, as an IBA Governor, 1958-59, and on the following national committees:

State Legislation Committee, 1954-55.
Invest-in-America Committee (Chairman), 1958-62.

He has also been on the Board of Governors of the Invest-in-America National Council, since 1959 and has been very active in promoting their program throughout the country. A past president of the San Francisco Bond Club (1948), he is currently Chairman of the San Francisco Division of the Pacific Coast Stock Exchange and Vice-Chairman of the Exchange's Board of Governors.

Mr. Otto is a Director of the Schlegel Lock Co., and Chairman of the Finance Committee of the San Francisco Girl Scouts. He is also a past Governor of the World Affairs Council. Club memberships include: The Bohemian Club, San Francisco Golf Club and the Menlo Country Club.

He is married to the former Marie Kendrick and they have three daughters. The Ottos live in San Francisco, California.

IBA Municipal Conference Site and Date for 1963
George B. Wendt, Chairman of the Investment Bankers Association of America Municipal Securities Committee and Russell M. Ergood, Jr., Chairman of the Subcommittee on the IBA Municipal Conference, announced that the 1963 Municipal Conference will be held in Chicago at the Pick Congress Hotel on June 19 through 21. Details regarding program and registration will be furnished at a later date.

"Golden Dates" of the IBA
1912—FIFTIETH ANNIVERSARY—1962

1910 Group of investment bankers appealed to American Bankers Association for establishment of a separate section on investment banking. The IBA Executive Council decided against it. The organizing committee of thirty investment bankers decided then to form an independent national organization.

1912 Organization meeting of the Investment Bankers Association of America held at the Waldorf-Astoria Hotel, New York, Aug. 9, 1912. Under Chairman George B. Caldwell a number of standing committees were appointed and the Constitution and By-Laws of the IBA were approved.


1913 Income Tax Law—IBA Legislative Committee was active in getting changes in the law to the advantage of both the government and the investor.

First issue of IBA of a Bulletin published as official Association publication; purpose was to keep members informed of state legislation affecting the securities business and other items of interest to members.

1913-15 IBA Taxation Committee was active in solving problems concerning income tax filing on behalf of its members, both corporate and partnership. The Taxation Committee published an extensive report in book form called "Principles of Taxation."

1914 Special Committee on Education appointed by President to look into a course of study and reading materials for young men in the bond business.

1916 Education Committee formed to revise the earlier Bond Course and to look into a course in Investment Banking; in 1917 the Committee conducted a survey of university and college courses on Investments. The Education Committee subsequently prepared a number of courses in book form for representatives of member firms:

Corporate Finance & Investment (1917)
Stock Exchange Business (1918—1920)
Industrial Securities (1921)
Individual and Corporation Mortgages (1921)
The Work of the Cashier's Cage (1922)

1917 Liberty Loan Program—President and IBA members cooperated actively with Treasury Department in making the bond drives a success.

In 1912 the founders of the Association visualized difficulty in raising the required $1.5 billion of new capital for American industry each year — however, in one three-week period, the Fourth Liberty Bond Drive drew subscriptions of $7 billion! Blue Sky Laws of Ohio, South Dakota & Michigan upheld as constitutional by Supreme Court.

1918 Committee on Fraudulent Advertising prepared a guide for newspapers, periodicals, banks and advertisers interested in financial publicity.

1920 Office Counsel retained in Chicago to answer member inquiries and to solve legal problems relating to the securities business (Theodore S. Chapman).

1920-21 Local Groups of members encouraged to organize regionally; sixteen groups formed. Inauguration of Groups brought a great increase in IBA membership.


1923 IBA Educational Director appointed—Samuel G. Rice. Association had become convinced of the need for a comprehensive educational program.

Continued on page 109

“ALL MARKETS ON ONE CALL”

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Report of IBA Municipal Securities Committee

George B. Wendt, Vice-President of the First National Bank of Chicago, presented the following Report to the Convention in his capacity as Chairman of the Municipal Securities Committee.

The market for new issues of municipal bonds during the first ten months of 1962 has been marked, in general, by a record volume and by prices relatively higher than recent years, with accompanying low rates of interest for municipal issuers.

The volume of sales of new issues of municipal bonds during the last ten months aggregated over $7.3 billion. Over $5 billion of this was accounted for during the first six months and the volume tapered off in August and September; but it appears that volume for the full year will set new record, probably aggregating close to $9 billion, exceeding the record of $8.4 billion in 1961.

Municipal bond prices, as reflected in the Bond Buyer 20-Bond Index, have varied from a low (in terms of price, which is lower as yields are higher) of 3.77 on Jan. 4 to a high of 2.98 on Oct. 19. This price level is the highest since the spring of 1958.

No Federal Assistance Is Needed

The continued increasing volume of new issues by states and municipalities at favorable rates of interest to furnish various public facilities demonstrates the ability of state and local governments to finance needed facilities without the federal financial assistance proposed in numerous bills considered by the Congress. While the advocates of new programs of federal financial assistance to local governments invariably claim that state and local governments are confronted with acute financial difficulties, the true situation appears rather clear in the fact that the public debt of the federal government exceeded $300 billion, while the total state and municipal bonded debt is estimated at $73 billion.

In view of the urgent demand on the federal government for funds for defense purposes and the desirability of a reduction in federal income taxes with a balanced budget, we submit that the only practical way to achieve both objectives is to reduce federal spending for domestic programs which can be financed by state and local governments.

The ability of state and local governments successfully to finance needed facilities may be strengthened by the so-called “reapportionment case” (Baker v. Carr) in which the Supreme Court of the United States held that voters could sue to obtain judicial review of allegedly inequitable representation in state legislatures. The resulting reapportionment in state legislatures may provide urban areas with better representation in state legislatures so that they can obtain greater assistance at the state level in financing needed facilities. This should strengthen the ability and financial independence and diminish the demand for assistance from the federal government.

First IBA Municipal Conference

The first IBA Municipal Conference was held in Chicago on Sept. 10-12 with a capacity registration of 430. A full report on the Conference will be submitted by the Conference Subcommittee, but we note here that there was a capacity attendance with representatives from every IBA Group in the United States, that the program was excellent and that enthusiasm of the registrants led this Committee to recommend that the Board and statutory procedures that another Municipal Conference be held next year.

II Municipal Project Education Program

The Special Committee on Municipal Public Education, under the chairmanship of Fred Stone, Jr., has made noteworthy progress this year with the publication of the brochure “Why Professional People Invest in Municipal Bonds,” with over 150,000 copies sold, and the preparation of an advertising kit for municipal bonds and the preparation of press releases on IBA municipal activities. Details of the work of this Committee will also be presented in a separate report.

III $5,000 Denominations

The Municipal Securities Committee and the Board of Governors agreed this year to $5,000 denominations as recommended by the Securities Committee. (1) Where controlling constituencies of municipalities could be established, and where they exercise control over bids, and where bonds are sold for other than state and municipal bond funds, the use of $1,000 denominations and higher as well as $5,000 denominations or in denominations of $1,000.

(2) In states where constitutions 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.

In order to implement this recommendation, the Municipal Securities Committee at its meeting in March approved a recommendation by the Subcommittee on Municipal Project Education and Advertising Procedures as follows:

“Unless otherwise specified at time of bond issue, denominations of $1,000 or $5,000 will be considered ‘good delivery’ in transactions in municipal securities.”

The use of $5,000 denominations has been welcomed enthusiastically by municipal issuers, underwriters and investors and will make our bond market more liquid during the current year and in years to come.

IV Federal Legislation Affecting Municipal Financing

(a) Federal Aid to Elementary and Secondary Schools

A bill to provide an aggregate of $2.55 billion over three years for Federal grants for elementary and secondary school construction and teachers’ salaries passed the Senate but did not pass the House and was not adopted. The IBA submitted statements to the Appropriations Committee in favor of this proposal because state and local governments are furnishing necessary financial assistance without the proposed Federal aid, as evidenced by the facts that (1) construction and maintenance of elementary and secondary school classrooms in the school year 1960-1961 spent $1,675 million in new receipts and $72,000 classrooms and (2) sales of new issues of municipal bonds in 1961 for financing school buildings and other new records, aggregating over $2.5 billion.

(b) Federal Aid for Urban Mass Transit

Bills were reported favorably in both the Senate and House for the creation of a federal urban mass transit authority to authorize an aggregate of $500 million in Federal grants over the next three years for Federal grants for urban mass transit facilities. Such grants would be authorized for up to two-thirds of the net project cost which could not reasonably be financed from existing revenue sources or by the proceeds from Federal bonds. Bills were also introduced in Congress to authorize Federal guarantee of revenue bonds issued by local public transit agencies to finance construction of many rapid transit systems. Such Federal guarantees these bills were not reported from committee and were not included in the bills which passed.

(c) Public Works Acceleration Act

The proposed “Stand-by Public Works Act” would have authorized $2 billion of stand-by authority to stand behind $8 billion of bond authority for direct expenditure by the Federal Government or for Federal guarantees of loans to states and local governments under existing Federal programs. The IBA-Vanguard Public Works Committee recommended the same program for the reasons that:

(1) State and local governments are financially strong and are willing to mortgage their bonds sales at record levels.

(2) Bond sales and construction by local governments operate on a contra-cyclical basis, increasing in recession periods.

(3) Existing Federal programs already authorized are aggregating close to $8 billion and loans aggregating over $1 billion have been approved by Congress in the last year 1961 to states, municipalities and educational institutions for various forms of public works.

(4) The most effective stimulus in a recession would be a reduction in Federal personal income taxes.

The act which was finally passed by Congress, the Works Acceleration Act, was limited by authority, but authorized a $500 million in Federal funds to supplement current Federal projects in various areas of public works projects in areas of high unemployment and construction costs, thus far appropriated only $400 million for the program. It is understood that most of the funds under this program will be made available as Federal grants for 50% of project cost, with the other 50% of project cost can be financed by the municipality from other sources without Federal assistance.

(d) Proposed College Academic Facilities Act

To aid colleges and universities, the Senate passed the College Academic Facilities Act, which would provide $300 million in Federal aid and $212 million in Federal loans for each of five years for certain college academic facilities. Grants could be used only to construct libraries and buildings to teach in the physical and natural sciences. Loans could be used for some additional purposes.

(5) $50 million for five years for student loans which would be non-reimbursable, so that the effective effect would be scholarships.

(6) $50 million for each of five years for matching Federal grants to junior colleges, principally for libraries and science buildings.

However, the conference report was not adopted and this bill did not pass.

Bank Underwriting of Certificates

Identical bills were introduced in the Senate (S. 3131) and in the House (H.R. 11180) to permit banks to underwrite any municipal bonds except obligations payable solely from the proceeds of special benefit assessments. The Senate bill was introduced on behalf of Sen. Rock Clark, Humphrey, Morse, Lausche and Kefauver. The House bill was introduced on behalf of Rep. Vanik. No action was taken on either bill.

(d) Department of Urban Affairs

President Kennedy recommended creation of a new Cabinet-level Department of Urban Affairs and Housing. The IBA opposed this as an unnecessary and unwise creation of a Cabinet-level advocate of greater centralization of Federal economic power. When favorable action was not taken on the proposal, the President sent to Congress the Urbanization Plan Bill, No. 1 of 1962 to create the proposed Department. This Plan would make no effect automatically at the end of 60 days unless either the Senate or the House rejected it. On Feb. 21, 1962, the House rejected the Plan by a vote of 264 to 150.

(g) Proposed Manufacturing Related to Municipal Industrial Bonds

H. R. 798 would deny tax exemption to the interest on state

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Continued on page 59
The year 1962 has been a signifi-
cant and eventful one in terms of both economic and financial developments. The Cold war has con-
tinued to contribute to an uncertain and shifting at-
mosphere and all times, to unsettled con-
tions in the security mar-
ket - both domestic and foreign. As a re-
us results, Treas-
ury and Fed-
eral Reserve System poli-
cy makers have made policy decisions par-
ticularly sensitive to questions related abroad, the effectiveness of the remedial measures taken or proposed. This has in turn required the closed kind of understanding and coordi-
nation between the Treasury and the Federal Reserve System in ad-
justing their separate policies to their common problems. These circumstances have made the re-
cent work of this Committee even more interesting and challenging.

Effects to Stem Gold Outflow
The Treasury has actively provided its official on the balance of payments problem on a num-
ber of fronts intended to reduce its hard core. At the same time, the Treasury and the Federal Re-
serve have succeeded in creating a heightened sense of mutual re-
ponsibility and enlightened self-
interest on the part of foreign central banks in an effort to prevent disruptive capital out-
flows and a drain on U.S. gold holdings caused by shifts of monetary reserve. This closer in-
nernational cooperation has led to adjusted working arrangements for the reciprocal holdings of curren-
cies, protect foreign banks from transactions, the outright borrow-
ing of dollars or other currencies. But at the same time, it also balance remained in our payments position, necessitating continued effort to implement reciprocal regu-
lar arrangements and even greater effort to resolve the basic imbalance problem.

The broad objective of domestic economic policy during the year called for efforts to mean that the Federal Reserve, in contributing to that objective, through a policy credit that would be internationally com-
petitive. Toward this end, credit availability at relatively stable and competitive rates was achieved by a variety of means.

Credit Ease Pursued
The Federal Reserve System, in actively using open market opera-
tions to regulate the supply of

Continued on page 92

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Joint Report on the IBA First Municipal Conference

Herewith is the Joint Report of Subcommittee on Arrangements (Chairman, Russell M. Ergood, Jr., Stroud & Co., Philadelphia), and Subcommittee on Program (Chairman, George B. Wendt, First National Bank of Chicago) for the IBA First Municipal Conference.

The IBA First Municipal Conference was held in Chicago on Sept. 10-12 at the Pick-Congress Hotel. The purpose of this Conference, which was open to partners, officers and employees of member firms of the IBA, was to make available under the IBA umbrella more time for more people interested in municipal finance to discuss, study and explore the many varied problems confronting the municipal bond industry of today.

The capacity registration of 430 included registrants from 35 states and from all of the 17 IBA Groups in the United States as follows:

Central States...112  New York............. 92
Southern.........37  Texas.............. 33
Southwestern...26  California....... 21
Northern Ohio...16  Western Pennsylvania 12  
Ohio Valley....9  Minnesota....10
Michigan....11  Rocky Mountain 6
Eastern Pennsylvania.10  Pacific Northwest.4

It is deeply regrettable to all of us who worked on this conference, that Cushman McGee, the IBA Municipal Chairman who played so important a part in setting up this historic meeting, did not live to see its successful outcome.

[For the information of those who were not in attendance the Joint Report included as Appendix A an outline of the program of the Conference. A special supplement devoted to the Conference was published by the Chronicle on Sept. 27, 1962.]

After the Conference a questionnaire was sent to all of those who had attended, requesting their comments on whether a Municipal Conference should be held annually, the location and time, the subjects on the program and general comments or suggestions. In general, we can report that the comments were highly enthusiastic and the following samples were typical:

"Extremely worthwhile and very valuable."

"One of the most outstanding meetings of its kind which I have ever attended — and I do attend a lot of meetings."

"Excellent job. I have heard nothing but favorable comments on the arrangements and the programs and I am sure all of those in attendance derived great benefits."

"The best all round conference that I ever attended."

"The committee did an excellent job and I think the attendance and questions raised at the meetings reflect the need of a municipal conference."

A tabulation of the answers on the questionnaires indicated almost unanimous recommendation that a Municipal Conference be held annually, with a few suggesting that it be held in New York, San Francisco or moved to various geographical locations throughout the country.

The suggestions submitted with respect to subjects for the program and for the general arrangements for the Conference will be most helpful in setting up a program another year which will provide an informative and provocative opportunity for discussion of industry problems.

Conference assessment by the Daily Bond Buyer:

"The reverberations of the two-day municipal conference at Chicago last week are sure to be heard in the investment banking community for a long time. The program linking the dissemination of timely trade information with a forum for the airing of investing problems peculiar to the business had been fashioned with a lot of care and was carried out smoothly and fairly."

Since the Municipal Conference this year was the first such Conference that has been sponsored by the IBA, it required the assistance and cooperation of many people. In fact, the joint committee on arrangements and programs were composed of representatives of large and small dealers from various sections of the country representing every local group in the IBA. We express sincere appreciation to the participants in the program who are listed in Appendix A and to the members of the Subcommittee on Arrangements and the Subcommittee on Program who are listed in Appendix B. Also, we would like to acknowledge Gordon Catalv and the IBA staff for their full cooperation and excellent assistance in every detail, for without their wonderful support this accomplishment would never have been realized.

The Municipal Conference was authorized this year on the basis that it be fully self-supporting financially, and we are pleased to report that the operation of the Conference provided a small surplus.

Respectfully submitted,

Subcommittee on ARRANGEMENTS
Russell M. Ergood, Jr., Chairman
Stroud & Co. Inc.

K. L. Alfgeit, Jr.
Harris Trust & Savings Bank
New York, N. Y.

F. S. B. Bird
J. A. Hogle & Co.
Denver, Colo.

Alan D. Browne
Bank of America, N.T. & S.A.
San Francisco, Calif.

Andrew D. Buchanan
Bacon, Whipple & Co.
Chicago, Ill.

Ode V. Cecil
Merrill Lynch, Pierce, Fenner & Smith Inc.
New York, N. Y.

Harold W. Clark
Cherokee Securities Co.
Nashville, Tenn.

John C. Clark
Wachovia Bank & Trust Co.
Winston-Salem, N. C.

Edward B. Curry
Fidelity Philadelphia Trust Co.

Richard J. Cook
Wm. J. Mericka & Co., Inc.
Cleveland, Ohio

E. William Darmstatter
Stifel, Nicolaus & Co., Inc.
St. Louis, Mo.

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Report of IBA Foreign Investment Committee

Andrew N. Overby, of First Boston Corp., New York City, in his capacity as Chairman of the Foreign Investment Committee, presented the following Report to the Convention.

During the past year the Committee held several meetings and also met with United States Government and Federal Reserve Bank of New York officials on matters of mutual interest, such as the international flow of private investment capital, its relation to our balance of payments position, and the maintenance or achievement of freedom of capital markets.

In its two previous annual reports the Committee has expressed its view that our balance of payments position could be adjusted without resorting to measures which would discourage private foreign investment for sound economic purposes. The Committee has previously expressed its strong belief in private foreign investment and its conviction that our balance of payments position could be satisfactorily corrected if adequate attention were devoted to wage, price, fiscal, monetary, and other policies which would strengthen the competitive productive power and relative exportability of the United States, and if our Allies would assume a more equitable share of the common defense and aid burdens which their greatly strengthened economic and financial positions have for some years now justified.

The Committee takes this opportunity to reaffirm the view it has expressed in the last two annual reports. We note that considerable progress has already been made in adjusting our balance of payments position and we believe that if the policies adopted are aggressively pursued balance of payments equilibrium can be achieved without restricting the freedom of our capital market. We think it is of vital importance to maintain unimpaired the freedom and the strength of our own capital market, which is the only truly free international capital market in the world. No second-class dollar could serve as the main reserve currency of the world as a second-class capital market—subject to "whispering" or informal controls or creeping restrictions—could not.

It is essential if the leading financial power of the world—our country—were to fulfill the value of the dollar itself, we would maintain both the freedom and the strength which have brought us to our leading position in the world today.

Activities of the Committee

During the year, five meetings of the Committee were held, including one at the Spring Meeting of the IBA last May.

In September the Committee met with the Secretary of the Treasury and his associates for a general discussion of our own and other capital markets and the international flow of private capital.

Meetings to discuss matters of mutual interest in the field of foreign investment were also held with the President of the Export-Import Bank, the Administrator for International Development, the President of the International Bank for Reconstruction and Development, and the President of the Inter-American Development Bank, and their associates.

The Committee expressed its views to the Securities and Exchange Commission on two proposed rules: Proposed Rule 420A Regarding Authorized Representatives of Foreign Issuers; and Proposed Rule 440 Regarding Consent by Certain Foreign Persons to Service of Process. An informal meeting was also held on these proposed rules with officials of the Governement. The Committee felt that the proposed rules were unnecessarily sweeping, burdensome and restrictive and would have an adverse effect on foreign financing in our market.

The Chairman and several members of the Committee attended in September in Washington the Annual Meetings of the Boards of Governors of the International Monetary Fund and of the International Bank for Reconstruction and Development and of the affiliated institutions—the International Development Association and the International Finance Corporation.

Foreign Investment Developments

In 1962

There has recently been some progress in extending the investment guarantee program of the Agency for International Development in South America. The program is now for the first time fully available in Colombia, and negotiations under way in other South American countries are expected to be satisfactorily completed by the full future under the liberalized policy recently adopted by the Agency for International Development and the State Department.

During the year the World Bank finished a report on a study of various proposals for setting up some kind of multilateral scheme for government international investments. It was not the purpose of the study to reach conclusions with respect to any such scheme, but rather to illuminate the issues involved. It has been given to member governments and to the Development Assistance Committee of the OECD, which asked the Bank to undertake it.

The World Bank has been studying a second idea that is also contained in the document, namely, the establishment, under the sponsorship of the Bank, of some kind of machinery for the conciliation or arbitration of international private investment disputes arising between governments and private parties. A working paper on the subject has been circulated, and the Bank and the World Bank is receiving comments from governments.

In the past year the International Finance Corporation, under its liberalized charter, made for the first time a direct investment in capital shares of a foreign company. It also engaged for the first time in the underwriting business by taking a commitment in connection with the issuance of capital shares of private company in a foreign country.

As shown in Tables I, II and III which bring up to-date tabulations included in the annual reports, 1962 has been an active year for U.S. investment bankers in the field of foreign investment. Excluding Canadian and World Bank issues, fourteen foreign dollar bond issues with a principal amount totalling $816,000,000 were publicly offered in the U.S. market by investment bankers. In addition, several large private placements of foreign obligations were arranged. Convertible debentures of private Japanese industrial companies were offered for the first time in our market.

Interest in the purchase of foreign equity securities continued, and the first two months sharply declined in some foreign stock markets have led to decreased purchases by U.S. investors.

Considerable interest was aroused both here and abroad by remarks made by the Secretary of the Treasury at the Ninth Annual Monetary Conference of the American Bankers Association in Rome on May 18. In the course of his remarks, while urging European countries to mobilize more effectively their savings and to improve the freedom and functioning of their capital markets, he expressed concern with "the increasing use of the various mechanisms of the New York capital markets by European borrowers to raise funds for their own purposes." Even though the Secretary's remarks included the following statements:

The United States has consistently favored free capital movements, the ability of individuals or companies to invest their funds where they may be best utilized. Continued on page 129

In most cases substantial amounts of these issues were sold to investors in other countries.

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26 The Commercial and Financial Chronicle . . . Thursday, December 27, 1962
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. [ED. NOTE: Subsequent to the Convention it was announced that Podesta & Co. and Walston & Co., Inc. would merge, effective Jan. 1, 1963, under the Walston name and that Mr. Podesta would become a Senior Vice-President and Director of Walston.]

I

Amendments to State Securities Acts

Maryland adopted a complete new securities act effective June 1, 1962. The previous Maryland Act included only antifraud provisions and requirements for the registration of dealers. The new Act is based on the Uniform State Securities Act (with a few modifications) and includes (a) antifraud provisions; (b) requirements for the registration of dealers and salesmen, with authority for the Commissioner to require an examination, of applicants; and (c) requirements for the registration of nonexempt securities by notification, coordination, or qualification.

The new Act is administered by the Securities Commissioner, appointed by the Attorney General. The Act also provides that the Governor shall appoint a Maryland Blue Sky Advisory Committee of six members to give the Commissioner the benefit of advice on any or all matters pertaining to the administration of this Act, particularly the adoption, amendment or repeal of rules, regulations and forms provided for herein.

Maryland is the fifteenth state which has adopted the new Uniform Act (with modifications). There were also minor amendments this year in the securities acts of several other states, and these amendments are summarized in Appendix A.

In the District of Columbia there at present is no local regulation of securities dealers or salesmen. Officials in the Corporation Counsel’s office this year prepared regulations, based on the Uniform State Securities Act, which they considered adopting under existing licensing authority without the adoption of a law, the proposed regulations to include antifraud provisions and requirements for the licensing of securities dealers and agents (but not the registration of securities). However, it was subsequently concluded that the regulations which could be adopted under the existing authority might be inadequate for effective regulation and that it would be better to obtain the adoption by Congress of an act to provide effective regulation. A draft of a proposed securities act for the District of Columbia has been prepared by officials in the Office of the U. S. Attorney for the District of Columbia, based on the Uniform Act with some modifications, including antifraud provisions and requirements for the registration of securities dealers and agents. It is expected that this draft will be submitted to Congress in 1963.

Uniform Form for Registration of Securities

One of the major developments in recent years has been the preparation of applications to register an issue in many states is the adoption by those states for the state registration of securities (Form U-1), to be used only where a separate form covering the securities and the offering covered by the application has been filed with the Federal Securities and Exchange Commission. This Uniform Form has been adopted in the following 38 states (effective Oct. 1, 1962 except in Alaska, Indiana and Louisiana):

Alabama; Alaska; Arizona; Arkansas; California; Colorado; Connecticut; Delaware; Florida; Georgia; Hawaii; Idaho; Indiana; Iowa; Kansas; Kentucky; Louisiana; Maryland; Michigan; Minnesota; Missouri; Montana; Nebraska; New Hampshire; New Jersey; North Carolina; North Dakota; Ohio; Oklahoma; Oregon; Rhode Island; South Carolina; South Dakota; Tennessee; Texas; Utah; Vermont; Washington; West Virginia; Wisconsin.

In three additional states, Delaware, Nevada and New Jersey, no registration of securities is required and some of the other states require filing of a relatively simple form. The Uniform Application Form will simplify the preparation of applications for registration in many states of securities which are being registered with the SEC, because this application can be prepared supplying the answers required by seven of the nine items in the form and the answers to the items unique to each state then may be inserted in the Uniform Form. The Uniform Application Form was prepared through a Subcommittee on Uniform Forms of the Committee on State Regulation of Securities of the Corporation, Banking and Business Law Section of the American Bar Association.

A letter was sent to all IBA members on Oct. 9 by the Chairman of this Committee reporting the states which had adopted the Uniform Application.

III

Uniform Examination for Securities Salesmen

This Committee has recommended for many years that primarily the most effective emphasis in state regulation should be placed on regulation of the persons selling securities. We believe that if only persons with integrity and a sound knowledge of the securities being permitted to engage in the sale of securities, there would be relatively little danger of the issues of securities. We also believe that it is important in maintaining investor confidence in the securities market that only persons with integrity and a sound knowledge of the securities business be permitted to engage in the business. Accordingly, this Committee recommended in its Interim Report in May that:

(a) Industry organizations cooperate with the Midwestern Securities Commissioners and the North American Securities Administrators to provide them with a form of application for individuals seeking to engage in any state which requires an examination of securities salesmen.

(b) A procedure be adopted whereby examinations be offered bimonthly at a location in each state which requires examination; a uniform passing grade be adopted; the grade of an applicant certificated to the securities commissioner in any other state where he wishes to apply for registration; and an applicant also be permitted to take at the same time in his home state any other special state examination for other states in which he wishes to register and have his examination forwarded to the securities commissioner of the appropriate state.

We believe that such uniform examinations and procedure will simplify the administration of examinations for the securities commissioners, as well as the applicants, and will eliminate the necessity for taking the same or substantially identical general examinations in several states.

Special committees to consider this subject were appointed by the North American Securities Administrators and the Midwest Securities Commissioners. This subject was discussed in considerable detail both in open sessions and in committee meetings during the Annual Meeting of the North American Securities Administrators in Pittsburgh in September. No definite conclusions were reached at that meeting, but a recommendation which seems to have considerable support for further consideration is that, in those states where applicants for registration as securities salesmen are required to pass an examination:

(1) The general examination requirements may be met by passing the State Securities Examination (prepared by the Psychological Corporation and made available to state securities administrators by the New York Stock Exchange), the NASD Examination or the New York Stock Exchange Examination, and the commissioner in the state where the examination is taken on request shall certify to the administrator in any other state the grade of an applicant on such examination.

(2) Where a supplementary examination regarding the securities act of a specific state is required, an applicant can take in one state the additional examination for any other state in which he is applying for registration, with provision for the commissioner in the state where the examination is taken to forward such examination to the commissioner of the involved state.

No definite agreement has been reached on this project, but it is hoped that some general recommendations may be approved by the securities administrators, supported by the complete cooperation of industry organizations.

IV

State Tax on Distribution of General Motors Stock to du Pont Shareholders

du Pont is required to divest its holdings of 60 million shares of General Motors common stock by Feb. 28, 1965 under a court order entered in the anti-trust law, du Pont owns about 1.37 shares of GM stock for each of its own outstanding shares. Continued on page 46
Report of Special Committee
For Public Education
On Municipal Securities

Fred D. Stone, Jr., Vice-President of the New York City office of the Marine Trust Co. of Western New York, in his capacity as Chairman of the Special Committee for Public Education on Municipal Securities, presented this Report to the Convention.

At the 1969 Convention of the Investment Bankers Association of America, the Board of Governors approved the recommendation of a committee created to study the proposed public information program on municipal securities. In the report which this committee submitted to the Board, the following recommendations were made:

"This Committee proposes that a public information program regarding municipal securities should be focused on education of the participants of investment banking firms and their clients, by providing firms with effective material for public information and promotional use."

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underwriting and distribution of promotional and educational materials is to the public interest on the municipal bond industry. The program is two-fold in nature: (1) To assist members in expanding their municipal bond business through sales promotion and advertising techniques. For this purpose the Committee, having understood on the part of the general public as to the role of the municipal bond industry.

Advertising Contest
The first activity was the announcement of the Municipal Bond Advertising Contest which attracted representative entries from a number of member firms. Those of you who were present at our 1961 Convention will recall the visual evidence of the success of this venture. The display which was presented there was the result of the efforts of our Assistant Municipal Director for Public Relations, John Nash, who by his background and experience is eminently qualified in the field of our activities. The 1961-62 Advertising Contest, which was announced by the display as an extremely distinctive eye-catching flyer, has had a most unusual response. The display in attendance at the 1962 Convention have undoubtedly seen the display of enterprising lower lobby of the hotel. Once again, this display has been prepared by the members of the Committee in cooperation with Berke Displays, Inc. of Miami. Fifty IBA member firms have actively participated in this contest, including fourteen organizations that were not among those who entered last year. Your Committee sincerely hopes that it is justified in believing that these efforts are in some way reflected in the increased interest on the part of the members of this program.

150,000 Brochures Distributed

Many of your Committee members felt the need for the development of a simple, but technically correct, brochure to be prepared and made available for use by member firms. For this purpose the brochure, "Why Professional People Invest in Municipal Bonds" was drafted by our staff and reviewed by your Committee. It will interest you to know that the final draft of this document was prepared by word for word reading and rereading at the meeting of your Committee at the Central States Group meeting last month. It is to be distributed to 100,000 copies of the booklet have been sold and distributed to 154 member firms of our Association. It is interesting to observe that we have received a number of requests from non-member firms for permission to use this booklet. This permission was denied; however, in some instances, local group chairmen have been advised of these inquiries as possible leads to new IBA membership.

Your Committee was supplied at the Regional meeting with a series of artist sketches of twelve ads intended to appeal to the prospective investing public and covering numerous approaches to the municipal bond distribution phase of our activities. The final result of this project was the release in September of "The Inexpensive and Convincing "Ad Kit" which is receiving exceptional c o m m e n t f r o m t h e p r o m i s i o n a l j o u r n a l i s m i n t h e f i e l d a s w e l l a s t o t h e p r o d u c t i v e a d v e r t i s i n g a t t e n t i o n . T h e e n t r a n c e s i n w h i c h a m o n g t h e e n t r a n c e s i n o u r A d v e r t i s i n g Contest are examples of member work of this sort.

Fiscal Status
It is appropriate at this point to provide for those of you who are not familiar with our financial status a simple report of this activity. The Board of Governors, originally approved an annual appropriation of $30,000 per year for a period of three years. The following financial statement shows that we have not only lived within our budget but have produced enough income to stretch this limited amount substantially.

Cost of Program

Budget Summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>$3,476.03</td>
</tr>
<tr>
<td>Total funds available</td>
<td>$3,476.03</td>
</tr>
<tr>
<td>Total cost above funds</td>
<td>$0.00</td>
</tr>
<tr>
<td>Balance from budget allowance</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

(Budget projected to year-end)

Some of the art work and printing material which has been used in our efforts has been produced at costs substantially less than we normally expend for material of this nature. When an organization is fortunate enough to have a man who knows how not to spend money, he should be congratulated and given every opportunity to show further evidence of his creative ability.

Educating the Public

The second phase of the program geared itself to keeping the general public as well as the municipal bond industry, informed concerning the IBA stand on legislative matters. Assistance was provided in the preparation of the pamphlet, "Federal Aid to Education". More than 55,000 copies of this booklet were distributed in high schools, colleges, government agencies, and business and industry throughout the country. In support of this activity, numerous press releases were circulated. Additional releases dealing with mass transit, public works, and community facilities were distributed, covering metropolitan and local daily.

Your staff and several members of the Committee took active part in the planning and development of the First Municipal Conference in Chicago in September. Two members were among the speakers and a third was the moderator of one of the programs. The display of our IBA "Municipal Tools" at the Conference brought forth many inquiries and produced some specific results.

Your Committee continues to work diligently toward expanding the educational material to serve the best interest of the municipal bond industry. Plans for the coming year call for the renewal and continuation of our Advertising Contest; the furnishing of sample advertisements and direct mail pieces; the consideration of the furnishing of sample educational information for students in our high schools and colleges, particularly directing attention to providing clearer understanding of the part of municipal financing and those who currently make it possible; the exploration into the possibility of producing a visual presentation of the financial, issue, and assistance, and distribution of a municipal bond in the development of a public relations outline and press kit for use by IBA.
Report of the Toll And Transportation Facilities Subcommittee

William F. Morgan, Vice-President of Blyth & Co., Inc., New York City, was Chairman of the Toll and Transportation Facilities Subcommittee of the Municipal Securities Committee. The Report to the Convention is reproduced herewith.

The Subcommittee appointed by the late Cushman McGee, then Chairman of the Municipal Securities Committee, has had a relatively busy year. In past years, activities were confined to liaison with the American Bridge, Tunnel and Turnpike Association (ABTTA), and these efforts have been continued in the current fiscal year. In addition, the scope of the committee’s efforts during this period also was expanded to include advising and consulting with Mr. McGee and Mr. Gordon L. Calvert in connection with transit legislation being considered by the Congress which was felt by the Municipal Securities Committee to have an impact on the scope and character of municipal securities. Thus the activities of the Subcommittee were divided into two main areas, as hereinafter noted.

(1) In connection with the ABTTA liaison, the Subcommittee activities may be summarized as shown below:

(a) Attendance of IBA and subcommittee members at the spring workshop meeting of the ABTTA in Washington on March 25 to 27, 1962, and at the Annual Convention in San Francisco on Oct. 1 to 3, 1962.

(b) Circularization of ABTTA toll road members, at request of McGee and Mr. Gordon L. Calvert in connection with transit legislation being considered by the Congress which was felt by the Municipal Securities Committee to have an impact on the scope and character of municipal securities. Thus the activities of the Subcommittee were divided into two main areas, as hereinafter noted.

(c) Jointing of and participating in committee activities of the ABTTA during the past year in areas of joint interest to the IBA and the IBA. Two members or representatives of the IBA committee are now on a standing committee of the ABTTA.

(d) Participation by IBA representatives in the ABTTA convention in San Francisco during October. The Subcommittee assisted in planning for one program at this convention.

(2) In connection with Transportation legislation as being considered by Congress during the past year and similar activities, your Committee was active as follows:

(a) Together with Chairman McGee, held several meetings with members of Congress, and prepared reports critiquing and making suggestions with respect to proposed bills pertaining to transit legislation to be considered by Congress in the session just ended.

(b) As a committee considered and worked with Chairman McGee, Walter Steel and Gordon Calvert in preparing a report which was submitted to the appropriate subcommittees of both the House and Senate. This report was prepared to oppose certain aspects of the proposed bills known as the "Urban Mass Transportation Act of 1962." Bills to authorize an aggregate of $500 million in Federal grants over the next three years for urban mass transit facilities were reported favorably in both the Senate (S. 3815) and the House (H. R. 11110); but these bills did not pass the Senate or the House. It is anticipated that this legislation will again be considered at the next session of Congress opening January 1963.

(c) The Subcommittee also had a member in attendance recently at a Chamber of Commerce committee meeting to learn about the action being taken by the body on the transit program expected to be considered by Congress in 1963.

(d) The Subcommittee cannot say too much in regard to the fine guidance and counsel and suggestions made by Chairman McGee (whose future help in this area will be sorely missed), and Gordon L. Calvert during the past year. Their counsel and assistance has been most helpful and contributed much toward facilitating our activities.

Respectfully submitted,

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River Storage project which will interconnect with the Hoover and Powell dams and with the Missouri system.

Another long-range plan of the Department, reported last year in a recently completed report, was a plan which would inter-connect the Pacific Northwest and the Pacific Southwestern units, the Southern Electric and hydroelectric construction of lines from the Bonneville system to the vicinity of Los Angeles, a distance of almost 1000 miles.

This report, which we have attached to our report, was sent to all the stockholders by New England Gas & Electric Association.

We are concerned with expansion of TVA, with the public power authorities in the North-West, and the REA's and other government projects which are actually public power developments subsidized at the expense of the American taxpayer.

At the Federal level, during the past year many new projects have emerged from the Department of the Interior which have caused great concern to private utility companies.

In the final stages of planning and early construction is the Federal grid of the Bureau of Reclamation for the Upper Colorado

The Federal Power Commission is undertaking a comprehensive nationwide survey of the possibility of a national system of power supply for the entire country.

Some of these projects have again been authorized to study the feasibility of Passamaquoddy, this project having been approved after extensive study of costs by public power enthusiasts of a public power character.

These are some of the many Federal projects which are discouraging the management and enterprise of the private utilities which have given the U.S. its commanding lead in kilowatts.

On the constructive side, however, the Knowles Dam project in Montana was defeated in the concluding hours of the 87th Congress. Senate and House friends agreed on an omnibus rivers, harbors, and flood control bill which eliminated the proposed Federal Knowles project from consideration.

In the favoring of this competition, the United States has continued its leadership in power producing capacity. We are maintaining and even increasing our lead over the Soviet Union. We have more than twice the Soviet's power producing capability, and there is no reason why we will not catch up with us in the foreseeable future.

Construction expenditures by investor-owned electric companies during 1961 were greater than by any other private industry — equivalent to about 10% of the new construction of all American business during the year.

The impressive growth pattern of the past year is expected to continue. The industry added $1.2 million new capacity during last year, a total at the year end of 60.1 million. Residential consumption climbed 3.4% to an all-time high of 106.2 billion kilowatt hours. Commercial and industrial consumption increased 4.1% to 75.7 billion kwh.

According to the Edison Electric Institute's survey, 60% of the business-managed electric utilities last year raised average rates 3.4% or an estimated total of $10.3 billion. Composite net income advanced to $2.4 billion, or $2.51 per customer in 1960, for a gain of 57%. The electric utilities continued as a source of tax money, with anticipated payments for last year totaling $2.45 billion. Taxes represent the largest single item of expense.

We feel that a major change in government policy during the past year impels us again to call your attention to a serious injustice which is being done to the electric utility taxpayer, as a citizen, or as a stockholder of a public utility company. The agency of this injustice is the Rural Electrification Administration. We are concerned with the changing nature of this agency. We say this regretfully, because investor-owned electric utilities together with electric cooperatives have brought electricity to 88% of the nation's farms. Approximately one half of the farms are served by each.

Today, REA, by announcing changes in policy, is widening the area in which it competes with the investor-owned electric utility companies.

In 1944 Congress established a 2% interest rate on cooperative loans in contrast to the government interest rate under which small electric cooperatives had been operating so successfully.

Congress made the change primarily because interest rates paid by the government had fallen to an all-time low, and REA had not, and REA financial loans continue to cost 2% even though the government now pays approximately twice this rate for money it borrows.

Today nearly every farm in the U.S. is receiving electric service. We find that coops are now casting their eyes to cities, towns, and other areas not originally intended to be served under theREA Act. Fairly soon REA customers now being added are either urban, commercial, or industrial in character.

Recognizing the changing nature and objectives of the REA, we feel there is no justification for continuing further financial subsidies in the form of 2% money and exemptions from Federal income taxes on that portion of their service which is not farm in character.

We are encouraged, however, to see that the investor-owned utilities intend to preserve their growth and their future. We believe all of you who believe in free enterprise and fair competition to express your ideas to your elected representatives in Congress. The electric utility industry will be achieved if direct action is not taken. We are not, however, to see a great number of suggestions being given to stockholders by many utility companies. They are in all sections of the country, pointing out the threats to the industry on so many fronts.

We feel that if this industry can be encroached upon, other segments of our economy may soon be the prey of socialism.

A new criterion promulgated by the Administration in 1961 permits the REA to grant generating loans because "generating facilities are necessary to protect the security and effectiveness of the REA financed systems." We believe that this criterion is sufficiently broad to permit the granting of a generating loan under almost any condition. The REA has also concluded that security in the granting of all types of loans to cooperatives.

We feel that the loan for generating facilities under the new criterion was authorized for a cooperative in Alabama. This proposed loan is for $20,350,000 to the Alabama Electric Cooperative. Alabama Power Co. is opposing this loan and has stated that this plant will not bring electricity to a single customer to whom electricity is not available. It would furnish power which Alabama Power Co. feels it can furnish now and the proposed co-op plant is a high-cost plant because it does not have the savings of large-scale generation. The cost of power to Alabama Electric Cooperative's present customers is equal to the rate paid to Alabama Power Co.

We feel that the proposed plant will damage investments already made by Alabama Power Co. to supply the area and in a present

Continued on page 56
Introduction
When the Atomic Energy Act was signed into law in 1944, many companies rushed to establish their position in one or several of the separate industrial phases that constitute the atomic energy business. The requirements of the growing industry were fully met. Over the past few years, your Committee has stressed the main developments of each of these phases, starting with the mining and milling of uranium ore and extending through the chemical reprocessing and waste disposal of spent nuclear fuel. The dynamic growth of each of these industrial phases of atomic energy hinges on the competitiveness of atomic energy.

Reduction in Nuclear Fuel Costs
Last year on July 1, the Atomic Energy Commission reduced its basic charges by about 30% for slightly enriched uranium, 34% for uranium containing 1% of uranium-235, and almost 40% for natural uranium. On July 1 of this year, there was a further reduction of 12% for high enrichment, 16% for uranium containing 3% of uranium-235, 8% for uranium containing 2% of U-235, and 4% for uranium with 1% of U-235. These combined reductions result in an overall decrease in charges varying from 30 to 40% for enrichment of uranium, and 40 to 55% for depleted uranium, depending on the uranium-235 content.

These reductions are based on a price of $8 per pound of natural uranium, which was established by the AEC under its Domestic Purchase Program for the period from April 1, 1962, to Dec. 31, 1966. The cut in fuel base charges was made possible by reductions in operating costs in the diffusion plants at Oak Ridge, Paducah and Portsmouth, where the two isotopes of uranium are separated. The effect of these measures has been to reduce the nuclear fuel cost by as much as 0.5 mill per kilowatt-hour for certain reactors, a significant step indeed.

Optimistic Statement by AEC
The AEC this year investigated with particularly great care the more severe power cost projections which had been made in different quarters. On June 25, the Commission published the most optimistic statement yet made. It stated that the preliminary results of its studies indicate that by 1966, large-size water reactor plants would be fully competitive with conventional plants in areas such as New England and California, where conventional fuel costs are at least 35 cents per million BTU (British Thermal Unit). The data released by the AEC were reinforced by information supplied by reactor manufacturers.

According to the AEC, the capital cost of a nuclear plant with a size of 650,000 kilowatts should be as low as $10 per kilowatt by 1966, and should come down to $25 per kilowatt by 1970. Conventional plants of similar sizes, on the other hand, would cost about $120 per kilowatt by 1966 and about $100 per kilowatt after 1970. In order to arrive at the cost of the kilowatt-hour produced in such plants, some assumptions, of course, had to be made. We find these assumptions to be fair and reasonable and even conservative. They are as follows:

(1) The plants will operate at an 80% load factor.
(2) The fixed charges on the capital amount of 14% per annum (cover depreciation and the gross rate of return on the rate base of utilities).
(3) Fuel exposure before removal and reprocessing: 16,000 MWD (megawatt-days) per ton of uranium.
(4) For the 1966 plant, natural uranium oxide (UO2) is priced at $8 per pound; for the 1970 plant, the price will have come down to $5 per pound.
(5) Inventory use charge of 4% per year for Government-owned fuel and 10% per year for privately-owned fuel (see Committee's report for 1961).
(6) A plutonium credit of $8 per gram as nitrate for the 1966 plant, adjusted down, would be $70 per gram of the 1970 plant in proportion to the planned change in the price of U-235.

It is interesting to note that the “guess” of the AEC is that the price of UO2, after 1966, will be 55% by $5 per pound. It is equally interesting to note the future value of plutonium. In accordance with a fair price schedule established several years ago, the AEC agreed to pay until June 30, 1962, prices ranging from $45 per gram for

1966, atomic energy would be competitive in areas where conventional fuel costs exceed about

35 cents per million BTU. For competitive areas in 1970, atomic energy would produce energy at the costs indicated in the following table:

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Report of IBA Railroad Securities Committee

W. Wendell Reuss, Transportation Dept., W. E. Hutton & Co., New York City, and Chairman of the Railroad Securities Committee, presented the following Report to the Convention.

Railroad carloadings for 1962 in the 28 weeks ended Sept. 29, registered a disappointingly minute 1.02% increase over the like 1961 period, with surprisingly, the Western District showing the only decrease (of 6.7%), and the other Districts each disclosing about the same 1.03-1.07% rise. Results for the Class I InterCity and Local General Freight Motor Carriers reporting to the ICC are not yet available for the similar nine-month period, but for the first half of 1962 their Tonnage increased 11.0%; in contrast, Total Railroad Tonnage for the same period rose by 1.1%.

Thus, the continued inability of railroads to improve their traffic lot by being still unable to shift any significant amount of truck traffic back onto the railroads— notwithstanding the stellar performance of the industry-wide backhaul volume.

Encouraging Trend

Here is a really encouraging trend, although still small in its overall import. Going back to 1955, cars loaded with highway trailers containing revenue freight amounted to 168,000, and by 1961 had reached 360,000, and may reach an estimated 706,000 for this year, at which level the total will equal nearly 2% of the estimated 1962 railroads carloadings.

Although still pygmy in stature, nevertheless this year’s total will equal well in excess of last year’s combined total carloadings of Livestock and Coke, or in terms of another major freight classification, equaling nearly half as much as Ore carloadings for last year!

In this connection, the Southern District (excluding the Pocahontas District), with Piggyback Volume, backhandlings for 1961 at a mere 37,000, was a small contributor to the total, consisting of 256,000 for the Eastern District, and 254,009 for the Western District.

Another aspect of the use of special-purpose flat cars equipped with bi-level and tri-level racks for carrying new automobiles.

This development is enabling the industry to return in increasing volume, automobile business which previously had been lost to other forms of transportation.

Federal Tax Legislation

Getting inability to state how the I.C.C. will or will not rule on methods to be followed by individual railroads in accounting for Federal Income Taxes in connection with the new depreciation guidelines authorized by the Treasury Department, or the Investment Tax Credit permitted by the Revenue Act of 1962, no comment will be contained in these remarks as to specific probable Industry-wide 1962 financial results.

In this connection, this Committee believes the ICC should require the Railroads to disclose in their income accounts, the difference between Depreciation charges taken for tax purposes and the actual amount of depreciation incurred, in accordance with I.C.C. accounting principles.

1962 Net Income

Broadly speaking, net income results for 1962 will be better than the generally unsatisfactory results for the industry as a whole for 1961, although by varying margins between individual railroads.

For the first 9 months of 1962, contrasted with the like period of 1961.

The Pocahontas District reported Net Income of $70.1 million vs. $61.2 million, respectively.

The Southern District (excluding Pocahontas) disclosed a deficit of $60.3 million vs $48.6 million. And the Western District revealed Net of $230.3 million vs. $195.7 million.

However, the hard-hit and continued-struggling Eastern District was still "in the red,"—although to a materially lesser extent, to the tune of $37.7 million ("in" repeat) vs. a deficit of $122.9 million, respectively.

Eastern Carriers’ Pleight

Although freight volume in the present fourth quarter of this year is running behind last year’s like period of record growth, one of the major Eastern carriers through herculean cost control efforts this year, appears destined to be able to possibly “break even” after all interest requirements—after provision for a large deficit last year; two are indicated as still in the “red ink” class, although in a much smaller valley than for last year, while the fourth major carrier appears headed for a relatively small amount of “red ink” results, against a “black ink” showing last year.

Such showing alone is forceful testimony for the urgent need of instituting an immediate “back to the rails” movement of freight traffic through remedial legislation, and to provide for greater flexibility in rate-making procedures and less restrictive regulatory policies—not now obtainable by Management on its own.

The members of the I.B.A. should realize ever so forcibly that the plight of the railroads is one of the contributors to the apparent "plateau" of stagnated physical output exhibited by a segment of heavy industry in recent years!

Deficit working capital positions among many of the Eastern District railroads (after excluding Materials and Supplies from Current Assets and after including near-term Maturities with Current Assets) likewise add their share of cause for this lack of vigor in output of a portion of heavy industry, year by year.

We particularly have in mind the recent rate of production in the coal, iron ore and steel industries—to mention but a few.

Railroad’s Contribution to National Economy

There are two trustworthy tools to use in measuring the contribution of the Railroad Industry to the economy of the Nation as a whole. These have to do with the ability and/or need of the Industry to contract for new equipment and/or plant—items associated with longer-life use—and known as “ Gross Capital Expenditures.”

These new and common associated with short-lived “Chew-Up” needs—known as Annual Purchases of Materials and Supplies excluding Fuel and Equipment.

The five-year period of 1949-1953 inclusive represents a reasonably constant condition of the Railroad Industry annual expenditure, without any great amount of fluctuation between years.

Over this five-year period Gross Additions and Betterments averaged nearly $3.2 billion annually, and 1961 was the lowest in the 13-year period and amounted to roughly $500 million—FOR YOUR STUDIED CONSIDERATION $500 million under the five-year period, and representing a drop of 54%. Mind you this is for one year's expenditure—the year 1961!!

Annual Purchases of Materials and Supplies—other than Fuel and Equipment—may be segregated into two main groups:

Forest Products, which averaged $100 million annually for such five-year period, last year also declined to the lowest in the 13-year period, touching $70 million, or 30% under the average for the period, again a reduction of more than 50%.

Iron and Steel Products, which averaged nearly $500 million annually for the five-year period, last year declined to $335 million, or $227 million (40%) below the period.

As concerns the Forest Products “catchall,” expenditure for Cross-Ties and Switch Ties averaged $100 million annually for the earlier period, and were reduced to $25 million last year.

As to the physical number of units of Ties Laid in Replacement, the average for the five-year period was 30 million ties annually—and, dramatically, only 12 million last year.

Regarding the Iron and Steel Products category, the five-year average expenditure for Rail, Track and Switch Material amounted to a substantial $210 million annually, and, cut-to-the-bone, amounted to only $76 million last year, with the actual number of Ties Laid in Replacement dropping precipitously from a five-year average of nearly 950 million to only 758,000 tons last year.

To repeat, the poor traffic curve of the past, present and future (unless corrected by legislation), woefully inadequate earnings and strengthened finances for such a large segment of the entire Railroad Industry (the Eastern District), has had its undeniable effect upon Roadway Maintenance expenditures and employment in this group.

Declining Freight Car Orders

Getting back to Gross Capital Expenditures, we want to touch briefly on just one point of illustration—orders for Freight Cars. In the 13-year period since 1949, there have been only three years when the industry has been in a position to replenish or upgrade its fleet to any noticeable degree, namely the years being 1950, 1951 and 1955.

The total of domestic annual freight car orders to rebuild and modernize shops, railroad and private line shops, amounted to 155,000 units

Continued on page 92

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Report of IBA Industrial Securities Committee

Blanche Noyes, Partner in Hempill, Noyes & Co., New York City, as Chairman of the Industrial Committee, presented a Report to the Convention de- voted exclusively to THE COMPUTER INDUSTRY. The document, voluminous in content, most cer- tainly can be referred to as one of the most authori- tative studies of every facet of this gigantic industry ever compiled. The Report is reproduced, IN PART, hereunder.

SUMMARY

The computer industry is relatively young in age when com- pared to most other industries. Measured from the date of the first computer installation in 1951, the in- dustry is a little more than a decade old. The more significant date when discussing the industry's de- velopment would be the 1953-1954 pe- riod, when mass produc¬ tion techniques were applied to computer manufacture, and commercial electronic computers started to be produced on a large scale. From practically no installations or sales in 1951, the industry has grown to a point where today there are over 10,000 computers in use, with yearly shipments of the order of $1 billion.

Within the short period of 10 years, this industry now finds ranking among the larger dollar industries. There are no official industry statistics available, but it has been estimated that the computer market has been growing twice as fast as the market for office machines, and on the basis of a 25% annual growth rate since 1957, is growing twice as fast as the electronic industry as a whole. An estimated cumulative total of 16,187 computers have been installed to date. Based on an average selling price which is now over $4.3 billion, industry experts are predicting shipments of $5.5 billion in 1970, so that this cumulative value could approach $15-20 billion by that date, or an increase of 500% from present levels.

The rate of technological im¬ provement has been one of the industry's outstanding characteristics. Despite its short history, two generations of computers, vacuum tube and solid state systems, have already been intro¬ duced, and a third generation of circuits, and diode-magnetic thin film transistor, are on the horizon. These machines will incorporate such advanced components as magnetic thin film tunnel diodes, and micro-miniaturized circuits, and will operate at speeds measured in billions of a second. These operating speeds compare with thousands of seconds in the second generation of computers, and millions of seconds in the solid state computers.

Future developments will permit 1-2 million operations a second. These technological advances are leading to lower costs per calcula¬ tion operation. Third generation computers cost 2-3 times more than current equipment, but will operate 10-times faster. The greatest technological advances will come in peripheral equip¬ ment. The development of optical scanners, data transmission equipment and video display systems will result in new multi-million dollar industries.

The economic justification for the utilization of computers is based on the savings effected in such areas as clerical personnel and inventory. The industry has led to savings of 10-25% in clerical costs in many cases, and savings of 25%-50% in inventory costs. The greatest payoff, how¬ ever, will be in sophisticated total in¬ dustrial systems, employing such advanced management science techniques as operations research, linear programming, etc. Costs of developing the first, such as for Ford's Edsel model, and General Dynamics' Convair 990, might be avoided with these techniques. There are over 500 areas in which computers are finding an application today, and there are growing every day. Future applications will include income tax process¬ ing, weather forecasting, medical analysis and diagnosis, traffic control and automatic classroom instruction, amongst many others.

The computer industry has de¬ veloped some very definite patterns during its 10-year life period. Of the nine major companies manufacturing computers, all are showing any profits. One of these companies is IBM, which accounts for approximately 80% of the computer market. Large capital investments and R & D expenditures are required to remain competitive, and the breakeven point for most companies still appears to be between 2-3 years. This profit picture becomes critical in view of the capital requirements nec¬ essary for effective competition. Another industry characteristic is that 80% of the computer instal¬ lations are leased. The huge in¬ vestment required to carry rented equipment is straining the bud¬ gets of even the largest companies in the industry. The absence of profits, and huge financial requirements could lead to some attrition in this industry within the next decade. The long-term reward for the successful companies, however, will be considerable.

As the communications prob¬ lem, how the machine improves with the utilization of packaged language programs off¬ sets the burden of many systems, the computer could one day be¬ come as easy to use as a desk calculator. This will open vast, un¬ tapped markets. Computers appear to be today where the automobile was when it generally gained public acceptance. Electronic data processing will lead to a dramatic increase in technological progress as it extends man's capabilities and Initiative. Computers will help to channel man's efforts into areas and directions pro¬ mising the greatest profits and rate of return on investment. These machines will not only aid in the restora¬ tion of the industrial complex levels for business as a whole, but will be an invaluable tool in meeting the en¬ demic problem of the country. It faces in international trade com¬ petition.

Blanche Noyes

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Continued on page 64
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The Commercial and Financial Chronicle . . . Thursday, December 27, 1962

Report of IBA Federal Taxation Committee

John R. Haire, 1962

The Internal Revenue Service announces new guidelines for depreciation, which may be used in the preparation of any income tax returns due after July 12, 1962. The new depreciation rules generally reduce the official "useful life" figures for depreciable property used in a trade or business for the production of income. The guidelines are also designed to provide more simple standards and objective rules to permit businesses more easily to adopt rapid equipment replacement.

It is quite apparent that 1963 will be a most active year in the field of taxation, and the Association will continue to bring its views on these important matters before the appropriate Committee of Congress.

Respectfully submitted,
FEDERAL TAXATION COMMITTEE
John R. Haire, Chairman
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President
Cleveland, Ohio

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New York, N. Y.

Mainland J. Ilens
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There have been four major developments in Federal Administration this year directly or indirectly affecting the securities industry and thousands of investors and savers. The bill as it passed the House contained provisions requiring withholding of income on dividends and interest. A flood of mail protesting the inequity of these provisions resulted in their elimination. Despite the urging of the Administration, the Senate also declined to repeal the 4% dividend credit and $50 exclusion which provide investors with modest relief from the unfair burden of double taxation.

The three provisions of the bill of most direct interest to the securities industry are the following:

(a) An investment credit against tax is allowed for taxable years ending after 1961 in an amount equal to 7% of the qualified investment in property after that date. The credit may offset tax by up to 25% of the tax liability above $25,000. The credit is allowed for (1) United States corporate bonds, (2) unit investment trusts, and (3) the securities of certain foreign countries. Under the Act a United States shareholder of a "foreign corporation" has inclusions in his gross income of certain income or earnings of the corporation regardless of whether such income or earnings are distributed or not.

(b) Under-Employed Individuals Retirement Act of 1962

The Self-Employed Individuals Retirement Act of 1962 (Public Law 87-782) is popularly known as the Keogh Act, named for Dr. Bernard L. Keogh, director of the Keogh plan at the Internal Revenue Service.

Under this Act a self-employed individual or corporation may contribute 10% of his income up to $2,500 to a retirement plan for himself or for other members of his family, which includes not only the self-employed individual but his wife, children, and full-time employees who have had more than three years service.

The funds contributed under a retirement plan must be invested in one of the following specified ways:
(a) They may be contributed directly to a trust set up for that purpose with a bank as trustee.
(b) They may be placed in a bank trust account for investment in the shares of mutual funds (or in insurance contracts).
(c) They may be invested directly in a new series of United States Government Bonds to be issued for the purpose.
(d) They may be used to purchase life insurance, endowment or other similar contracts from an insurance company.

Since there are many special and detailed requirements in the Act, it is recommended that any one interested in a retirement plan contact the Act obtain a copy of the Act. Although the Act becomes effective on Jan. 1, 1963, it is expedient that it will be many months before the Internal Rev
Report of IBA Oil, Natural Gas Securities Committee

Kenneth E. Hill, Partner in Eastman Dillon, Union Securities & 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

Overcapacity in both production and refining continues to be the dominant characteristic of the domestic petroleum industry. The modest gains in demand over the last few years have had a little effect upon the unfavorable relationship of demand to supply. No major developments appear likely to alter materially the existing general oversupply conditions. For the long run, however, prospects for the industry appear considerably brighter.

Since 1956, utilization of capacity in the oil industry has declined substantially. A major build-up of capacity ceased in the mid-1950's, and facilities were built well in advance of actual demand growth. Although since then there has been a material reduction in the rate at which new facilities have been added, the slower rate of demand growth in the domestic industry has done little to close the gap between supply and demand.

The refining phase of the business gives a good illustration of the current status of the industry, as shown in Table I. Refinery runs in 1956 were equivalent to 92% of capacity, a high rate of utilization. By 1958, refinery throughput was down to 81% of capacity, and no improvement has been achieved since.

<table>
<thead>
<tr>
<th>Table I</th>
<th>Gasoline Prices Domestic Refinery Utilization</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Millions of Barrels</td>
<td>Capacity</td>
</tr>
<tr>
<td>1961</td>
<td>3,654</td>
<td>3,987</td>
</tr>
<tr>
<td>1963</td>
<td>3,814</td>
<td>3,982</td>
</tr>
<tr>
<td>1959</td>
<td>3,934</td>
<td>4,291</td>
</tr>
<tr>
<td>1958</td>
<td>3,434</td>
<td>3,789</td>
</tr>
<tr>
<td>1957</td>
<td>3,520</td>
<td>3,530</td>
</tr>
<tr>
<td>1956</td>
<td>3,151</td>
<td>2,992</td>
</tr>
</tbody>
</table>

Source: American Petroleum Inst.

It is not surprising that prices for oil products have been weak while the industry suffers from so much excess capacity. Although there has been considerable fluctuation in prices, the general trend has been downward since 1957. The average retail price of gasoline, exclusive of taxes, in the United States has declined over $0.02 per gallon, or about 10%, from the 1957 average price. Wholesale prices have followed a similar trend. Table II illustrates the movement of oil product prices over the last six-and-a-half years:

<table>
<thead>
<tr>
<th>Table II</th>
<th>Gasoline Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Per Gallon</td>
</tr>
<tr>
<td>1962 (through Aug.)</td>
<td>13.12</td>
</tr>
<tr>
<td>1961</td>
<td>13.21</td>
</tr>
<tr>
<td>1959</td>
<td>13.78</td>
</tr>
<tr>
<td>1958</td>
<td>14.09</td>
</tr>
<tr>
<td>1957</td>
<td>14.33</td>
</tr>
<tr>
<td>1956</td>
<td>14.27</td>
</tr>
</tbody>
</table>

For the American Petroleum Institute.

For the trend should be realized from this policy. The scope of the operating economies is indicated by Table III.

<table>
<thead>
<tr>
<th>Table III</th>
<th>Source and Disposition of Funds (Millions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Net Income</td>
</tr>
<tr>
<td>1960</td>
<td>5.0</td>
</tr>
<tr>
<td>1959</td>
<td>6.0</td>
</tr>
<tr>
<td>1958</td>
<td>7.0</td>
</tr>
<tr>
<td>1957</td>
<td>8.0</td>
</tr>
<tr>
<td>1956</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Later developments in the industry may prove to be better than recent history. Despite the slower rate of demand growth in the country, the gap between supply and demand is expected to narrow.

Continued on page 75

Phelps, Fenn & Co.
Report of IBA Investment Companies Committee

Herbert R. Anderson, President of Distributors Group, Incorporated, New York City, again was Chairman of the Investment Companies Committee. Its report is given below in full text.

Mutual fund sales and redemption and stability of the business as figures are receiving more attention than usual these days. Some- how or other, despite massive evidence of the stability of fund shareholder- and the broadening use of mutual fund shares by dealer/broker and investors, there appear still to be those to whom net sales have some special significance.

The actual dollar volume of assets received from sales of mutual fund members of the Investment Company Institute in the first nine months of this year was about $2.2 billion. While total sales for the year probably will not quite equal the nearly $3 billion received by the companies in 1961, it can be noted that this year’s nine-month volume is about equal to the second best full year’s sales in 1959.

Redemptions for the first nine months of this year totalled $383 million which, at an annualized rate, would indicate a somewhat lower figure for the full year than in 1959 when redemptions were $1.8 billion.

These absolute figures are impressive. However, as they are related to some meaningful guide, they not only become more significant, they provide a much better perspective on the maturity

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The Commercial and Financial Chronicle . . . Thursday, December 27, 1962

and indeed all aspects of the business, toward the end that invest- ment companies shall be of the greatest possible usefulness under the highest possible stand- ards. With this, we fully agree.

While the report covers a lot of ground, two points seem to your committee to be most basic—one philosophical and the other statistical. As these two points are clarified and understood, we believe many of the other questions and comments come into better focus and may be more easily resolved.

The Philosophical
What we characterize in a kindly vein as technical are the questions and comments relative to the basic organizational, and the arrangements relative thereto, through which mutual funds have achieved their present size and standing. While there are many variations, typi- cally this has involved a separate vehicle in corporate or trust form through which the public invest- ment companies have been with the entrepreneur—adviser, under- writer or sponsor—operating under contract as a separate legal entity.

The reason for this is basic to the concept of the mutual fund, i.e. that it shall provide a direct participation in an investment ac- count, usually in equities or strongly flavored with equities, with no other risk to shareholders but that of the market. Actually, this structure or vehicle is similar in substance, and for the same

Continued on page 52

special situation

another table covering the same span from 1941 through Sept. 30, 1962, to determine the ratio of annual redemptions to the average net asset value of the companies in the Investment Company Institute. As before, while figures are shown for each year, this is not the case. In the first 10 years of the period re- demptions averaged 9% of net asset value whereas in the last 10 years a span of 10 years, the average annual ratio is 5.6% with, of course, one year in which the volume of stocks traded on the New York Stock Exchange de- clined, the ratio of mutual fund sales to this dollar volume in- creased. The one exception was in 1953 when there was a small decline in the ratio to 4% from the previous year’s 4.5%. Applying the same test to redemptions, it likewise will be seen that again in every year but one in which volume of trading on the New York Stock Exchange, the redemptions to total mutual fund assets declined. The one exception again was in 1953 when there was a slight increase from 5.6% to 5.9%.

Savings Banks’ Withdrawals
An illustration of the significance of this problem is provided by the experience of mutual savings banks during the past 7½ years. People did not move money for one or another purpose and thereby do not need to study the complete confidence of their deposits in the soundness of these institutions and the amount in deposits over this period of more than $6 billion, there was nevertheless a net withdrawal of deposits in 18 of the 81 months involved, with no special significance attached to that fact.

Your committee has every con- fidence that the dollar amount invested in mutual funds will con- tinue to increase in absolute terms and to overall financial capacity, it is also reasoned, however that there are many possible reasons for shareholders’ withdrawal of their funds from the mutual fund companies that may suggest a more realistic measure of these various move- ments in order that the well- established acceptance of mutual funds and the stability of their shareholders may be better un- derstood.

"Keogh Bill"
Insofar as their acceptance is concerned, your committee can report that the "Keogh Bill" (Self-Employed Individuals Tax Retirement Act of 1962) passed by Congress this year and effective after Dec. 31, specifically states that mutual funds (regarded investment companies issuing redeemable shares) are an accept- able investment for accounts properly qualified under that Act.

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Report of IBA Insurance Securities Committee

Shelby Cullom Davis, Senior Partner of Shelby Cullom Davis & Co., New York City, presented at the Convention the Report of the Insurance Securities Committee, of which he was Chairman. The Report follows:

Nothing sharpens vision like hindsight—and it was perhaps inevitable that the greatest year in insurance stock history, 1961, should be succeeded by a year of marking time. What made 1962 so noteworthy was that the marking time developed into a rally, due to the general market panic in May and June, followed by a strong recovery which has continued to the present. 1962 will thus go down in insurance stock annals as an historic year. But it was the most devastating overall panic in 33 years which caused the excitement. Insurance stocks led the advance in 1961 but followed the decline in 1962.

Until May, in fact, insurance stocks were resistant despite the general market uneasiness. Life stocks indeed advanced slightly over yearend while the fire-casualty group remained almost static. Then came the deluge leading to Black Monday. After it was over insurance stocks were down on average as much as the rest. High flying insurance stocks, like their industrial counterparts, nosedived 50% and more. Demoralization probably as much as the equity vanished before self-preservation and the cult of cash.

Thus died the post war New Era. It could—and did—happen here. And then when investors "dug in" for a long, hard winter, the skies suddenly brightened with insurance stocks in the forefront of the advance.

Definition and Insurance

Of course if the stock market panic meant the end of the inflation and perhaps a little deflation as Per Jacobson, Managing Director of the International Monetary Fund, has suggested, insurance would be aided. Inflation has been the deadly enemy of insurance. Rates have lagged behind claim costs in fire and casualty. Inflation—and the rising stock market—inhibited many sales of life insurance and life premiums accounted for only 3.5% of disposable income and income instead of 4% in speculative 1929.

So gradually the idea dawned on investors that the end of inflation would help insurance stocks. This might in the long haul behind claim costs which might stabilize or conceivably decline with low unemployment of material and manpower. And guaranteed cash values took on a "new look" for life insurance, a less dreary look now that stock market profits could no longer be counted upon. As investors worried about the profit squeeze in other industries, it became apparent that the casualty group was moving out of profit squeeze of the past 6 years. Auto insurance, the nightmare of motorists since the war, was getting into the black for many companies. The new rating plans, giving discounts to accident free drivers while surcharging the accident prone, were returning good results to the Bureau's Companies' books. Continuous policies and direct billing, "beefed" introduced by "national" companies were helping. And companies were generally tightening up their underwriting operations as inevitably do during periods of profit squeeze. Operating results for nine months have been encouraging with companies showing improvement over last year. Fire results have been less good with nationwide fire losses of 6.5% for nine months. Some arson fires may be occurring during this period of financial stress. But overall, the general casualty figures have warrant optimism. And there have been no major hurricanes.

Industry vs. Agents

The bargaining position of companies versus agents may be undergoing subtle improvement. While the agents need the companies to stay in business, they have not been overly alarmed at their huge underwriting deficits. At the same time rising rates have augmented the agents' incomes. The middle man prospered and the success of the March McNellen public offering in the fire field testified to this, the first of an insurance brokerage firm in this country.

The insurance companies can stand just so many years of deficits without their insured stockholders becoming restive. This is now happening. Norwich Union and Scottish United in 1962 announced their withdrawal from the United States after 88 years. Insurers can now make an underwriting profit in the richest market in the world. Merchants Fire, long identified with the Rockefeller interests, is being absorbed by United States Fidelity & Guaranty of Baltimore.

American Insurance of Newark, which was almost the perquisite of the product of the affiliation in 1896 of American Auto of 8 years, is being absorbed by the Government Insurance of Newark, is currently receiving an offer from Fireman's Fund of San Francisco. Supply, in the form of number of companies to which agents can take their business, is contracting. Company affiliations seem likely to be prized by agents more henceforth and the American Agency System for property companies will more resemble the American Agency System for life companies. This will be most constructive for underwriting control and profits.

How Stocks Performed

Among the best acting property insurance stocks for the year (until Nov. 26) were Merchants up 25%, Employers Group 15%, Fireman's Fund 12%, Peerless 12% and Aetna Casualty 11%.

Among the property stocks hardest hit during the year were Ohio Casualty down 37%, Gulf of Dallas down 28%, Continental Casualty 27%, National Fire 20% and Government Employers Insurance 24%.

Life sales have yet to score an impressive increase during the year and to this extent they are disappointing. Life insurance as a savings medium should increase just as after the 1929 panic. But dividend tables are higher, mortality continues unfavorable and expenses are declining in some instances. Individual companies are endeavoring to show good gains and their figures are more significant than those for the industry which contain the giant, slower-growing mutuals. The recovery in life stocks has been impressive. Best performing life stocks during the year include Northwestern National which rose 14%, Southwestern Life 10%, Life of Virginia up 1% and Life & Casualty and Liberty Life, unchanged.

Among the poorest acting life stocks were United States, which dropped 44%, National Old Line 44%, Government Employers Life 35%, Continental Assurance 33% and Pacific National 21%.

1962, all things considered, was a satisfactory year. The skies seem clearer for a better 1963.

Significant Developments in The Fire-Casualty Insurance Industry in 1962

While recent years have produced the fire-casualty insurance industry a normal pattern of relatively poor insurance results more than overbalanced by gains from investments, 1962 has brought about a reversal of this trend. At this writing, it would appear that this year's insurance operations of the major stock fire-casualty companies of the nation have yet to be the best in a number of years. On the other hand, the sharp decline in common stock prices has brought about reasonably large reductions in the capital funds and net worth of most companies.

Market Prices

While the fire-casualty insurance stocks have not begun, in equity prices generally, their long term performance has been fairly good, their shares have acted measurably better than have been comparable movements of the Dow-Jones Industrial Averages and Standard & Poor's 500-Stock Index, as indicated in Table 1. While the decline in fire-casualty insurance average prices between the 1961 year end and Sept. 30, 1962, has been in line with general market trends, their shares have acted Continued on page 49

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Dow-Jones</th>
<th>Standard &amp; Poor's 500 Index</th>
<th>% Chg. From Year End</th>
<th>% Chg. From Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>30</td>
<td>14.0</td>
<td>43.2</td>
<td>47.5</td>
</tr>
<tr>
<td>1955</td>
<td>31.1</td>
<td>2.6%</td>
<td>49.4</td>
<td>58.2</td>
</tr>
<tr>
<td>1956</td>
<td>26.4</td>
<td>14.5</td>
<td>49.6</td>
<td>56.7</td>
</tr>
<tr>
<td>1957</td>
<td>23.3</td>
<td>3.4%</td>
<td>46.7</td>
<td>40.0</td>
</tr>
<tr>
<td>1958</td>
<td>36.7</td>
<td>42.8%</td>
<td>53.7</td>
<td>55.2</td>
</tr>
<tr>
<td>1959</td>
<td>37.9</td>
<td>3.3%</td>
<td>69.4</td>
<td>59.9</td>
</tr>
<tr>
<td>1960</td>
<td>39.0</td>
<td>12.1%</td>
<td>61.8</td>
<td>94.1</td>
</tr>
<tr>
<td>1961</td>
<td>57.9</td>
<td>26.5%</td>
<td>73.1</td>
<td>87.1</td>
</tr>
<tr>
<td>Sept. 30, 1962</td>
<td>47.3</td>
<td>4.7%</td>
<td>57.0</td>
<td>21.4</td>
</tr>
</tbody>
</table>

Change in Dow Jones from Year End 1964

<table>
<thead>
<tr>
<th>Year</th>
<th>% Chg. From Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>6.6%</td>
</tr>
<tr>
<td>1955</td>
<td>10.7%</td>
</tr>
<tr>
<td>1956</td>
<td>16.1%</td>
</tr>
<tr>
<td>1957</td>
<td>12.9%</td>
</tr>
<tr>
<td>1958</td>
<td>17.6%</td>
</tr>
<tr>
<td>1959</td>
<td>12.9%</td>
</tr>
<tr>
<td>1960</td>
<td>10.2%</td>
</tr>
<tr>
<td>1961</td>
<td>10.9%</td>
</tr>
<tr>
<td>1962</td>
<td>-0.4%</td>
</tr>
<tr>
<td>1963</td>
<td>-2.7%</td>
</tr>
<tr>
<td>1964</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

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Aerospace Industry

The fundamental changes which have taken place have made it increasingly difficult to define the boundaries of the 'aerospace' industry. A narrow definition covers the development and production of aircraft, missiles and spacecraft, including their engines or propulsion units. If the definition is broadened to cover complete aircraft, missile or space systems, it embraces a substantial portion of the nation's electronics activity. It takes in much of communication, ground support equipment, automatic test equipment, precision instrumentation and other areas. On this basis, any listing of the 500 largest companies in the country would include relatively few which were not contributing in one degree or another to the defense and space programs.

Even under the narrower definition, the term 'aerospace' has begun to describe an industry whose annual sales total close to $15 billion and whose employment of some one million persons is among the largest of any industry in the country.

The Space Market

The 1960's mark the era of man's entry into space. The National Aeronautics and Space Administration (NASA) started with an annual budget of $339 million. By the end of the Eisenhower Administration the NASA budget had grown to $864 million. It now appears that the moon shot program alone may ultimately involve total expenditures of as much as $40 billion.

Estimates of the total outlays for civilian and military space projects by the end of the present decade vary from $65 billion to well over $100 billion. [The Report included a chart which indicated the present and potential aerospace market through 1970.]

These estimates represent thinking prior to the Cuban crisis. There now may well be new demands for increased military spending, perhaps at the expense of the space program. Also, the military services will undoubtedly assert with new vigor the importance of military applications of space. Such efforts may have a bearing not only on the mix of the defense and space expenditures but also on the level of spending itself which may rise further. To the established standards and under foreseeable circumstances, our space effort alone will call for a minimum of $33 billion in the next 10 years. This is in line with the Department of Defense estimates.

The Medical Aircraft Market

The market for the military airplane as we have known it has been useful to competition from missiles. At the same time there are stirrings in other directions which may mean the development of new and sizable markets for airborne vehicles of various types. There is, first of all, a good deal to be said for the view that we will always need a force of manned aircraft for missions requiring flexibility and the execution of judgment. Then there is the expanding role of the airplane as a missile launcher. If missiles are less dangerous for our missile launchers, certainly the airplane offers the ultimate in mobility, and we are on the way to having bombers which can launch ballistic missiles of a very considerable range. There is also recognition that the effectiveness of this weapon is measured not only by its own performance but by the speed and readiness of the airplane that carries it.

As we understand it, the philosophy of the new Chairman of the Joint Chiefs of Staff, General Maxwell Taylor, emphasizes that our military force must be able to cope with many types of threats other than ultimate nuclear war. This, for example, means that special forces for counter-invasion and other specialized land and sea operations will require new types of aircraft. The Army, particularly, has been stressing its need for airborne aircraft intended to expand the capabilities of the infantry. This includes long range logistic transports as well as vehicles that can transport anything from a single infantryman to a full combat unit, vehicles that can land and take off either vertically or from flat fields and rough terrain, and vehicles that can hover or skim the surface. Such vehicles will give the foot soldier seven league boots and enable the jeep or the truck to skim over the ground, thus providing infantry units with the desirable quality of rapid mobility. This type of aircraft will be judged not by how fast or how high they can fly but how well they can perform when operated in an area normally reserved for industrial management.

Without question the top management of the Defense Department and that of the space program as well is making a determined effort to preserve a free industrial society. They have emphasized this by word and deed at every opportunity.

However, where contracts are awarded and administered by an extensive hierarchy of military and civilian officials, there is almost a built-in tendency to restrict defense industry as another extension of the government. It is understandable that many contractors, faced with the responsibility of launching large defense contracts and the ever-present duty to hold costs down, should tend to place their goods into areas normally reserved for industrial management. Unfortunately, some of these administrators seem to feel it is also their duty to hold industry profits to a minimum. The effect of this attitude may be accentuated if, as has been predicted, contracts become larger and relatively fewer in number. In any event, the trend, if allowed to continue unchecked, could ultimately lead to the disappearance of our traditional system from an extremely important part of the economy. In addition, there is the risk that the ability of American industry to support original company-financed research and development might be seriously impaired.

Many of the industry's leaders are devoting much constructive thought to this problem. They are less than happy with a system which, while it may to some extent limit the possibility of loss, may in itself encourage such a state of affairs.
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 excellent progress made in connection with the study being made of the investment banking business 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:

As we near the final stages of our three-year study of the Investment Banking Industry and the New Issues Market, it is well to review the original objectives and briefly look at the progress we have made.

I would like to quote from our 1969 report on the objectives of this study. "The purpose is to provide a body of basic data of various aspects of our business which is nowhere available today. The Industry should find this invaluable in supporting its positions in hearings before the Congress, the SEC, State and other regulatory agencies. The study should help to clear up public misconceptions about the Industry and contribute toward forecasting potentially liable investigations. In the absence of such comprehensive background information, it is easy for groups outside the Industry to assume (1) That a few cases involving questionable behavior are generally representative of Industry practices and (2) Because large units are much better known than the small, we proclaim the existence of undue concentration of economic power. It is much easier to refute such charges with facts than with opinion."

The same report went on to say, "This study should help to foster a more realistic public image of the investment banking business. We believe the facts would show that the underwriting business is not as concentrated as most other industries and that it is widely dispersed throughout the country. Myths die hard and it takes facts to kill them."

As previously reported, your Research Committee prepared an outline of study during the Spring of 1961 and, in June of that year, a contract was signed with the Wharton School covering a three year period during which the study would be conducted. The balance of 1961 was devoted to the preparation of questionnaires to supply the data needed and a pre¬text of these schedules was conducted with a number of IBA firms. About a year ago, the final schedules were agreed upon and mailed to some 800 IBA member firms and a selected group of about the same number of N. A. D. F. firms which were not IBA members.

Gratifying Response

At this time the questionnaire phase of our study is drawing to a close, with gratifying success. Of the 30 largest underwriting firms, 26 have completed the questionnaires. Two more have promised to do so within the next two weeks. One has been unwilling to supply data and one is still in an uncertain stage. Of the first 1,600 questionnaires sent out, the response rate by number will run about 60% but in terms of the coverage of total underwriting by volume, the response is much higher.

This high response rate is particularly gratifying in view of the heavy demands for information by the SEC and the New York Stock Exchange. It took the help of various members of the Committee and a particularly strong assist from the group chairman to produce the necessary response rate.

One of the consequences of the slowdown in returning the questionnaires is to delay the first report which we had expected to make at this time, until early next year. That report will be derived from Schedule A which analyzed activity in the New Issues market during the first three months of 1962. We expect this report to indicate the relative importance of the major types of securities in the over-the-counter market activity in outstanding issues, and trading on the stock exchanges for each of the major types of securities in our capital market. This information will be reported according to the size of investment banking business, by geographic location. This will present a picture of the investment banking business of several regions in the United States and will indicate the relative importance of large, medium-size and small firms. Analyses will show the relative importance of types of securities for various groups of firms and will permit an individual firm to compare itself against the composite picture of companies of similar size and location.

Analytical Phase to Begin Shortly

As data from other schedules become available, a comprehensive picture of the market for new securities will be possible. This will indicate the relative importance of institutional and individual buyers for various types of securities in different regions, and for different types of firms. It will cast light on the role of small regional firms in both national and local distributions. The data on syndicating practices should provide detailed information on the blending of the facilities of the large and small numbers of the industry to accomplish the most effective distribution.

We are now entering the all important analytical phase of this project.

In the very near future, I expect our new President to announce the membership of a Senior Advisory Committee which will work with us in the analysis and interpretation of the data collected. I am sure this Committee will be one which will merit the confidence of the Investment Banking Industry.

RESEARCH COMMITTEE

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

William M. Adams
Braun, Bosworth & Co.
Incorporated
Detroit, Mich.

Amyas Ames
Smith, Pebody & Co.
New York, N. Y.

W. Yost Fulton
Fulton, Reid & Co., Inc.
Cleveland, Ohio

Remarks of Subcommittee on Industrial Aid Financing

Marsom B. Pratt, Manager, Municipal Department, Estabrook & Co., Boston, as Chairman of the Subcommittee on Industrial Aid Financing, advised the Convention as follows:

Wish to take just a few minutes to present not a Committee report, but a comment on the activities of the Subcommittee on Municipal Aid Financing during the year.

It is a privilege to have served on the Subcommittee under Cushman McGee. I was an able, dedicated public servant on the Committee on which we address ourselves, and is greatly missed. We are fortunate, indeed, to have a man like George Wendt to carry on.

During the year the Committee has concerned itself with expanding the educational program designed to acquaint the corporate executive and the institutional investor with the dangers inherent in Municipal Industrial Aid Financing. As individuals, members of the Committee have approached the management of corporations contemplating the acceptance of the specific type of government subsidy. In point of fact that the spread of the practice might well place in jeopardy both the private enterprise concept and the balance of power basic to the American System.

The Committee is drafting at this time brochures on the Municipal Industrial bond problem directed to corporate management, and the institutional investor, to supplement the outstanding brochure on Municipal Industrial Financing written by Monroe Poole's Committee.

Recently the Committee was invited to have a spokesman express its views before a group of corporate executives. I agreed to speak. It was gratifying to find that the group was conversant with the problem and that many individuals were acutely aware of its dangers. It was disturbing to discover that some of those present, though opposed as individuals to Municipal Industrial Aid Financing, felt obligated, as corporate executives, to accept it. This conflict arose because, as corporate executives, they saw as their best the method of profit within the law. Perhaps this stand brings us to the heart of the problem at hand and defines the educational job before us.

Respectfully submitted,

SUBCOMMITTEE ON INDUSTRIAL AID FINANCING

Marsom B. Pratt, Chairman

IBA Announces 1963 Convention Site and Dates

The Investment Bankers Association of America will again hold its annual convention at the Hollywood Beach Hotel, Hollywood, Florida, in 1963. The IBA will convene from Dec. 1 to Dec. 6.

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Principal Products:

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Dividends paid consecutively for last sixteen years — Current dividend $1.00 per common share.

"Our Fifty-First Year"
Report of the IBA
Canadian Committee

Continued from page 38

The various factors of production have shared unequally in the rising flow of income during the current cycle. Corporation profits before taxes and the ratio of income paid to non-residents showed sizable gains in the early part of the year, but have remained virtually unchanged at $3.8 billion since the fourth quarter of 1961. Labor's income, on the other hand, has registered considerable advance throughout the period.

7% Rise in GNP
Canada's Gross National Product for the whole of 1962 is currently estimated at $39.3 billion, 7% above last year's level. One of the contributing factors is the higher value of the 1961 Western grain crop which, compared to last year's below average crop, represents an addition to GNP in the range of 5% billion. Of the estimated 7% increase, close to 1½% may well be accounted for by higher prices. Excluding the effect of the 1962 harvest and of the indicated price rise, it appears, therefore, that in real terms the increase in total production of goods and services in the current year may amount to about 4%. This comparatively modest gain and the large gap that still exists between actual and potential utilization of productive resources—a common feature of the North American economies—underlines the need for further efforts toward achieving a higher rate of economic growth.

Financial Conditions
The year 1962 was characterized by growing monetary ease, with official policy, at least from mid-year on, directed at stimulating the domestic economy and reducing the exchange value of the Canadian dollar.

Between December 1960 and December 1961 the money supply increased by $1.5 billion, or a little over 8%. With the overall demand for bank credit rising only moderately, the liquid position of the chartered banks continued to improve. At the end of the year, the ratio of liquid assets (cash, day-to-day loans and Treasury Bills) to deposit liabilities was 18.7%, compared to 16.8% at the close of 1960.

The volume of net new security issues increased steadily throughout 1961. To a large extent, this reflected the growing financial requirements of the Federal Government.

Interest rates which had changed little in the first half of 1961, declined sharply at mid-year, following the budget speech in which the Minister of Finance emphasized the need to reduce interest rates. The gap between Canada and abroad in this respect widened during the second half. The Differential in foreign financial markets of long-term rates continued to drift lower during the remainder of the year.

Government action aimed at lowering the external value of the currency and thereby reducing the country's deficit from current international transactions led to a substantial weakening of the Canadian dollar in foreign exchange markets. In the final month of the year the U.S. dollar was quoted at a premium of 4½% in terms of Canadian funds, as against a discount of 1½% which prevailed in December 1960. The net increase in Canada's official gold and foreign exchange reserves during 1961, resulting from official intervention in the exchange market, amounted to $227 million.

In financial conditions during the early months of 1962 continued to reflect the expansionary monetary and fiscal policies introduced in the Budget of June 20, 1961. At the same time, however, movements in Canada's balance of international payments began to exert an unsettling influence on the foreign exchange market.

Capital Inflow Hadled
In 1961, merchandise trade had resulted in an export surplus, following a long series of deficits, and the imbalance on current international account had correspondingly been reduced. The traditional inflow of long-term capital had declined drastically, however, and a growing portion of the current deficit had, in fact, been financed by short-term capital movements.

In early 1962 Canada's deficit from current international transactions widened markedly (as imports were stimulated by the domestic business expansion), while long-term capital flows became largely offsetting and other capital movements (mainly in short-term form) turned negative. As a result, the entire current account deficit in the first quarter of 1962 had to be met from official holdings of gold and foreign exchange. Intervention by the authorities prevented the exchange rate from declining during this period and the U.S. dollar traded at a premium of close to 5% in terms of Canadian funds until the beginning of May.

Austerity Measures
However, as pressure on the exchange rate continued and the loss of official reserves accelerated, the government, with the concurrence of the International Monetary Fund, fixed the exchange value of the Canadian dollar on May 2 at 92½ U.S. cents. In spite of the devaluation and pegging of the currency, the situation became

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<td>14,068</td>
<td>14,229</td>
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This 501 RCA electronic data processing system turns out electric and gas bills for all of Niagara Mohawk's customers . . . at the rate of 8,400 bills an hour. This amazing electronic marvel can also calculate a 5,000 man payroll in only 4 minutes, and can update files on one million accounts every day. Office work that normally takes days is now performed in minutes. The RCA 501 System has been a big help in streamlining accounting procedures for customer billing at Niagara Mohawk. Later, the equipment will be used in other accounting procedures as well as in planning, engineering, and other operations. It's one more way Niagara Mohawk is planning today for the power needs of tomorrow.
Report of the IBA Canadian Committee

Continued from page 41 more critical in June, particularly following the indecisive federal elections.

In order to arrest the exchange crisis, the government introduced on June 24 a series of austerity measures. The program, consisting of import tariff surcharges, a cut in tourist exemptions, proposed reduction in the government's deficit and a 6% Bank Rate—supported by special financial assistance from abroad—resulted in a strengthening of the Canadian dollar and a rapid recovery in exchange reserves. At the October, official holdings of gold and U. S. dollars (excluding the $475 million representing short-term international loans and currency swaps) were in excess of $2.1 billion, the previous peak reached a year earlier. In the meantime, part of the foreign credits had been repaid and the austerity measures considerably relaxed.

Money Supply Increased

In the monetary field, the earlier part of the year saw a continuation of a policy of general, though somewhat less active, ease with the money supply expanding by close to $500 million from Dec. 1961 to May 1962. In view of the sharp rise in bank loans, associated with the business expansion and the worsening balance of payments, the bank's liquid asset ratio declined during this period from 18.7% to 17.1%. The reduction in central bank policy, as part of the austerity program, led to heavy selling of government securities by chartered banks and a further reduction in their liquid asset ratio, close to the agree minimum of 15%. The contraction in the money supply between May and September (reflected exclusively in government deposits with the chartered banks) exceeded the expansion which took place in the previous five months. The excessive tightness in the banking system has moderated somewhat since.

In line with the monetary developments, interest rates rose to near-record levels in the early part of the summer. Chartered banks raised their prime lending rate to 6%, while yields on long-term government bonds climbed from about 4.9% to 5.5% and the yield on 91-day Treasury Bills from 3.5% to 5.3%. The improvement in Canada's exchange position in subsequent months was achieved by a selective decline in interest rates and by the end of October long-term government issues were yielding 5.05% and Treasury Bills 4.12%. Meanwhile, the Bank of Canada reduced its discount rate from 6% to 5% in two successive steps. A further reduction, to 4%, was announced on Nov. 14.

The volume of net security issues in the first half of the year was considerably below the corresponding period of 1961. The revival of bank operations by the Federal Government resulted in net retirements during this period. On the other hand, municipalities and corporations were net borrowers on a much larger scale than in the first half of 1961. As the trend of the stock market discouraged equity financing in the spring months, new corporate stock issues declined substantially compared to the first six months of last year. Sharp increase in foreign-pay issues occurred in the second quarter, reversing the trend of the two previous quarters.

In recent months, Canadian provinces, municipalities and corporations have done a growing volume of new financing abroad. The Federal Government itself has recently raised $256 million in the New York market. At the same time, there has been a marked revival in non-resident purchases of outstanding Canadian bonds.

Confidence Restored

On the whole, financial markets in Canada operated under considerable strain during the current year, undergoing wide and erratic price fluctuations. By the fall of 1962, however, confidence seemed to have returned and a great measure of stability had been achieved.

Respectfully submitted,

CANADIAN COMMITTEE

Dudley Dawson, Chairman
Greenshields Incorporated

J. Ian Crookston, Vice-Chairman
Nesbitt, Thomson & Co., Ltd.

New York, Canada

Canadian Balance of International Payments

(Millions of Dollars)

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Canadian Securities

Underwriters and Dealers in Canadian Government and Corporate Issues

Inquiries invited from institutional investors and dealers

Greenshields & Co Inc

64 Wall Street, New York 5

Telephone: W.Hillcheck 53425
Teletype: 212 571-1728

Canadian Affiliate: Greenshields Incorporated

Business established 1910

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Dealers in Canadian Securities

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Wood, Gundy & Co., Inc.

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George G. MacDonald, Secretary

McLeod, Young, Weir & Co. Ltd.

Montreal, Canada

Frederick B. Ashplant

F. B. Ashplant & Co.

New York, N. Y.

Andrew S. Beaubien

L. G. Beaubien & Co. Limited

Montreal, Canada

Irving H. Campbell

Bell, Goullock & Co., Ltd.

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Eric S. Morse

W. C. Pittfield & Co., Ltd.

Montreal, Canada

George P. Rutherford

The Dominion Securities Corp.

New York, N. Y.

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Midland Canadian Corporation

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The Investment Dealers' Association of Canada

The Midland Company Limited

Member:

The Toronto Stock Exchange

Montreal Stock Exchange

Canadian Stock Exchange

LONDON TORONTO MONTREAL
Report of IBA Nuclear Industry Committee

Continued from page 31

energy—even with private ownership of nuclear fuels—would be competitive in areas where conventional fuels were as low as 30 cents per million BTU.

The conclusion is that even today, the construction of atomic plants is economically justified in such areas as California and New England. There are many signs that nuclear plants will be started in increasing numbers in the next few years.

Plants Now Operating

In the meantime, the several reactors now in operation in the United States have continued to perform extremely well. For some, the AEC has granted permission to increase the power output above the originally planned capacity. Yankee Atomic Electric Company has been operating its nuclear plant, inaugurated in August, 1960, at the authorized power level of 141,000 net electrical kilowatts. Permission was granted in October, 1962, to increase the power level to 155,000 kilowatts. Commonwealth Edison Company had been operating its plant, completed in October, 1959, at its nominal net capacity of 170,000 kilowatts. The company has now received permission to increase the output to 200,000 kilowatts. These increases in capacity will bring about such a reduction in the cost of nuclear power that it is quite possible that these new plants may be fully competitive at the increased power levels.

The plant of the Consolidated Edison Company of New York at Indian Point went "critical" in August of this year. Its power output will gradually be increased to the full capacity of 255,000 kilowatts (roughly 40% of this output will come from oil-fired superheaters).

The fast breeder reactor of The Detroit Edison Company will probably undergo criticality tests early next year. Fast breeder reactors are now believed to be the key to complete nuclear fuel utilization.

Northern States Power Company is building a 62,000 kilowatt nuclear plant, equipped for integral superheating of the steam. This plant will be ready early next year.

Carolina Virginia Nuclear Power Associates is building a pressure-tube reactor (as distinguished from a pressure- vessel reactor) coupled with an oil-fired superheater. This plant will also start operating early next year.

The High Temperature Gas Reactor of Philadelphia Electric and associated companies will be the first gas-cooled reactor in this country. Unlike the gas-cooled reactors in the United Kingdom and France, this plant will use enriched uranium instead of natural uranium and will be cooled by helium instead of carbon dioxide as in Europe. The plant, with a capacity of 40,000 kilowatts, should be ready in late 1964.

In Planning Stage

A number of plants are in the planning stage. Pacific Gas and Electric Company decided last year to construct a large 325,000 kilowatt plant at Bodega Bay, "solely for economic reasons." Some delays in the go-ahead signal have resulted from hearings related to safety, which always must precede the construction of any nuclear plant. It now appears that a favorable decision is only weeks away. The startup of the plant, which will be fully competitive from its first day of operation, is still expected for late 1965. [See Addendum: Ed.]

Southern California Edison and San Diego Gas and Electric Company have reached agreement to build a 360,000 kilowatt plant. The decision of the U. S. Government permitting the use of the contemplated site at Camp Pendleton, is still awaited. This plant will also be fully competitive.


Jersey Central Power and Light Company is evaluating proposals for a unit of about 450,000 kilowatts.

The City of Los Angeles Department of Water and Power has been exploring alternative sites for a group of two nuclear units with a capacity of 400,000 kilowatts each. Other groups in the United States are considering the building of very large nuclear power plants with a capacity of up to one million kilowatts each. The fast growth in the installed capacity of electric utilities, coupled with the probability of utility interconnections, is giving rise to requirements for larger power units than before.

All these developments point to a greatly increased interest in atomic energy on the part of many electric utility companies and demonstrate the sharply revived interest in the construction of nuclear plants. In last year's report, Continued on page 44
Report of IBA Nuclear Industry Committee

Continued from page 43

Procurement of uranium from domestic sources is continuing at the approximate annual level of 18,000 tons of uranium oxide U3O8, and, with foreign purchases from Canada and South Africa, our total procurement for this year should be about 30,000 tons of uranium oxide.

Uranium requirements until 1966 for electric energy will amount to only a few thousand tons. For the five-year period 1967-1971, they may perhaps total 10,000 tons. These needs are predicated on an installed capacity by 1970 of some five million kilowatts in nuclear plants in the United States. No reasonable forecast of uranium requirements in the post-1970 period can yet be made. The Atomic Industrial Forum has set up a special Committee on Mining and Milling which attempted this year to forecast the future uses of uranium. The major conclusion was that the domestic uranium industry requires a market for more than 34,000 tons of uranium oxide over the five-year period 1967-1971, if it is to be kept alive. This figure is considerably higher than the above 10,000 tons. It is not known how much of the difference of 24,000 tons may be required for weapons, naval and space reactors, military power reactors, research reactors and foreign power plants. We should hope for a Government decision in the near future.

As indicated in previous reports, it would be extremely harmful to the country to stop operations at the end of 1966. It is likely that those mills which have sufficient ore reserves will be called upon to continue operations after 1966, although on a reduced basis. It is also still too early to determine the price at which this future production will take place. While the assured price is $8 for a pound of uranium oxide until the end of 1966, there will probably be some uranium oxide available at lower prices during the period when the market for uranium will be limited. Several domestic producers have offered small amounts of uranium oxide to foreign users at around $4 per pound.

The negotiations to which we referred in last year's report between Canada and Great Britain, regarding the purchase of an additional 12,000 tons of Canadian uranium under a previous commitment, were concluded this year. The announcement was made in August that the two nations had at last long last to a term on the basis of a price averaging $5.03 per pound. This base price of $5.03 per pound is the average price which will be received by Eldorado Mining & Refining Ltd., which is Canada's official uranium purchasing agency. Through the new contract, the Canadian uranium industry will receive an additional $120 million. The new contract has been allocated among Canadian producers, including: Rio Algom Mines, Denison Mines, Starnock Uranium, Faraday Uranium, Macassa Mines, Gunnar Mining and Eldorado. The allocation to the individual miners is based on the delivery schedules that were in effect on July 1, 1961. No deliveries under the new contracts can be made before existing contracts are fulfilled. Most of the Canadian mines will complete deliveries of the additional quantity by the end of 1966.

It has become obvious that after 1966 the price of uranium oxide will come down from the present $8 per pound but here again it is impossible to define this price today.

The AEC continues to give the entire problem top priority and we believe that we can at least expect an early determination of future needs in this country.

Chemical Reprocessing

In last year's report, we indicated that a number of companies were studying the advisability of building a privately-owned chemical reprocessing plant. As anticipated, it is almost certain that New York State, which was the first to offer a waste disposal site for private use, will be favored with the first privately-owned plant. Davison Chemical, a division of W. R. Grace & Co., intends to build a $22 million plant capable of reprocessing one ton per day of spent nuclear fuel. Davison, through its subsidiary, Nuclear Fuel Services, Inc. will operate the plant in which American Machine and Foundry Company has about a one-fifth interest.

Five Utilities: Commonwealth Edison Company, Consolidated Edison Company, Detroit Edison Company, Northern States Power Company, and Yankee Atomic Electric Company are expected to use NFS services if suitable terms can be negotiated. The ARC is reported willing to guarantee a load of Government fuels for 100 days per year for five years as, undoubtedly, fuels for reprocessing from private reactors could not reach one ton per day for a few years.

In 1965, when the plant is scheduled to start operating, the basic reprocessing charge is estimated to be $22,500 per ton. The AEC must determine that these charges are reasonable, that is, not more than 15% higher than ARC would charge.

If NFS does not proceed with its plant, the New York Authority has the funds and the legal powers to build a reprocessing plant on its own, if it should so choose. A decision should be reached on
these rather complex negotiations before the end of this year.

Foreign Plants
In Europe, the European Company for the Chemical Processing of Irradiated Fuel (Eurochemic) was established as an international shareholding company in 1957. Thirteen countries participate in the company: Austria, Belgium, Denmark, France, the Federal Republic of Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and Turkey. The shares are held by the Governments, public or semi-public bodies, and private groups and firms. The plant, now under construction at Mol, Belgium, will be ready in 1964. Its capacity will be 250 kilograms per day.

Japan Atomic Fuel Corporation has recently become interested in the construction of a major chemical reprocessing plant, with a capacity of 0.7-1.0 ton per day to be ready for 1968. Seven chemical plant designers—four Americans, two British, and one French—competing for a contract to design the plant.

International Activities
The ample supply of U-235 has enabled the U.S. Government to assure foreign nations of the long-term availability of enriched uranium to meet the needs of foreign nuclear power plants. This policy should encourage the construction of enriched uranium reactors abroad. Furthermore, the AEC will probably ask Congress for permission to enrich privately-owned natural uranium on a fee basis. Toll enrichment may result in further reductions in the price of enriched uranium; it would also prove an added inducement to the purchase in this country of reactors using enriched uranium. In fact, Chairman Glenn Seaborg of the AEC at the recent Sixth General Conference of the International Atomic Energy Agency in Vienna, announced that the U.S. was considering making its enrichment facilities available for toll enrichment, on a service basis, of natural uranium delivered to us by others.

The boiling water reactor concept, using enriched uranium and developed in this country, is gaining increased acceptance in Europe and other parts of the world. Some of the nations of the European Atomic Energy Community (Euratom) are building or planning the construction of large-size water reactors using enriched uranium.

Countries like France, Sweden, Canada, and Great Britain have placed the greatest emphasis on natural uranium-fueled reactors in their wish to be independent of supplies of enriched uranium from the United States. Some countries such as Japan, Germany, Italy and Belgium are being equipped with reactors of both types.

All nuclear power plants today produce some plutonium as a by-product. As the plutonium in the reactor ages, it becomes partly unusable for weapons. However, such plutonium that is not fit for weapons could be extremely useful as a nuclear fuel in reactors. Unfortunately, no reactor using plutonium as fuel has yet been developed and this is something on which many nations, including the United States, are hard at work. Let us again emphasize, as we have in past reports, that if atomic energy is going to be the most important new source of energy of all, plutonium reactors must be developed. After all, plutonium is produced from uranium-238, which is the normally non-fissionable part of natural uranium, and U-238 actually represents 99.3% of natural uranium. It is this part of natural uranium which can be transmuted into plutonium and it is therefore imperative that plutonium in due time be used as a fuel. The fast breeder is ideally suited to use plutonium and, for countries like Great Britain and France, the urgency of developing fast breeder plutonium reactors is even greater than for this country.

While the economics of atomic energy are being reassessed all over the world much more favorably than heretofore, it also has become clear that atomic energy is not going to be competitive in small reactors and at low load factors. Except for military applications, where economic considerations are less important, atomic power reactors will therefore not be the answer to the energy needs of underdeveloped nations for many years.

Space Applications of Atomic Energy
Rocket propulsion of space vehicles has so far been effected by using chemical propellants. Most of the missiles have a specific impulse of about 300 pounds. This means that about 300 pounds of thrust is produced per pound of propellant per second fed into the combustion chamber. Project Rover on which the AEC and NASA are working jointly calls for the development of a nuclear rocket system with a specific impulse of 800 pounds of thrust per pound of propellant, hydrogen in this case. The development of such a rocket will provide the ability to perform missions that would not be feasible with chemical combustion rockets.

The other vital and immediate application of nuclear power in space is to provide electric power sources. Several SNAP systems (Systems for Nuclear Auxiliary Power) have been successfully developed and used where the amounts of power needed are not too great, up to 25 watts. In such systems, the energy source depends upon heat produced in the decay of radioactive materials. For larger power loads of one to several hundred kilowatts, it will be necessary to depend upon compact reactors rather than radioisotope sources. NASA and AEC are working together on these projects.

Conclusion
If the initial optimism about atomic energy was exaggerated, so was the pessimism which has prevailed since 1958. This year has produced reassuring reassessments of nuclear power economics both in this country and in Europe. We can now clearly see the dawn of the competitive nuclear age. The best estimates here and abroad show that we are very close to the point of competitiveness. We may expect a quickening pace in the construction of new atomic power plants.

There is also increased recognition that the main impact on atomic energy will be in the distribution of electric energy. Electricity today covers about 20% of our energy needs, against 15% in 1956. This percentage increases year after year and will reach about 35% in 20 years. It is in this increasing portion of our
Report of IBA Nuclear Industry Committee

Continued from page 45

energy needs covered through electricity that atomic energy will soon find its natural niche.

Your Committee is deeply heartened by these developments. We shall best be able to observe atomic energy in the next few years by watching its development and increasing use at the level of the electric utilities. Every other industrial phase of atomic energy will have to resume its dynamic growth after atomic energy becomes competitive and the present industrial facilities built in each of these phases are fully utilized. Uranium mining and milling is but one aspect.

We indicated in last year's report that 1965 appeared to be the year of the economic break-through. Events this year confirm and strengthen this view.

ADDENDUM

A few days after this report was written, the AEC, earlier than anticipated, announced a four-year purchase program of uranium oxide beyond 1966. Under the plan, uranium mills will be permitted to defer into the year 1967 and 1968 a fraction of the amount to be bought prior to Dec. 31, 1966, up to a maximum of 15,000 tons, or 8,000 tons in each of the years 1967 and 1968. The price of the uranium oxide will continue to be $8 per pound for the years 1967 and 1968. Furthermore, the AEC will buy an additional amount of uranium oxide in 1969-70 which will be equal to the amount delivered by the mills in 1967-68 under the stretchout arrangement. For the years 1969 and 1970, the price will be 85% of the allowable production cost for the period 1963-68 plus $1.60 per pound, up to a maximum of $6.70 per pound. Assuming that the mills cut back their production by 25% for the period 1963-1966, the plan means that mills would have to operate at 50% capacity from 1967 until 1970. Under the plan, survival at least of most mills is assured until 1970. Also, after the report was written, Pacific Gas & Electric received the go-ahead signal for its Bodega Bay nuclear power plant.

Report of IBA State Legislation Committee

Continued from page 27

standing common shares, authorized distribution on July 9 of one-half share of GM stock on each share of du Pont, and is expected to distribute all or most of the GM stock to du Pont stockholders.

The Federal tax law was amended this year to provide that the distribution of stock to an individual pursuant to an order enforcing the antitrust laws shall be treated as a return of capital rather than as a taxable dividend. However, it appears that some states which impose a state income tax on individuals will treat the distribution of GM stock as a taxable dividend to du Pont shareholders.

Attached as Appendix B is a summary of the probable treatment of the distribution of GM shares to du Pont stockholders under the state individual income tax laws.

This Committee strongly believes that the distribution of the GM stock to du Pont stockholders should not be treated as a taxable dividend under state income tax law for the following reasons, among others:

(1) As a matter of substance, du Pont shareholders will simply own directly the divested stock instead of owning it indirectly through du Pont, so that it would be unfair to tax them on the involuntary transfer pursuant to a court order when they receive no actual profit.

(2) There are pertinent precedents in the tax laws exempting from tax the distributions of stock made pursuant to the requirements of Federal legislation, such as the Bank Holding Company Act, orders of the FCC and the orders of the SEC.

(3) If du Pont shareholders were subjected to tax on the GM stock as dividend income, they would owe a large tax and might have no cash in hand with which to pay it. Large numbers of persons would be compelled at the same time to sell GM stock, thus appreciably depressing its price to the detriment of the many GM shareholders (there were more than 800,000 GM stockholders in the United States of record as of Feb. 28, 1962).

V

Annual Meeting of Securities Commissioners

The Annual Meeting of the North American Securities Administrators, whose members are the state blue sky law administrators, was held in Pittsburgh on Sept. 16-19. The Chairman of this Committee and the Chairmen of the Legislation Committees of the Central States and New York Groups, together with the Assistant General Counsel of the IBA attended the meeting. Principal subjects under consideration at the general sessions were the examination of applicants as salesmen, regulation of real estate investment trusts and the report on mutual funds prepared by the Wharton School.

We express particular appreciation to the officers of the North American Securities Administrators and the Midwest Securities Commissioners for their cooperation during the year in arranging for discussion of current problems by industry representatives with the Commission.
the appropriate committees of those organizations.

Respectfully submitted,
STATE LEGISLATIVE COMMITTEE
Robert A. Podesta, Chairman
Cruttenden, Podesta & Miller
Chicago, Ill.

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Hulme, Applegate & Humphrey, Inc.
Pittsburgh, Pa.

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Dean Witter & Co.
Portland, Ore.

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Paine, Webber, Jackson & Curtis
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Little Rock, Ark.

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Stein Bros. & Boyle
Louisville, Ky.

Henry L. Valentine, II
Davenport & Co.
Richmond, Va.

* * *
APPENDIX A
Summary of Amendments to State Securities Acts—1962

ALASKA
The Alaska Securities Act was amended effective June 29, 1962
(1) to reduce the minimum fee for registration of securities from $500 to $50 and (2) to provide that in the case of withdrawal of registration or a pre-effective

stop order by the administrator, the amount of fee retained shall be $25 instead of $100.

COLORADO
Section 13(e) of the Colorado Securities Act, exempting securities issued or guaranteed by any insurance company organized under the laws of any state and certificated to do business in Colorado, was amended by adding a provision that the subsection expired on March 1, 1962.

Section 26 of the Act, providing criminal penalties for willful violations of provisions of the Act, a fine of not more than $5,000 or imprisonment for not more than three years, or both, was amended effective Feb. 7, 1962 by inserting a provision that imprisonment should be for not less than one year.

LOUISIANA
The Louisiana Securities Act was amended to increase from $25 to $50 the fee paid with an application for registration of securities.

MARYLAND
A complete new securities act, based on the Uniform State Securities Act with a few modifications, was adopted in Maryland effective June 1, 1962. The act includes (1) antifraud provisions, (2) requirements for the registration of securities dealers and agents and (3) requirements for the registration of nonexempt securities.

The new act includes requirements that any broker-dealer registered in the state shall have and maintain a net capital of not less than $15,000 and that no such broker-dealer (other than one who deals exclusively in certain exempt securities) shall permit his aggregate indebtedness to all other persons to exceed 2.50% of his net capital. The act also authorizes the commissioner to require registered broker-dealers and agents to post surety bonds in amounts up to $10,000 and to provide for an examination, which may be written or oral or both, to be taken by any class of or all applicants.

The new act is administered by the Securities Commissioner, appointed by the Attorney General. The act also provides that the Governor shall appoint a Maryland Blue Sky Advisory Committee.

Continued on page 48

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not permit sale of interest-bearing securities that exceed 50% of the appraised, or estimated value of the mortgage properties, with certain exceptions, was amended so that the appraised or estimated value requirement shall not apply to any interest-bearing securities which are fully secured by mort-gages insured pursuant to the National Housing Act or by the administrator under the provisions of the Federal Service Men Re-adjustment Act of 1944, or at least 25% of which is guaranteed by the administrator under the latter act.

MISSISSIPPI
The Mississippi Securities Act was amended to clarify the bond requirement for issuers and dealers. Before a certificate of authority shall be granted to an investment company for the sale of its securities, the applicant must file a safety bond in an amount of 5% of the total aggregate offering price of the securities proposed to be issued, such bond to be in a principal amount of not less than $500 or more than $50,000.

NEW YORK
Subsection (7) of Section 352-e of the New York law regarding real estate syndication offerings, presently providing a fee of $50 for the filing of each offering statement or prospectus and a fee of $5 for each amendment thereto, was amended effective May 1, 1962 to increase the fee for each amendment to $50 and to increase the fee for filing of each prospectus as follows:
$ 100 for an offering not in excess of $250,000.
$ 200 for offerings in excess of $250,000 up to $500,000.
$ 300 for offerings in excess of $500,000 up to $750,000.
$ 400 for offerings in excess of $750,000 up to $1 million.
$ 600 for offerings in excess of $1 million up to $5 million.
$1,000 for offerings in excess of $5 million.

APPENDIX B
Memorandum Regarding Tax On Distribution of General Motors Stock to Du Pont Shareholders Pursuant to Court Order Under the Antitrust Laws

(A) Federal Income Tax
Public Law 87-363, approved Feb. 2, 1962, amended the Internal Revenue Code to add a new Sec-

1111 which provides, in general, that where stock is received by an individual shareholder (or any shareholder not entitled to the corporate dividends received deduction) in an antitrust distri-
bution, the distribution will be treated as a return of capital and its full fair market value will re-
duce the basis of the stock with respect to which it is made. (Und-
der prior Federal tax law, the fair market value of the distributed GM stock would have been taxed to the Du Pont shareholders as an ordinary income.) If the fair mar-
ket value of the stock distributed (GM) exceeds the basis of the stock with respect to which the distribution is made (Du Pont), the gain is recognized to the ex-
tent of the excess and is taxable. The following example of the ap-
plication of this provision was given in the report of the Senate Finance Committee, using assumed values for Du Pont and GM stock:

“An individual owns a single share of the stock of Du Pont which has a basis to him of $100. In a distribution pursuant to the terms of an antitrust order he receives from that corporation 1½ shares of the General Motors stock. Because of the distribution his basis for the Du Pont stock ($100) is reduced by the fair market value of the 1½ shares of General Motors stock received ($90), so that after the distribution his basis for the Du Pont stock is $40 ($100 minus $60). Thus, no income or gain is recognized to this share-
holder because of the distribution.”

(B) State Individual Income Tax
The following conclusions, regard-
ing state income tax on distri-
bution of GM stock to Du Pont shareholders pursuant to a court order under the antitrust laws, are based on an examination of the state individual income tax laws and, in a few cases, specific administrative rulings. The con-
conclusions regarding some of the states in group (5) may be changed by administrative rulings.

(1) No State Income Tax on Individuals (14 States):
Connecticut; Florida; Illinois; Maine; Michigan; Nebraska; Nevada; Ohio; Pennsylvania; Rhode Island; South Dakota; Texas; Washington and Wyoming.

(2) State income tax on individuals does not treat as taxable dividends the distribution of stock to stockholders of another company pursuant to orders enforcing the antitrust laws (10 states): Maryland; Massachusetts; New Hampshire; New Jersey; also Colorado. May elect to treat GM stock as dividend or as return of capital, adjusting basis of Du Pont stock.

Delaware: Return of capital, adjusting basis of Du Pont stock.

Kansas: Return of capital, adjusting basis of Du Pont stock.

Kentucky: Return of capital, adjusting basis of Du Pont stock.

Louisiana: May elect to treat GM stock as dividend or as return of capital, adjusting basis of Du Pont stock.

North Carolina: Not taxable but must allocate basis of Du Pont and GM stock under formula.

(3) State income tax on individuals bases state tax on Federal tax or Federal determination of adjusted gross income under Internal Revenue Code as currently amended, thereby adopting Federal tax provisions summarized above (6 states):

Alaska; Minnesota; Montana; New Mexico; New York and Vermont.

(4) State income tax on individuals based on Federal determination of taxable income under Internal Revenue Code as amended to a date prior to the 1962 amendments, thereby not adopting the Federal tax changes summarized above until amended to include the 1962 amendment in Public Law 87-403 (5 states):

Hawaii; Idaho; Iowa; North Dakota and West Virginia.

(5) State income tax on individuals would probably treat as taxable dividends the stock distributed to shareholders of another company pursuant to orders enforcing the antitrust laws (15 states):
Alabama; Arizona; Arkansas; California; Georgia; Indiana; Mississippi; Missouri; Oklahoma; Oregon; South Carolina; Tennessee; Utah; Virginia and Wisconsin.

void of catastrophes, the only major loss which may have an industry-wide effect to any substantial extent was the West Coast storm which occurred during October. Nevertheless, while the losses caused thereby will certainly affect fourth quarter results, preliminary estimates of the insurance loss are in the vicinity of only $25 million, a relatively small sum when measured against the major losses of the last two years. Although complete third quarter results are not as yet available, indications are that it was one of the best quarters in several years and should make very favorable reading for insurance company stockholders generally.

It must be noted, however, that the 4-4% profit margins of the past are still only a wasteful memory in the minds of many insurance company executives. As indicated herein many basic problems.
Report of IBA Insurance Securities Committee

Continued from page 49

lems continue to plague the industry—although most appear to be on the way, at least, toward partial solution.

As indicated in Table II, the relative improvement in experience has been brought about not only by some decline in the loss ratio but, more important, by continued reductions in relative expenses. As noted, the aggregate expense ratio of 50 major stock companies has declined almost continually from a high of 39.5% in net premium volume in 1956 to 38.4% for the 12 months ended June 30, 1962. The decline in expense ratio has been brought about by reductions in agents' commissions and by continued "belt-tightening" which has brought increased efficiency to the major companies.

TABLE II

<table>
<thead>
<tr>
<th>Twelve Months to:</th>
<th>Loss Ratio</th>
<th>Expense Ratio</th>
<th>Underwriting Profit Margin</th>
<th>Net Premiums Written (in billions)</th>
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</thead>
<tbody>
<tr>
<td>Dec. 31, 1962</td>
<td>62.3%</td>
<td>36.9%</td>
<td>7.2%</td>
<td>$69.5</td>
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<tr>
<td>June 30, 1962</td>
<td>62.7%</td>
<td>36.9%</td>
<td>6.6%</td>
<td>63</td>
</tr>
<tr>
<td>Dec. 31, 1961</td>
<td>63.1%</td>
<td>37.1%</td>
<td>5.6%</td>
<td>62</td>
</tr>
<tr>
<td>June 30, 1961</td>
<td>63.0%</td>
<td>37.2%</td>
<td>5.8%</td>
<td>61</td>
</tr>
<tr>
<td>Dec. 31, 1960</td>
<td>61.9%</td>
<td>35.7%</td>
<td>6.0%</td>
<td>60</td>
</tr>
<tr>
<td>June 30, 1960</td>
<td>61.5%</td>
<td>37.3%</td>
<td>5.6%</td>
<td>59</td>
</tr>
<tr>
<td>Dec. 31, 1959</td>
<td>60.7%</td>
<td>38.0%</td>
<td>5.3%</td>
<td>58</td>
</tr>
<tr>
<td>June 30, 1959</td>
<td>61.2%</td>
<td>38.8%</td>
<td>4.3%</td>
<td>57</td>
</tr>
<tr>
<td>Dec. 31, 1958</td>
<td>61.3%</td>
<td>37.3%</td>
<td>3.9%</td>
<td>56</td>
</tr>
<tr>
<td>June 30, 1958</td>
<td>61.5%</td>
<td>38.8%</td>
<td>3.3%</td>
<td>55</td>
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<tr>
<td>Dec. 31, 1957</td>
<td>64.1%</td>
<td>41.5%</td>
<td>3.5%</td>
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<tr>
<td>June 30, 1957</td>
<td>64.9%</td>
<td>41.0%</td>
<td>3.9%</td>
<td>53</td>
</tr>
<tr>
<td>Dec. 31, 1956</td>
<td>62.7%</td>
<td>39.9%</td>
<td>3.9%</td>
<td>52</td>
</tr>
<tr>
<td>June 30, 1956</td>
<td>63.5%</td>
<td>39.9%</td>
<td>4.0%</td>
<td>51</td>
</tr>
<tr>
<td>Dec. 31, 1955</td>
<td>61.7%</td>
<td>39.4%</td>
<td>2.9%</td>
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<tr>
<td>June 30, 1955</td>
<td>61.5%</td>
<td>40.4%</td>
<td>2.1%</td>
<td>49</td>
</tr>
<tr>
<td>Dec. 31, 1954</td>
<td>61.4%</td>
<td>39.2%</td>
<td>2.2%</td>
<td>48</td>
</tr>
<tr>
<td>June 30, 1954</td>
<td>61.4%</td>
<td>39.1%</td>
<td>2.0%</td>
<td>47</td>
</tr>
<tr>
<td>Dec. 31, 1953</td>
<td>61.5%</td>
<td>38.5%</td>
<td>2.9%</td>
<td>46</td>
</tr>
<tr>
<td>June 30, 1953</td>
<td>62.0%</td>
<td>38.5%</td>
<td>3.5%</td>
<td>45</td>
</tr>
</tbody>
</table>

* The "loss ratio" equals loss and loss adjustment expenses incurred and policyholders' dividends declared (if any) to net premiums earned.
+ The "expense ratio" equals underwriting expenses incurred to net premiums written.
+ The "underwriting profit margin" represents the difference between 100% and the combined loss and expense ratio.
+ Estimated.

While the analyst includes only the actual income (interest, dividends, rents, etc.) derived from a company's investments in the computation of earnings, both realized and unrealized profits or losses from a company's investment portfolio have great weight in balance sheet study and computation of net worth. While insurance companies ordinarily carry their bond portfolios at amortized values and, therefore, from the balance sheet point of view this segment of investments does not create substantial net worth changes on a year-to-year basis, common stocks owned are carried at market values thus bringing about sharper fluctuations in this segment of the portfolio.

During the first half of 1962, common stocks declined 23.5% as measured by Standard & Poor's Index of 500 Stocks. This reduction in common share prices was, of course, reflected in the investment portfolios of all insurance companies. The relative amount of decline in capital funds depended both on the size of the investment portfolio and on management's holdings of common stock. The average reduction in net worth was 13% between year-end 1961 and June 30, 1962. It is of interest to note, however, that the individual percentage decline in net worth varied between 3% and 25%, depending on the above factors as well as underwriting profits or losses and dividend payout policies.

While enough information is not as yet available as to the performance of net worth since mid-year, it is of interest to note that Standard & Poor's S&P Index increased 2% between June 30 and Oct. 29, 1962 so that assuming no drastic change in the general market picture before year-end 1962—the net worth of the major fire-casualty companies should be somewhat higher at that time than at their June 30, 1962 low point.

Continued Trend Toward Affiliation

The trend toward affiliation continued in 1962. Two basic factors would suggest that mergers and acquisitions among insurance companies will continue to be with us for a number of years. First, the importance of a low expense ratio in a fire-casualty insurance company has become more obvious with panning time. Although there are exceptions to the rule, it would appear that the larger companies have been more successful in the smaller ones in reducing relative expenses. The use of electronic data processing equipment is most feasible among the larger companies and the efficiencies derived therefrom are becoming extremely important. Composite developments, e.g. mergers and acquisitions, have a direct impact on underwriting expenses as the machine-oriented companies. As a result, smaller fire-casualty
companies have had major problems thrust upon them, one solution being merger into larger units in the industry.

Secondly, the trend toward "all-lines selling" continues apace. Although there is still some divergence of opinion in the industry, it appears that the idea of an insurance agent selling fire, casualty, and life insurance all for the account of the same company or group of companies is and will continue to be a basic trend in the business. In addition, from the fire-casualty company's point of view, it has appeared extremely logical to acquire or organize a life insurance company whose earnings trends have been substantially more stable than the rather cyclical pattern exhibited by property and liability companies over a period of time.

After receiving court approval in 1961, Connecticut General Life Insurance Company acquired substantially all of the stock of the Aetna Insurance Company of Hartford early this year. (Thus far, Connecticut Central is the only major New York licensed life insurance company to take advantage of this important decision.) Commonwealth Life Insurance Company formally set up a fire insurance running mate in 1962. On the other hand, American Insurance Company of Newark acquired a small life company during the year. Similarly, General Reinsurance Corporation organized its own life insurance company affiliate, as did National Union Fire Insurance Company. At the present time, of the 25 largest stock fire-casualty insurance group in the nation, 20 have life insurance affiliates.

Providence Washington Insurance Company purchased two small Texas fire-casualty insurance companies; St. Paul Fire and Marine acquired a small southern company; American Re-Insurance Corporation acquired the outstanding stock of a midwestern reinsurance corporation; Ohio Casualty Insurance Company purchased a small Ohio fire-casualty running mate; American Equitable Assurance Co. and Globe & Republic Insurance Co. are in process of merging; and United States Fidelity & Guaranty has announced its proposed acquisition of Merchants Fire Assurance Corporation of New York.

Summary

On the whole, 1962 was a year in which most basic long-term trends in the fire-casualty industry continued apace. The stock companies have been able to further reduce relative expenses although independent agents have continued to struggle to hold commission rates at current levels. Most companies feel that while some additional fat may be squeezed out of general expenses, any further major reduction in the expense ratio must come in the form of lower commission costs. Whether the companies will be able to cut such commissions to any further substantial extent in the foreseeable future is a question which cannot be answered at the present time.

There would appear to be no doubt that the trend toward consolidation and affiliation will continue. With many of the smaller units of the industry becoming integrated into the larger ones, we would also expect that more fire-casualty companies will get into the life insurance business over a period of time. While life companies have not been as aggressive in entering the fire-casualty business, we would expect that for competitive reasons this trend may pick up over the next few years.

While it is difficult to predict the future trend of loss ratios, there would appear to be a good probability that the companies will be able to remain in the black on their insurance operations over the foreseeable future, excluding the possibility of major catastrophes. One of the major problems which has faced the companies in the last 15 years has been inflation. Since premium rates are ordinarily based on past experience, it had been difficult for the companies to catch up to loss costs during the post-war inflationary period. With many economizing now anxiously watching for deflationary trends in the economy, any reduction in the price structure generally is bound to benefit fire-casualty insurance operations. While competitive pressures may be such as to prevent a return to the average 4-6% profit margins of the past, it would appear that margins in the area of 2-4% are perfectly feasible on the basis of present rate structures. It is interesting to note that the net investment income of 50 major stock fire-casualty insurance companies in 1962 will be approximately $100 million. These same companies will probably write about $5.5 billion of business during the year. A 1% change in profit margins, therefore, is equivalent to approximately 18% of investment income on a pre-tax basis, thus suggesting the substantial leverage provided in the average company.

The major negative factor in 1962 was, of course, the poorly acting stock market which affected capital funds and net worth of the companies in varying extents. While a reduced margin of capital funds may force some of the weaker units of the industry into accepting merger or obtaining new capital via the sale of stock, it would appear at this time that no serious problems have developed among the major companies. Since the relatively thinly capitalized companies have usually tended to keep large bond positions, they were generally less affected by the market decline than the very strongly capitalized companies which have been able to afford to keep a substantially greater proportion of assets invested in common stocks.

In short, for the first year in quite some time, the insurance operations of the major fire-casualty companies appear to have...
Report of IBA Insurance Securities Committee

Continued from page 51

been substantially more healthy than their investment results.

Developments in Life Insurance—1962

At the beginning of 1962 life insurance stocks were at rather high levels. Selling at as much as 50% times adjusted earnings in some cases the atmosphere was rarefied. The wave of enthusiasm generated during most of 1961 reached its climax early in this year and some of the high flyers started to seek a more realistic level. The downturn was very gradual until “Black Thursday.”

The market break was as hard on life insurance shares as it was on the rest of the market. Declines were sudden and severe. Because markets in this group are generally quite thin, the effect of the decline was accentuated. For part of two days markets in the stocks were just not in evidence. Traders struggled manfully to stem the tide but just as big board specialists were swamped so were trades over the counter.

The recovery from this debacle has been slow but steady. If life stocks were on the peaks in January, they were in the valley in June. The climb up has been much more sensible than was the rapid run up in 1961.

Operating results for the industry in 1962 are estimated to be improved over those shown in 1961. Mortality is highly favorable and while it is not improving as rapidly as it did five years ago, it remains at a most satisfactory level. Investment returns continue at a good level. Interest rates continue to be favorable which contributes substantially to the earnings picture. Sales of life insurance are ahead of those made in 1961 and these seem to be a trend back to ordinary life. The industry saw a great sales opportunity in the mid-year stock market break. After being buffeted for years by the inflation story they had an opportunity to preach guaranteed dollars. The industry has an outstanding sales organization which has taken advantage of the opportunity.

The basic factors which have made the shares of stock life insurance companies such excellent investments over the years continue to exert their influence. For long term appreciation those equities must be considered to be prime investments.

Respectfully submitted,

INSURANCE SECURITIES COMMITTEE

Shelby Cullom Davis, Chairman
Shelby Cullom Davis & Co.
New York, N.Y.

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Report of IBA Investment Companies Committee

Continued from page 36

reasons, as that through which investment management generally is offered in any form—except for the legal fact that the individuals whose accounts are combined in a mutual fund through the efforts of the entrepreneur end up as shareholders of a corporation or in an equivalent position in a trust.

The essence of any business enterprise is that the entrepreneur shall devise or package a product or service which he believes not only is useful but can be sold. For such a product or service to be sold in quantity, assuming adequate disclosure, it can be assumed that the costs to the prospective user must be accepted as reasonable in relation to its value unless the view is taken, which we reject, that despite disclosure, people are not intelligent enough to make their own judgment. Having achieved total assets in the neighborhood of $20 billion, and total shareholders' numbers about 31/4 million under the most comprehensive Federal and state regulation in the financial field, it would appear that it could fairly be said that the mutual fund industry had met these tests. That the acknowledged value of the investment company concept does not sell itself—in other words, that there is something vital in the typical structure and arrangements through which its size and usefulness have been achieved—would appear clearly to be indicated by the fact that those mutual funds offered without a sales charge, generally by those primarily in other types of

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financial activity, currently represent no more than about 3% of the total assets of open-end investment companies, plus the fact that many of the closed-end investment companies sell in the market at discounts from their asset value.

The Main Point

What, then, is the philosophical point? It appears to be a question as to whether this basic structure through which mutual funds have achieved their present size (and the Wharton Report, originally designed to study the effect of size, found no problem on this point) and through which its shareholders have been insulated from entrepreneur risks and through which successful sponsors have profited should now be terminated or substantially modified because of the very success of the endeavor. In terms of this audience, the point can be illustrated by suggesting that, apart from and in addition to the competitive pressures that normally would operate under such circumstances, fair charges or spreads per individual transaction, or underwriting, become excessive as volume is developed. There is a basic difference. Unlike the aggregate of your accounts, the shareholders of the mutual funds, together with their officers and directors, represent a legal entity — they have the legal authority to change the nature of the business entirely. However, bearing also in mind the added sensitivity of the structure resulting from the self-redemption feature of the funds, this obviously should be approached with extreme care by officers, directors and shareholders, as well as by those otherwise in a position of authority, as the vehicle appears to be increasingly used to an increasing number of individual participants.

We suggest that it is only against this philosophical background that many of the questions are raised by the report.

The Statistical

The section of the Wharton Report that has perhaps received more attention than any other is that dealing with the performance of mutual funds, particularly relative to the comment that it did not differ appreciably on average from that of "an unmanaged portfolio." In its impact, and in the general discussion of this point, two totally separate things seem to have been mixed together. One is how well did the funds perform — individually and collectively — relative to some common yardstick. The other is with what assurance can the individual investor do as well on his own.

Turning to the first point, the criticism we would make of the Wharton Study, or of its limitations, is that its test of fund performance appears largely to be based on the single measure of capital results — did they, or did they not, rise more than a market index.

Anyone entrusted with the management of other people's money knows that the first and fundamental responsibility is to agree upon the desired objective, and thereafter carefully to define the degree of risk that is to be taken. There are three quite separate considerations in the handling of any investment account — stability and rate of current income, capital growth, and risk — with an almost infinite variety of gradations between them and in the type of security through which they are to be sought.

One of the substantial strengths of the mutual fund business is the variety of policies and objectives available in the various funds which, in each case, are properly required to be made clear by the laws and regulations under which mutual funds operate. This has allowed a more careful fitting of the fund to the individual, an essential requirement in the proper investment of money. On this basis, we believe the single stand-ard of capital results is an inappropriate measure of management performance — and even suggest that had the period been one of market decline instead of market advance, management "excellence" would have resulted in quite a different group of funds. We do not argue that the particular standard used was or was not the "best available"; we do not believe any common standard of capital results can or should be used in measuring performance or management ability.

The "X Ingredient"

Turning now from the fund itself to what the investor can or does do for himself, last spring your committee made a report to the Board of Governors which we believe fairly well documented the premise that it was the greater assurance of success that mutual funds provided that was the "X ingredient" underlying their increasing use. While written before the release of the Wharton Study, the facts disclosed are at least as timely today as it has been arranged that copies of that report will be available at this time as a supplement to this present report. Continued on page 54

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120 Broadway, New York 5, N.Y.
Report of IBA Investment Companies Committee

Continued from page 53

Investment Companies Committee

Respectfully submitted,

Herbert R. Anderson, Chairman
Distributors Group Inc.
New York, N. Y.

George Meyer
Bache & Co.
New York, N. Y.

Walter L. Morgan
Washington Co., Inc.

Robert L. Osgood
Vanese, Sanders & Co., Inc.
Boston, Mass.

Harry I. Prankard, 2nd
Lord, Albert & Co.
New York, N. Y.

Albert C. Purkus
Walgreen & Co., Inc.
New York, N. Y.

Henry J. Simonson, Jr.
National Securities & Research Corp.
New York, N. Y.

Charles M. Werly
Putnam Five Distributors, Inc.
Milwaukee, Wis.


Final figures for 1961 show that mutual funds earned just under $3 billion in assets from sales in that year—an increase over the year earlier peak of about 40%. Despite the record volume for 1961, the first quarter of this year saw net receipts from sales of $222 million, 28% higher than the year earlier quarter—incidentally, under different market conditions. Total assets of mutual fund members of the Investment Company Institute are currently about $23 billion.

Without belittling whatever contribution salesmanship has made to these results, it would seem obvious that one must look deeper, to the vehicle itself, for the answer to these figures and to the consistent increase over the years in the use of mutual funds by investors of virtually all types and sizes.

In earlier reports of this Committee it has been suggested that, facilitated by the convenient form in which they are packaged, the "X ingredient" underlying the growing use of mutual funds is the degree of assurance they provide of participation in the benefit of equity investing.

If this is the answer, to what extent can it be documented?

Comparisons Inappropriate

Comparisons are (too) easy to make since mutual funds are considered because their results, virtually alone among investment accounts, are readily available. Since the movement and levels of common stock prices likewise appear to be known facts, supporting evidence might seem to be found in comparisons of the performance of mutual funds with "the market."

Insofar as this Committee is concerned, comparisons involving individual funds are not appropriate. Furthermore, for this to be done intelligently would require a full discussion of the great variety of investment emphases and objectives involved in the various funds.

However, this type of comparison with "the market" is not the answer because the point involved is the degree of assurance mutual funds provide investors. To be meaningful, comparisons must be relative, not to some hypothetical "par," but relative to the practical facts of investment life with which the investor is faced.

Evidence in this area is supplied by some figures of a practical and down-to-earth nature. While some of these are updated from earlier reports, others reinforce and enlarge their point to the extent of introducing a new and more realistic concept of fund performance, not in terms of something that does not exist in fact, but in terms of actual investment results in common stocks.

The Dow-Jones Industrial Average is probably the most widely accepted measure of the movement and level of common stock prices. At the 1961 year-end, it had advanced 39.5% above its "triple-top" of the 1955-57 period, a fact that generally accepted as evidence that this was what common stocks had done.

Dow Jones "Multiplier"

When one speaks of an average, most people think of it as the sum of the parts divided by the number, although in the case of the Dow-Jones Industrial Average, the more sophisticated might be aware that some "multiplier" was involved. In any event, it probably would surprise most people to know that, from their individual 1955-57 market highs to the last year-end, the average gain for the holder of one share of each of the 30 stocks comprising the Dow-Jones Industrial Average was not 39.5%—but 10.5%.

That is the actual figure for one share of each, the first bit or evidence that the holders of these stocks may not have experienced what the index said they did. What, then, was the aggregate experience of all the shareholdes of these 30 stocks in the same period?

The aggregate market value of all shareholders' investment in the 30 stocks represented by the index, based on their individual 1955-57 highs, was about $103 billion. Using the same capitalization, the total value of these shares at the end of 1961 was $121 billion. This
works out to a dollar gain—not of 28.9%—but of 17.7%.
So those who held one share of each did not do as well as the market, as measured by the index, consisting of these stocks, nor did the aggregate of their shareholdings. Suppose one had decided to buy—and hold—an equal dollar amount in each? Well, he would have done better had he chosen those with a rise of 31.5%, but he still would not have done as well as "the market" as measured by the index.

15 Stocks Declined

Getting still more practical, most people do not buy in any of these ways. They pick stocks, still staying with the 20 stocks so generally used to measure the market, and thereby the experience of investors, those holding 15—one-half of the possible choices—might have had quite different results because on the same basis, 15 of the 20 stocks declined by an average of 21%. This was the per share experience. The loss to their holders in aggregate market value was even greater. In other words, these 15 high-grade stocks that declined, while the index of which they are a part, advanced, had a total value at their 1955-57 highs of $81 billion—which, incidentally, represented 49% of the total value of the 30 stocks. At the 1961 year-end, the value of these same shares was $15.5 billion less, a dollar decline of 28.8%.

Incidentally, don't conclude from this that the other 15 stocks beat the market because they didn't. Actually, 5 advanced—but less than the index—leaving 10 of the 30 that "beat the market" in this particular period.

By way of a comment on the current market, it can be noted that whereas the decline of the Dow-Jones Industrial Average from its 1961 high to the April 29, 1962 close was 8.5%, the average per share decline of the 30 stocks from their individual 1961 highs to the same closing date was almost 20% more. As is the case, the condition discussed by these examples is not unique to this group of 30 "bellwether" stocks. This is shown by the fact that 42% of all common stocks listed on the New York Stock Exchange then and now, or by someone, were selling below their individual 1955-57 highs at the 1961 year-end. Bear in mind that the index does not include those that advanced less than the market. We are speaking only of those that went down in their period of apparent market advance.

At the time of their 1955-57 highs, these stocks that declined represented an aggregate market value of $129.1 billion, or 58.6% of the total value of all New York Stock Exchange listed common stocks at that time—a very large segment of the market. At the 1961 year-end, the market value of these shares had declined—not advanced—by $27.2 billion, or 21%—again, a practical fact, with little comfort to those who held these shares that a market index was up during the period by 39.8%.

That the condition is not unique to a particular period may be indicated by the fact that, going back to 1946, 35% of all stocks listed then and now on the New York Stock Exchange are still selling below their 1946 highs despite the fact that "the market" has more than tripled in level since that time.

It is not the purpose of these comments to suggest that all holders of all stocks do not achieve a satisfactory result. However, it would appear obvious that the benefits of equity investing are not synonymous with the ownership of common stocks. It further appears reasonable to observe in view of the continuing growth in the use of mutual funds that a lot of present and potential investors are aware of this fact and interested in a practical means of improving on their chances of success.

Continued on page 56

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Report of IBA Investment Companies Committee

Continued from page 55

Reference was made earlier to the fact that comparisons of individual fund performance were inappropriate or, to put it in the spirit of these remarks, impossible because the effective comparison is with what the investor may have done himself—for which figures are unavailable. However, it should be said that, relative to what has happened to the holders of many stocks, it would appear clearly to be a provable fact that mutual fund shareholders have done very much better. A still more practical conclusion appears reasonably to be that this greater assurance—the “X ingredient”—has been provided throughout the period at a greatly reduced risk and without the problem of “choice and change,” through the diversified and selected holdings provided by mutual funds.

Wharton School Study

While substantially all phases of the securities business are now under study by the Securities and Exchange Commission, the mutual fund business has been under relatively constant review by reason of the continuing registration of its shares under the 1933 Act, the required clearance of its proxy statements, its operation under the Investment Company Act, and the conformance of its literature since 1950 with the requirements of the Statement of Policy.

While not begun incidentally to the present broad inquiry, the investment company business did have somewhat of a “head start” by reason of the Wharton School Study, begun by the SEC several years ago and now about completed.

Just as periodic “check-ups” are good for people and may often prevent the development of serious disorders, just so do we believe these studies can serve a constructive purpose.

To carry the similar one step further, however, in view of the proven value to investors of the vehicle in its present form, it is reasonably to be hoped that the examination will be directed to checking on the functioning of the parts in order to maintain the health of the whole, rather than to support a conclusion that the form and shape of the structure itself should be something new and different.

Respectfully submitted,
INVESTMENT COMPANIES COMMITTEE

Report of the IBA Public Utilities Committee

Continued from page 30

Utilities, in other sections of the country, are facing the same threats in their own service area. For example, we cite the Hoosier Cooperative in the State of Indiana, competing with Public Service Co. of Indiana.

We will continue to follow this trend and to give you a further report at our next meeting.

In both our 1960 and 1961 reports, we expressed our concern about the natural gas transmission companies and what could happen to the equities of these companies if the Federal Power Commission continued to base its rulings on its new formula. We outlined this new method and mentioned that it penalizes those companies which have a thin equity basis. We pointed out in our 1961 report that it could result in several companies reducing their present dividends and that such a development might be a forerunner of a further deterioration of investments in this industry. The other problem which concerns this industry is that a number of companies do not know, nor will they know for some time, how much of their earnings can be kept and how much will have to be re-funded to the rate payers because of rate proceedings which have lasted five or more years with the Federal Power Commission. Two casualties this past year were the Tennessee Gas Transmission Co. and El Paso Natural Gas Co. which were forced to reduce their dividends. We feel strongly that storm warnings for others in the industry are still up. So far this year the Federal Power Commission has ordered refunds totaling about $10,000,000. This leaves $900,000,000 in rates still under suspension. We feel that a substantial part of this amount will be translated into refunds which will affect the earnings and equity of the pipe line companies. We still feel that this industry...
will be subjected to market jolts as these refunds are adjusted.

On the bright side of the gas industry picture, we would like to call to your attention the attractiveness and the future of the gas distributing companies. We feel that for the first time in many years they will know where they stand on rates. The Federal Power Commission ruling that a pipe line company cannot place into effect a rate increase adjudicated by the Commission removes the threat of always being "behind the eight ball." The gas distributing companies have been faced with the dilemma of being forced to pay increased rates under bond without being able to obtain relief by presenting conclusive cases to the local and state regulatory bodies.

With the refunds now being made by the pipe line companies to these companies together with a reduction in their rates structure and consequent refunds from this source, we can now look for increased and stable earnings. The industry has burdened in a more competitive position with the electric industry.

In addition, this comes at a time when the gas industry has taken a new look at its future. The gas appliance industry has made great strides. Gas turbines which generate electricity as well as heat and a new dining room is now being introduced. One has already been installed in a shopping center in El Paso, Texas, and another in Little Rock, Ark. At the stockholders' meeting of Southern Union Gas Company, Mr. D. M. Bailey Executive Vice-President, presented the following remarks which illustrate the advantages of the gas turbine:

"Within the last few days we have seen the new Rush Fair Shopping Center at El Paso have concluded an agreement to install on-site generating equipment, which will use natural gas to produce all of its fuel needs, including electricity. This is a mediumsized shopping center, with approximately 10,000 square feet under cover. If the owners had gone the conventional route, their annual utility bill would have been in the neighborhood of $28,000, with only $1,200 of this for gas to heat water and provide a limited amount of space heating. The lion's share, of course, would have gone to the power company. However, by installing on-site generation, the owners have reduced their total annual utility bill to about $6,500, with $6,100 of this for gas and a little for electricity to this shopping center.

"Instead, it incorporates a new 'energy system concept' whereby a single fuel—natural gas—provides all the energy requirements. Two large gas engines plus one for standby purposes will generate electricity for lighting and related needs. Waste heat from the radiator and exhaust systems will provide steam for heating and water heating as well as for operating an absorption air conditioning system.

"The owners of Rush Fair will have the advantage of a $20,000 annual saving in the operation of their utility system, plus added flexibility in meeting their tenants' energy needs and a more economical look to their shopping center by eliminating unsightly cooling towers. Southern Union gains a 50% increase in its load from this customer. And the local electric company — well, we believe that they, along with other competitors of ours, are in for a well-deserved shock!"

The largest apartment building in the world will be all gas. This is Outer Drive East Apartments in Chicago, which has signed contracts with the Peoples Gas Light & Coke Co. The entire 40-story building will be cooled with steam-energized absorption machines supplied from the gas field central steam boilers. In addition, gas will be used for cooking, for garbage incineration, for clothes drying in the laundry, and for two restaurants.

The nation's first manufacturing plant to utilize natural gas-operated turbines as the complete source of energy is being readily for production near Mansfield, Ohio. This plant will use natural gas to supply all its requirements —lighting, heating, cooking, and power — for all machines and equipment.

Two major gas appliance manufacturers have reported record-breaking sales volume for the first half of 1961.

Sales volume of Norge appliances in the first six months rose 12% above the 1961 period, recording the best first half since 1965, the company's record year, and Whirlpool Corp., had the biggest first half in the history of the company. Jusdon S. Sayre, President of Norge, stated that home-laundery factory shipments jumped across the board, led by washers, which soared nearly 30%.

There has been a marked change in the past five years in the gas and electric appliance manufacturers. It is no longer a one-fuel market.

With the advent of gas lights, gas signs, gas air-conditioning, and other load builders, the gas distributing companies no longer are limited to a specific need. Their horizon is the brightest it has ever been; they are now actively competing with the electric utility companies in more fields. We favor the gas distributing companies over the transmission companies for future growth. We feel that the problems of rates are being solved and that their growth depends upon the aggressiveness of their managements. We look forward to great strides in this area; managements now have the tools to work with.

An economic profile of the natural gas industry drawn by the American Gas Association points to a 60% increase in gas sales during the next decade. By the end of 1971, the figures indicate, annual revenue from natural gas sales will be more than $1.18 billion based on sales of 153.8 billion therms to 43.3 million customers. The comparable figures for 1961 were revenues of $5.9 billion for 93.8 billion therms sold to 33.8 million gas customers.

In order to make possible this higher level of sales, gas transmission lines in the 1961-1971 period will increase to 2,750,100 miles from 191,800 miles. Distribution mains will increase to 611,100 miles from 410,000 in the same period. Field and gathering lines of pipelines and gas producers are expected to increase to 8,000 miles of line.

Continued on page 58

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Dealers in Municipal Bonds

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Representatives
Broad & Chestnut Streets
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Representatives
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New York City

APPENDIX

(Millions)

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<th>Year</th>
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<th>New</th>
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* Represents forecasts based on estimates submitted by individual gas companies.

Report of the IBA Public Utilities Committee

Continued from page 37

The new figures point to a striking 110% increase in commercial consumption of gas, and a 58% rise in residential use of gas for heating and cooling in the next decade. Other residential uses, reflecting a greater variety of gas utilization through augmented appliance installations, are expected to increase 56% in the 10-year period.

The profile, for the most part, represents extrapolations of past trends modified to reflect the influence of likely changes in the economic characteristics of the gas industry. A.G.A. points out that this is the latest in a series of long-term projections of gas industry operating statistics.

Construction expenditures by the gas industry will reach an annual rate of $7.6 billion by 1971, almost 73% above the 1961 rate of $4.6 billion, according to the A.G.A.

By that time, the industry’s gross plant will have an estimated value of $43.8 billion. In 1961, it was valued at $32 billion, the sixth largest in the nation.

Expenditures for gas distribution facilities will increase to $905 million, the estimates show. In 1961, it was $654 million.

Annual estimates for other spending purposes in 1971 are as follows: Production and local storage, $462 million, or 163.6% above the 1961 figure of $115 million; general, $182 million, or 72% above $94 million in 1961; and underground storage, $117 million, or 112.7% over $55 million in 1961.

The figures to 1965 represent forecasts based on estimates submitted by individual gas companies. For subsequent years they are extrapolations. (See Table in Appendix.)

The telephone industry, with the success of its satellite Tostar, again has made progress. Its one battle of the year was successfully solved by the Congress. We were delighted to see that both government and private industry will share the future of this new realm of communications.

The really reassuring strength of the gas distribution and utility industry lies in the fact that the greatest segment of its operations is still subject to regulation at the local level, within the jurisdiction of states or municipalities. The state commissions and municipal authorities have continued a sane and sound policy.

We will continue, however, to be on the alert for any forms of encroachment. We note with amusement that the Federal Power Commission will attempt to discover how much of the natural gas rate refunds it ordered are being passed along to the consumer.

"The Chairman noted, however, that the commissioners had no power to force state regulatory commissions, which fix distributor rates, to pass on such refunds from their suppliers." He did state, however, that the Federal Power Commission should know where the money goes.

We see many danger signals at the Federal level in many areas: the changing of the scope of RRA, the threat of government in business, the nature of regulatory control at the Federal level, and the recent decisions concerning the refunds of transmission companies by the Federal Power Commission.

We are concerned about what impact these developments can have upon every taxpayer, citizen and investor.

Respectfully submitted,

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Report of IBA Municipal Securities Committee

Continued from page 22

or municipal revenue bonds issued to finance the construction, equipment or development of property which is to be operated by one or more non-public enterprises. H. R. 6368 would deny a deduction for the rental paid to a state or municipality by a non-public lessee for the use or occupancy of an industrial plant which was acquired or improved out of the proceeds of a tax-exempt bond. No hearings were held on either of these bills and no action was taken on them; but it is anticipated that there may be some recommendation on this problem in the major tax revision bill expected to be submitted to Congress in 1963.

V

Community Facilities Loan Program

The Community Facilities Loan Program authorizes long-term federal loans to municipalities for community facilities at an interest rate determined under a formula in the law “unless the financial assistance applied for is not otherwise available on reasonable terms.” The determination of what constitutes “reasonable terms” is made administratively. The loans may be made to municipalities with population up to 50,000 (or in redevelopment areas with population up to 150,000). In the fiscal year ended June 30, 1961, loans under the program were made at 7 3/4%, or in redevelopment areas at 5%. In the current fiscal year beginning July 1, 1962, the loan rates were raised under the statutory formula by 1/4% to 8 1/2% or the 5 3/4% in redevelopment areas.

The key to eligibility under the program is whether the financing can be obtained from other sources at the “reasonable” interest rate which is determined administratively. During the fiscal year ended June 30, 1962, the reasonable rate was set at 3 1/2% for 30-year maturity bonds, the interest rate being reduced 1/8% of 1% for each full five years shorter maturity, but not less than 3 1/2% (1/8 of 1% lower in redevelopment areas); but in the current fiscal year the reasonable rate was raised 1/2% of 1% so that it is 4% for 30-year maturity bonds with the indicated reduction of 1/8 of 1% for each full five years shorter maturity (also 1/8 of 1% lower in redevelopment areas).

Representatives of the IBA met with representatives of the Community Facilities Administration in January and again in July recommending that (i) the reasonable rate should be set in realistic relationship to current market rates for comparable securities; (ii) the reasonable rate for revenue bonds should be higher than the rate for general obligations; and (iii) the reasonable rate should be adjusted monthly to reflect current changes in market rates.

Since municipal interest rates have been generally lower in 1962 in relationship to the rate fixed by statutory formula under the CFA Loan Program, many municipalities have been able to obtain financing in the market at rates below the so-called reasonable rate.

VI

Financial Information on Municipal Issuers

The IBA has long stressed the importance of municipalities making available adequate financial information both at the time of original issuance of bonds and on a continuing basis. To facilitate

Continued on page 60

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Report of IBA Municipal Securities Committee

Continued from page 59

the reporting of such financial information the IBA prepared and made available recommended financial report forms for general obligation bonds and for revenue bonds. The necessity of providing current financial information is emphasized in the fact that many institutional buyers (or the examiners of such buyers) require continuing current financial data from issuers of bonds which they purchase. The municipal advisory councils organized in several states have done excellent jobs in promoting high standards of financial reporting by municipalities in their states.

This Committee has noted a compilation entitled "Financial Facts on All Indiana Taxing Units" compiled by the City Securities Corporation of Indianapolis (a member firm of the IBA) and we commend them for an outstanding job in supplying financial information on municipal issuers in their state.

VII Local Developments and Court Decisions

Appendix A contains a summary of some of the principal local legislative developments and Appendix B contains a summary of court decisions of particular interest to those engaged in the municipal securities business.

VIII Tribute to Cushman McGee

In conclusion, we sorrowfully pay tribute to Cushman McGee, who was Chairman of the IBA Municipal Securities Committee during the current year until his sudden death on Aug. 12. Cushman McGee was one of the outstanding experts of the municipal business who devoted his time unselfishly to the improvement of the business and the work of this Committee and the Association.

APPENDIX A

Summary of Principal Local Developments Affecting Municipal Securities—1962

San Francisco Bay Area

Transit District

The proposed $792 million San Francisco Bay Area Transit District Bonds were approved by the required 60% at the election on Nov. 4. The District is made up of three counties, San Francisco, Alameda and Contra-Costa. The proposed transit system would have 75 miles of double-track line that would transport commuters from about 32 stations through a 4-mile, double-track tunnel under the Bay to a subway depot in San Francisco. Parking would be provided for about 29,000 commuter cars in the outlying stations.

II Proposed Transportation System For National Capital Region

The administrator of the National Capital Transportation Agency on Nov. 1, 1962 submitted to President Kennedy for transmittal to Congress a report proposing a program of $266 million of regional highway construction and a $973 million rapid transit system.

The report proposes that the highway portion of the recommended plan be financed within the framework of existing Federal highway programs. It proposes that the $753 million rapid transit system be financed by $350 million of 4½% taxable revenue bonds guaranteed by the Federal Government, $63 million of Treasury loans at 4½%, $100 million by Federal, District and local grants which would be repaid after retiring existing debt and $29 million from revenues of the system.

The principal features of the express transit system would be:

(a) Two subway routes crossing twice within downtown to provide an extensive distribution and collection system;
(b) Extensions of the downtown system throughout the District and suburban areas via seven rapid rail transit routes and one commuter railroad route;
(c) Stations and parking areas to serve as local distribution and collection centers; and
(d) Express and local bus services in the District and throughout the suburbs with convenient connections to the high speed trains.

III New York City Transit Authority Bonds

On Oct. 17, 1962, the New York City Transit Authority sold $50.8 million Gross Revenue Bonds to underwriters through negotiation at a net interest cost of 3.151%. These bonds are part of a $92 million authorization, the balance of which is expected to be sold at a later date. The new bonds mark the first major instance where gross revenues of a municipally owned utility have been pledged...
on a diversion-proof priority basis for the service of debt. The new
bonds were rated AA by Standard & Poor's in advance of the sale.
Proceeds from these bonds will be used to buy 424 subway cars for the Interborough Rapid Transit line.

IV

Virginia Public School Authority

An act adopted by the Virginia Legislature created the Virginia Public School Authority which is authorized to purchase, at public or private sale and for such price and on such terms as it shall determine, local school bonds issued by counties, cities and towns. Before the Authority shall purchase any local school bonds there shall be filed a certificate stating that, based upon the financial data then available to the Chairman of the Board, he is of the opinion that such purchase will result in a lower financing cost to the borrower than the sale of such local school bonds in the open market. In order to provide funds for the purchase of local school bonds, the Board is authorized to provide for the issuance of bonds of the Authority in such amount as it shall determine. Such bonds of the Authority shall be payable solely from funds of the Authority, including, but without limitation:

(a) Payments of principal and interest on local school bonds purchased by the Authority;
(b) Proceeds of sale of any such bonds; and
(c) Payments of principal and interest on obligations transferred to the Authority from the Library Authority from the Literacy Fund, if the Board, in its discretion, so determines.

(d) Proceeds of sale of any such obligation; and
(e) Any moneys transferred to the Authority from the Literacy Fund.

Bonds of each issue shall bear interest at a rate or rates not exceeding 5% per annum, shall mature in not exceeding 30 years from their date and may be issued in coupon or registered form. Amounts shall be required in Virginia to result in such bonds being registered form. Amounts shall be required in Virginia to result in such bonds being transferred to the Virginia Public School Authority for public school purposes on July 1, 1962, and semi-annually thereafter, the principal of the Literacy Fund in excess of the total of (a) $10 million and (b) any other moneys therefore set aside by the General Assembly.

V

New Security for Michigan School Bonds

After operating since 1932 under constitutional restrictions which made Michigan school bonds limited tax bonds with limited maturities, 1955 amendments (a) removed the restriction on taxing power for school bonds maturing over a period of not less than 25 years, (b) created a State School Bond Loan Fund and (c) removed the debt limit for school districts which meet certain "qualification" standards established by the state. The 1955 amendment was adopted to be effective only until July 1, 1962; but in 1969 a new amendment was adopted to take effect July 1, 1972.

The new amendment makes these important changes with respect to Michigan school bonds:

(a) Any school district may issue unlimited tax bonds with maturities up to 30 years.
(b) Where the 1955 amendment limited the State School Bond Loan Fund to $100 million in aggregate loans, the new amendment removes the restriction on the amount of the Loan Fund and authorizes the state to borrow on its full faith and credit and interest on any qualified bonds (and the legislature is authorized to reduce the ceiling on the tax levied for qualified bonds.
(c) "Qualification" is a means of establishing the state level desirable minimum standards for school building construction, school district organization and local tax effort in exchange for a state guaranty which stabilizes local debt service taxes at a reasonable level and assures the availability of sufficient funds to pay both principal and interest.

Continued on page 62

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If you are working closely with us, I hope that you share my opinion. If not, give us a try — I think that your people and ours can be mutually helpful — and the association profitable!

Sincerely,

JOHN NUVEEN & CO. (INC.)

November 29, 1962

Report of IBA Municipal Securities Committee

Continued from page 61

promptly. If bonds are not qualified, there is no obligation for the state to support the issue. However, if the bonds are qualified, the state has an obligation to support them.

VI

Proposed City-County Merger in St. Louis Rejected

A proposed merger of the City of St. Louis and St. Louis County under a governmental entity administered by a mayor and a 45-member Borough Council was rejected as a constitutional amendment on Nov. 7. Under the proposal the 62 square miles of the City would have been extended to cover 114 municipalities and other units (except school districts) and 46 square miles of suburban St. Louis County territory which surrounds the City on three sides. The proposal was rejected by a heavy majority.

APPENDIX B

Court Decisions Affecting Municipal Securities—1962

Reapportionment

The Supreme Court of the United States in Baker v. Carr, on March 26, 1962, concluded that a justiciable issue is presented by a charge of denial of equal protection under the 14th Amendment to the Constitution of the United States by virtue of the debasement of voting through the apportionment of a state legislature. The complaint alleged that the apportionment of the members of the Tennessee Legislature denied the plaintiff equal protection of the laws by virtue of the debasement of their votes. The Federal District Court dismissed the complaint, holding that the state court was not itself an undivided state legislature. The Supreme Court reversed the decision of the District Court and remanded the case for further proceedings consistent with its opinion.

This decision does not give any formula as to what forms of reapportionment will comply with or violate the Constitution. However, it does establish the validity of a state court to litigate the propriety of apportionment in state legislatures and numerous cases have subsequently been filed asking reapportionment of state legislatures. It is believed that the ultimate effect will be to obtain some reapportionment of state legislatures to give urban areas more equitable representation and that this may enable state governments to deal more effectively with local problems.

II

Application of Proceedings of Revenue Bonds

The Town of Monongah, West Virginia, issued waterworks revenue bonds secured by a pledge of revenues derived from the operation of the town’s waterworks. The purpose of the bond issue was to provide funds for the construction and equipment of a waterworks administration building. Following the completion of the building the West Virginia Public Service Commission in an ex parte hearing determined that the building was being used as a “town hall” and that 25% was a fair estimate of the extent to which

the building was being used exclusively by the town waterworks. Therefore, the Commission ordered the town to cease and desist from using water utility revenues to pay the principal and interest on the bonds. In excess of 25% of the amount necessary to service the bonds.

In St. Paul Fire and Marine Insurance Company v. Town of Menomonie, Wisconsin, et al., the Federal District Court for the Northern District of West Virginia on June 1, 1962 held that the Commission was wrong in its finding that an innocent purchaser of bonds has a duty to see to the proper application of the proceeds of bond sales. The Court stated:

“In the opinion of this court, the findings and order of the Public Service Commission of West Virginia, insofar as they affect or attempt to affect the legal rights of holders in due course of the bonds and the obligations of the defendants with respect thereto, are an unjustified usurpation of the judicial function, and that its findings of law in respect to such rights are not only without jurisdiction, but are clearly wrong as a matter of law. It is within the jurisdiction of the Public Service Commission to approve rates charged by the utilities which are subject to its supervision, having proper regard for the legal obligations of the utility. The Commission’s concern for the consumer and its impatience with a utility which it feels has misused funds is understandable and commendable, but it has no right or power to punish a recalcitrant utility by telling it that it does not have to perform its obligations to holders in due course of its bonds properly issued under statutory authority.”

III

Proper Notice on Michigan Special Assessment Bonds

A decision by the Supreme Court of Michigan suggested that to meet the constitutional requirements of due process, provision for mailing notices of hearings in special assessment proceedings to each property owner must affirmative and in each applicable special assessment statute, charter provision or ordinance. That decision caused much concern over the validity of statutes, charter provisions and ordinances which provided only for publication and posting of notices of hearings in special assessment proceedings, without requiring that notice be mailed to each property owner.

In order to meet the problem, the Michigan Legislature adopted Act 162, Public Acts of 1962, which provided: in substance, that all notices of hearings in any special assessment proceedings must be mailed by first class mail to all persons owning or claiming an interest in property within the district whose names appear on the last confirmed local tax assessment roll at least 10 days prior to the hearing. This requirement is in addition to any statutory, charter or ordinance requirements for publication and posting of notices.

The Supreme Court of Michigan in the case of International Stove Company v. Herrick, considered the constitutional validity of a provision in the Drain Code of Michigan containing substantially
the same mailing requirements as Act 162. The Court on July 18, 1962 sustained the constitutionality of the provisions of the Drain Code regarding notice by mail, holding that such provisions complied with due process of law and stating that:

"The legislature in the enactment of the drain code and of the amendments thereto clearly imposed the requirement that in a situation of the character here involved notice should be mailed to each property owner whose name appeared on the assessment roll together with his address. In addition thereto publication in newspapers, and by posting, was required. In a case of this character we think that statutory provision for resort to the mails is proper and permissible as constituting due process.

"It is conceded in the instant case that in excess of 10,000 notices were sent out to parties owning property assessed for benefits. We think the language used in the controlling decisions of the United States Supreme Court justify the conclusion that under such circumstances sending notice by mail is a method reasonably calculated to apprise each taxpayer to whom the notice is sent of his rights and liabilities. It is equally clear that service by publication in newspapers, and by posting, is not sufficient as a matter of law to afford reasonable notice.

Municipal Taxation of Buildings Leased to Manufacturing Firms. The Supreme Court of New Jersey in November held that The Port of New York Authority is liable for taxes imposed by the Borough of Moonachie on buildings at Teferboro airport leased to a manufacturing firm. The opinion was based on the fact that the building was not actually being used for air terminal purposes. The court noted that if the building had been used for air terminal purposes it would not be taxable. The court denied an attempt by Bergen County to tax the land on which the building stands, on the basis that the land contribution to air terminal use, acts in effect as a buffer zone for incoming and outgoing flights.

Respectfully submitted,

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We may be either an "open" or "closed" fund, the latter because it may be either an "open" or "closed" fund, the latter because it may be either at least 2 popular bond types on the market. We doubt whether we could be either at least 2 popular fund types on the market. We doubt whether we could be either of these.

In any case, it would be wise to keep in mind that the "closed" fund type is more popular, and would be beneficial to any fund manager who has not yet decided on the type of fund he would like to establish. We doubt whether we could be either of these.

I hope that you will provide us with the opportunity to transact fund business with you, just as you would with any other large "net" buyer. Please let us know your views. Just phone, write or come over here at 5 Hanover Square, New York City.

Sincerely,

Miles Pelikan, Senior Vice-President

John Nuveen & Co.

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Report of IBA Industrial Securities Committee

Continued from page 33

The accuracy of better than one-tenth of 1% would appear to be too prohibitive because of the cost involved. An analog computer is a fairly flexible machine, and can perform many different simulations or investigations within a short period of time, merely by plugging in or unplugging the entire operational elements that perform the mathematics of a problem. An analog computer may also be described as a sort of electronic slide rule that can instantaneously solve an equation containing dozens of variables. This ability to provide instantaneous answers is vital in military operations such as fire control, where there is little time to compute the position of a flying target. A typical analog application is the calculation of flow rates and pressures in all pipes of a complex pipe line system, or calculating loads in all parts of an electrical network. To solve problems of this nature, a digital computer would have to perform an enormous number of additions, subtractions, and comparisons, and would take hours to arrive at a solution that an analog computer could solve in a split second.

Applications and markets for analog computers exist in research and scientific investigation, chemical and plant simulations, military systems simulation, and military and industrial communications.

As electronic analog computers generally use currents or voltages to represent numbers, and as the output lacks the accuracy of digital computers, analog computation is unsuitable for accounting work.

A recent addition to the computer family has been the hybrid digital-analog computer. The hybrid computer represents an attempt to combine the best features of both analog and digital computers in order to get a unit capable of more work than the two can do separately. One application for a hybrid is to solve problems in satellite control. The digital half of the computer models itself after the logical system in the satellite control unit, while the analog half simulates the response of the mechanical part of the satellite, and in combination they "fly" a satellite even before it is designed. The market for analog and hybrid computers is still relatively small when compared to the digital computer market. This study will focus, therefore, on the electronic digital computer industry, discuss the various manufacturers, examine the state of the art, and attempt to project the industry's position within the next decade in light of current technological and industrial trends.

Computer Economics

The computer, the industrial revolution and the automation of factory processes have been described as the three most important and significant events in the development of Western business. Computer development has emerged from a rate of 3% a year. On an annual basis, wages for clerical personnel alone are in the area of $300 million. Company after company that long laborious calculations could not be handled in ordinary, symbolic mathematical ways. The other trend is from the business world, with enormous quantities of records and calculations required for businesses to function. Our civilization has not only grown complex engineering-wise and technologically, but also businesses are so large that it has produced a enormous growth in the information to be handled. This has provided the impetus behind the great development of automatic data processing systems, expressed in computing and data processing systems.

Economic Justification

Three primary factors are leading to structural changes in business today:

1. The availability of computers to any size business;
2. The fantastic quantities of internal and external data generated by government and business reports, and
3. A structural change in the American economy.

Formerly, wrong decisions were not fatal to a company's existence, as illustrated by Chrysler's square automobile design. Lever Brothers' decision to stay out of the detergent field. General Dynamics' decision to build the 990, and Ford's marketing of the Edsel. Today, businesses need data to prevent making a wrong decision or being locked in a situation. The focal point of many of these decisions revolves around a computer. Computer utilization is justified in situations where greater speed in processing data is required, or where the complexities of data processing cannot be simplified without electronic assistance, or when the investment in computer equipment is substantially offset by both quantitative and qualitative benefits. With the exception of scientific and military applications, computers are usually purchased for the direct savings which they effect. The urgent need to displace human beings performing clerical and accounting tasks is illustrated by the fact that during the last 10 years, the number of clerical personnel has grown 23%, and salaries have been increasing at an average rate of 5% a year. On an annual basis, wages for clerical personnel alone are in the area of $300 million. Company after company cite huge clerical savings...
through the use of data processing machines.

McDonnell Aircraft, in completely automating its purchasing cycle, estimates that it saves $200,000 annually, mostly accounted for by clerical savings, with a machine renting for $6,400 a month. Sylvania Electric estimates that it had saved $10,000-

$400,000 annually in such areas as clerical and inven-

tory reductions in the use of machines renting for an estimated $325,000 a year. Nation-

wide Insurance has produced savings of about $200,000 a year in the area of Renewal Billings, with a machine which rents for an average of $9,000 a month. Most of this is the result of clerical reductions. Nationwide has pro-

jected saving in excess of $10 million over the next seven years. Reductions in both the level and carrying costs of inventories have also justified the utilization of computers.

Many cases could be cited for savings of 4-30% annually in this area. American Cyanamid expects its computer-controlled finished-goods inventory system to yield savings of at least 10-15% of its annual cost. Annual savings are estimated in the area of $200-

$340,000 a year. Martin-Marietta expects inventory levels to be slashed by more than 60%, when its IBM 7070 data processing sys-

tem goes into full operation. In addi-

tion to clerical and inventory savings, a faster flow of vital in-

formation and the elimination of paper work delays and duplica-

tion will save companies like Lockheed $2.0 million annually, with the annual rental cost of the system involved about a third of these annual savings.

In addition to cost savings, a number of other important con-

tributions are being effected by computers. Some of these include increased speed and accuracy in preparing management reports, better customer service, lower costs to the consumer, and improved control over the opera-

tions of the business. The full potential of the computer has not been realized yet, and the greatest potential payoff appears to be in sophisticated areas which have been out of man's reach to date, such as totally integrated man-

agement information systems.

Selecting a Computer

A recently completed independent survey of computer users indicated the following factors as influencing the choice of a com-

puter: (1) a computer which of-

fers the greatest anticipated pay-off in clerical savings; (2) reputation of the manufacturer; (3) performance in comparison of costs; (5) purchase prestige; (6) product support; (7) compatibility with existing sys-

tems, and (8) error-checking char-

acteristics. These are the factors that 90% of the users reported they had realized the savings esti-

mated in the above study. It is not uncommon for computer feasibility studies to run up to 12 months, since such a large investment is involved. The factor of prestige has not always been beneficial to users, however, for when prestige superseded ef-

ficient systems engineering, ineffec-

tive computer utilization has been the result. Systems applica-

tion or engineering has not only been the key to successful com-

puter utilization, but has also been the reason for success or mediocrity on the part of com-

puter manufacturers.

Areas of Computer Applications

The degree to which computer technology has become more spe-

cific and complex is illustrated in the fact that today there are over 500 areas in which computers are being utilized. Computers and computer manufacturers have had to gear their marketing efforts to specific user problems, but in the process have opened up even more areas for the utilization of computers. The exhibit following this section is a partial list of some of the functional computers are performing in different areas. A number of these areas will be investi-

gated in more detail, in order to determine the significance of computer applications to this area or industry, and to discuss the im-

portance of these markets in light of computer usage trends.

Commercial Banking

Data processing firms have a business potential of some $5,400 commercial banks out of the 14,000 in this country. These are the banks with over $75 billion in total deposits. The banks which have installed computers have found that they not only have better reports and tighter audit and control procedures, but are now able to offer new customer services and improve their competi-

tive position. The major break-

through in the banking industry with EDP did not come until 1959, when the final specifica-

tions for printing of checks coated with Magnetic Ink Character Recogni-

tion (MICR) numerals were approved by the ABA. An esti-

mated 65.3% of all checks cleared through Federal Reserve Banks now contain magnetic ink sym-

bols, compared to 36.1% a year ago. The volume of checks proc-

essed in 1951 was $2.1 billion, but is expected to reach $22 billion in 1970, and $29 billion in 1975. By this time, most of these checks will be coated with magnetic sym-

bols, and will be processed by computers.

EDP will have its greatest im-

pact on the demand deposit sector of bank employment. About 20% of all bank workers doing work related to demand deposit book-

keeping will be seriously affected by the advent of automation. One major bank indicated that com-

puters have led to an 80% de-

cline in the number of book-

keepers in demand deposit activ-

ity over a four-year period, de-

spite a 10% rise in demand de-

posit accounts.

One of the newest developments in the banking industry is the use of on-line computers. On-line, or real-time systems process trans-

actions individually as they arrive at processor inputs, and usually return a result to the point of origin immediately following processing. In other words, this will make every bank office a main office for every customer, regardless of its location. Three banks in the East—Howard Sav-

ings, Union Dime, and Society for Savings (Hartford)—have installed on-line systems. The benefits from these systems have been a

Continued on page 66

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Communications

As the applications for computers increase, and as the requirement for up-to-date information grows, there will be a greater demand for data transmission equipment. Data transmission systems perform such functions as tying together a production line and a data processing center, sending the latest marketing and production facts from the field to a data processing center, and providing management with up-to-date information for more accurate forecasting, inventory control, and money savings. The most common medium used for data transmission is telephone lines. The method of transmitting over this medium is either punch card to punch card, paper tape to paper tape, magnetic tape to magnetic tape, or computer to computer. IBM and RCA are two major computer companies which have made contributions in the communications area.

The importance of data transmission is indicated by the fact that AT&T expects that as much digital data will be carried by its wire as voice communication by 1970. RCA has estimated that the annual market for data transmission equipment will be over $300 million by 1965, and that the growth rate for this equipment will be roughly 30% a year. By the mid-60s one-third of all electronic data processing sales will include communications equipment.

Within 30 or 30 years, we could have an international information network operating via Telstar with communications service on the order and scope of world-wide telephone networks today.

IBM has experimented with low-power microwave transmission, and this could extend the capabilities of its Tele-Processing system for long-distance computer-to-computer communications to areas where common carrier facilities are not available, or where customers wish to use their own facilities. The linking of advanced communication devices with advanced data-processing systems will provide the big breakthrough in real-time total management information systems.

Education

New developments in computer technology are leading to increased automation in our public schools and universities. More than 200 school districts and departments of education in 45 states already use electronic accounting machinery to process business, payroll, personnel, and administrative data. On the university level, hardware valued at more than $115 million is currently in use in colleges and universities. Universities are not only good customers for large-scale computation facilities, but also are in a position to apply and teach techniques developed in other areas. Many colleges with computers have introduced computation courses, so that a large fraction of the students are exposed to programming at some stage of their undergraduate career. One of the most rapidly developing applications of computer technology to education is the use of computer-based teaching machines. A number of institutions are exploring the potential of the computer for controlling instruction of individual students on the basis of differences in learning rate, background and aptitude. The University of Illinois uses an a computer to control a teaching system consisting of slides, TV displays and a student response panel. Answers to questions are transmitted to the com-

Index of Computer Manufacturers

- Advanced Scientific Instruments
- 5249 Hanson Court
- Minneapolis, Minnesota
- Autonetics
- North American Aviation Co.
- 3304 Wilshire Blvd.
- Los Angeles, California
- Bendix Corporation
- 5600 Arbor Vitae Street
- Los Angeles, California
- Burroughs Corporation
- 6071 Second Avenue
- Detroit 32, Michigan
- Clary Corporation
- 468 Juniper Street
- San Gabriel, California
- Computer Control Corporation
- 2251 Barrev Avenue
- Los Angeles 64, California
- Control Data Corporation
- 501 Park Avenue
- Minneapolis, Minnesota
- Digital Equipment Corporation
- Main Street
- Maynard, Massachusetts
- El-Telex
- 13040 S. Cerrise Avenue
- Hawthorne, California
- General Electric Company
- 13430 N. Black Canyon Highway
- Phoenix, Arizona
- General Precision, Inc.
- 101 West Alamed Avenue
- Burbank, California
- IBM
- 590 Madison Avenue
- New York, New York
- Minneapolis-Honeywell Regulator Co.
- 60 Walnut Street
- Wellesley Hills, Massachusetts
- Monroe Calculating Machine Company
- 555 Mitchell Street
- Orange, New Jersey
- National Cash Register Company
- Dayton 9, Ohio
- Packard Bell Company
- 1905 Armaaon Avenue
- Los Angeles 25, California
- Philco Corporation
- 3900 Welch Road
- Willow Grove, Pennsylvania
- Radio Corporation of America
- Camden, New Jersey
- Rano-Weidrige Corporation
- 9433 Fallbrook Avenue
- Canoga Park, California
- Remington Rand Corporation
- 315 Park Avenue South
- New York 10, New York
- Scientific Data Systems
- 1542 Fifteenth Street
- Santa Monica, California

* We are indebted to these companies for their cooperation and assistance in this project.
The Bureau estimated that by 1966, 1,500 computers will be installed by the government.

Computers are being used for a number of new applications by the government in the non-military field. The Internal Revenue Service has turned to computers to process its 95 million tax returns. These tax returns have grown from 20 million two decades ago, and could reach 155 million in 1980. The only logical means to handle all this paper work is high-speed electronic equipment. The system will be in full effect in 1965, and should prove very effective means of catching up with the tax evaders. The Social Security Administration is using computers to speed the processing of claims for social security benefits. District offices transmit data via AT&T's Data Phone system to a computer center in Baltimore. Information is produced on magnetic tape, which can be fed directly to the computing center for further processing. The government is also using computers to cut administrative costs in the Federal farm program. The utilization of computers will cut out 241 jobs and save a total of $1.5 million a year when the plan is fully in effect by 1964. The government is keenly aware of the cost savings apparent in computers, and is employing them in very sophisticated applications to increase its efficiency.

The military has been the largest developer and user of computer technology to date. The military value of improved computer characteristics has led to the support of government-sponsored research projects which the computer industry would not have undertaken on its own. Due to the requirements of space, speed, and reliability, military control and command systems are far more sophisticated than commercial systems. However, many of the techniques developed by the military are adaptable to business systems. This could prove particularly applicable in on-line, or real-time systems. Advances made in the peripheral equipment area, especially advanced display techniques, could form the basis of a new multi-million dollar industry in itself. The space program has also opened up a huge market for computers. Four large digital computers form a network during an orbital mission, and provide a running display of important launch, orbital, and re-entry information. Computers, with the help of radar, will be used in achieving orbital rendezvous during the first U. S. lunar landing mission late in this decade. The importance of the military market to the computer industry is indicated by the fact that annual shipments to this segment of the market will reach an estimated $2.5 billion by 1970.

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Insurance

The first computer was installed in this industry eight years ago, and since then it has been one of the nation's biggest users of electronic data processing equipment. No large life insurance company could operate competitively today without an electronic data processing installation. More than three-fourths of the nation's 120 million policyholders are now on tape. It is estimated that more than 75 large-scale computers, approximately 200 medium-size machines and many hundreds of small units are now operating in life company offices. These numbers are growing every day. In addition to its normal functions, computers will be used increasingly as an analytical tool in providing life companies with marketing analysis and financial forecasts. Operations research techniques will be used to provide

Continued on page 68
Report of IBA Industrial Securities Committee

Continued from page 67

Life companies with scientific reports.

National Geographic is a good example of what insurance companies are doing with computers. It installed an IBM 650 to calculate renewal billings, and in this one application produced annual savings of $200,000 as a result of clerical reduction. An NCR 394 was installed to create an integrated processing system, and to produce better and more accurate management reports at a minimum cost. With the help of these machines, Nationwide has projected savings in excess of $1 million over a seven-year period. In addition to the large companies like Nationwide, medium and small insurance companies will also need computers in the future. The insurance industry has installed machines valued at $400 million through 1962, and expects shipments of $100 million a year during the period 1963-1965. This would lead to a cumulative market of $700 million by 1965.

Investment Banking

In the financial community, computers are used in such applications as payroll, margin and cash accounting, customer statements, trade confirmations, commissions, dividends, and a host of allied management reports. Computers are also used to speed up such routine work as figuring portfolio market values and yields, and making records of company earnings, dividends and profit margins. A number of firms are experimenting with these machines for security analysis work. At this point, computers are supplying the various mathematical formulars and ratios which analysts use in judging the value of a security, and are providing the necessary statistics which determine the relative attractiveness of stocks. There is a limitation in the ability of a computer to recommend the sale or purchase of a stock, but current applications should improve the overall quality of investment decisions.

Computers are also widely used in the various stock exchanges. The Midwest Stock Exchange is developing an electronic centralized bookkeeping service which will reduce book office expenses by more than 70% per order, and will save member firms an estimated $3 million a year in labor and machines. The NYSE's Stock Clearing Corporation uses computers to verify and clear thousands of transactions each day. A computer system which will automate the Exchange's ticker and quotation service is expected to go into operation early in 1965. This system will run the 3,800 stock tickers in the U. S. and Canada, and will provide a voice recording to announce prices over its telephone quotation service. A computer is used by one Wall Street firm to perform calculations required in bidding on serial bond issues, and to handle the mass of information involved in maintaining up-to-date files on all bonds.

Process Control

The use of computers for process control applications in factory automation appears to be on a level where general-purpose computers were in 1952. With increasing computer speeds and advanced programming methods, the control computer is taking over as a dynamic optimizer, readjusting plant operations to achieve continuous optimization of performance, rather than serving merely in a supervisory capacity. With increasing applications in the power and chemical industries, sales of digital computers for process control are increasing at the rate of about 50% a year. The power generating industry is first in the number of digital process control systems on order, which is estimated at 200. The rest of the market is comprised of the chemical, petrochemical, petroleum, paper, glass and cement industry. As automatic process control is still in its infancy, the potential size of the market for computers is still a question. Some sources have indicated a $500 million market in this area by 1970. Computer companies which should share in this market include GE, IBM, RCA and Thompson-Ramo.

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developed—optical scanners; methods of inexpensive data transmission; and larger, less expensive random-access memory devices. A number of retailing firms have installed computers to handle accounts payable, payroll, sales audit and accounts receivable. Notable savings are being achieved in these areas alone. For example, Stix, Baer and Fuller of St. Louis is projecting a five-year savings of $400,000 primarily in clerical savings, by employing two computers. The installation of computers into merchandising control, inventory control, and market analysis could prove to be even more significant in terms of savings. In this respect, retailing firms could very well follow the pattern set by such apparel companies as Bobbie Brooks, which is speeding up its inventory turnover by 20-40%, and expects to save over $1 million in the process over the next five years.

As extensive improvements are being made in optical scanners, communication equipment and memory devices, it is conceivable that computer installations in the retail industry could reach $5-2.0 billion in 1976. NCR and Burroughs appear to be in favorable positions in this industry.

These are just a few areas in which computers are finding applications today. In addition, there are a number of areas with large, but relatively unexplored potential which appear to be ready markets for computers. These include:

- Service organizations (hospitals, hotels), the transportation field (airlines, trucking, traffic control), local government, information retrieval, medicine, advertising and law. The uses for computers appear limited only by man's imagination. Eventually, computers could become as commonplace as the office telephone.

**Industry's History Since 1952**

The years between the building of the first computer in 1944 and 1962 were years of experiment by universities, government departments, and small businesses. At that time, major business machines, electronic and electric manufacturers became convinced that machines which could compute and process data automatically were important and they entered the field on a big scale. Sperry Rand had a big jump on the field when they acquired Eckert-Mauchly Computer Corporation in 1952 and Engineering Research Associates in 1952. The founders of the former company were the designers of the ENIAC, and their Univac I was the first general-purpose electronic computer designed for business data processing. This machine was complemented by a machine for scientific computations built by the Engineering Research Associates group. Sperry Rand embarked upon a vigorous marketing of both machines. The first commercial computer installation was in 1951, when a Univac was installed at the Bureau of Census. The first large-scale electronic computer to process business data, the Univac I, was delivered to General Electric in January, 1954. IBM turned down the Eckert-Mauchly Corporation because it felt that the greatest market was for computers in scientific rather than business applications. IBM did have 12 installations of its 701 in 1953, primarily for scientific work. The company's 702, a business version of the 701, was a failure. A crash program followed at IBM to replace the 701 and 702 with the 704 and 705, respectively, by January 1956.

In the meantime, IBM was making the most of Sperry Rand's mistakes. Sperry Rand failed to see the importance of service, customer education, and the development of high-speed output equipment. IBM's strategy was not to deliver a machine unconditionally to the customer but to sell the application fully from the date of installation. This sales strategy paid off spectacularly, and the five-year lead which Sperry Rand once had on the field was erased by the end of 1955, when IBM was ahead of Sperry Rand in orders booked. By mid-1966 it had $350 million worth of its 700 series machines installed, against $70 million for Univac. Burroughs looked like a strong contender in the computer race when it acquired the Electro-Data Corporation in 1956. The company's Datatron computer proved excellent competition for the IBM 650 at the time.

RCA made a huge initial investment of over $25 million to get into the computer field and sold its first Bimac in 1956 for $4 million. This was the industry's biggest single installation to date. There were four companies making large-scale computers in 1957, and industry sales were $350 million. By 1959, nine firms had made heavy commitments in the field, and industry sales were estimated $500 million. Machine introductions were made by Bendix in 1955, General Precision in 1956, Minneapolis-Honeywell in 1957, Philco and Monroe in 1958, General Electric in 1959 and Control Data, National Cash and Packard Bell in 1960.

**Company Position by Machine Size**

There are many ways of classifying computers by size, but the two most common methods are:

- Rental cost per month, and over-
Report of IBA Industrial Securities Committee

Continued from page 69

Data has 5.3% of this market, with Sperry Rand having 4.74% of its market. IBM has dominated the medium-scale field, due to the success of its 1401. IBM has 9.26% of this data, which is 16.06% of the market. GE controls third place with 9.41% of the market, and R.C.A. has 7.25% of the market. This has contributed to the market's growth, due to the success of the 1401. IBM has also dominated the supercomputer field, with 45.0% of the market, and Control Data has 11.4% of the market. This has contributed to the company's success, due to the success of the 1401.

Sperry Rand, as a leader in the small-scale market, has 21.7% of the market, and has contributed to the market's growth. This has contributed to the company's success, due to the success of the 1401.

Sperry Rand has been a leader in the small-scale market, with 21.7% of the market, and has contributed to the market's growth. This has contributed to the company's success, due to the success of the 1401.

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in 1970, and $2.5 billion in special military computers. The prospects for a $4.7 billion market in 1970 does not appear overly optimistic in view of growth being the norm from the next eight years, or will increase from $4.5 billion to approximately $20 billion. In view of current computer installations, backlog, areas of concentration, marketing ability, financial prospects, etc., Exhibit III is a projection of computer company earnings of 1970. IBM should still be the world's leading computer, but its share of the market will be less than the 78% which now commands. This will be the result of a number of factors, one of them being the limitation of machine, increases in the offering of service, which has been IBM's strongest selling point, changes in volume, competition, and small computer users, will start supplying their own computer with their own machines.

For example, next to the government, IBM has been the largest customer of the computer users. IBM and 100 computers. Future marketing strategies will become more sophisticated than in the past, and machines will have approximately the same capabilities. The computer firm can offer the best package and work relationship to a customer should have an advantage over competition. This is one reason why National Cash and the Federal Reserve System should be successful in their total systems approach.

It is a toll up for the number of users and the 1970, but so far, there is no indication that this is the expected outcome. GGCA's backlog is rapidly approaching that of Sperry Rand, so that any new position could be decided in a few years. GGCA faces a more difficult task, however, and should have its big breakout in 1964 or 1965, when it introduces its new line of third generation computers, employing advanced technological concepts.

D. Potential Analog Computer Market: The total value of general-purpose analog computers, process control computers, and hybrid digital-analog computers is estimated to reach $180 million by 1966, representing a compound growth rate of 15% a year since 1962. This rate is likely to continue through 1970, so that the total value of analog computers could be $300 million by that date. The largest sales are expected to be in the three-fourths of the total general-purpose computer market, with the remaining sales divided among Beckman Instruments, Sperry Rand, and Applied Dynamics.

Projected Market Share 1970

<table>
<thead>
<tr>
<th>Company</th>
<th>Estimated Market Share</th>
<th>Cumulative Value of Market Share ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>60-70%</td>
<td>$9,000-14,000</td>
</tr>
<tr>
<td>RCA</td>
<td>6-12%</td>
<td>1,200-2,000</td>
</tr>
<tr>
<td>General Electric</td>
<td>7-10%</td>
<td>1,050-2,000</td>
</tr>
<tr>
<td>Sperry Rand</td>
<td>7-10%</td>
<td>1,050-2,000</td>
</tr>
<tr>
<td>Control Data</td>
<td>6-9%</td>
<td>600-1,200</td>
</tr>
<tr>
<td>National Cash</td>
<td>4-6%</td>
<td>600-1,200</td>
</tr>
<tr>
<td>Burroughs</td>
<td>4-5%</td>
<td>450-1,000</td>
</tr>
<tr>
<td>Minneapolis-Honeywell</td>
<td>4-5%</td>
<td>450-1,000</td>
</tr>
<tr>
<td>Philco</td>
<td>2-3%</td>
<td>300-600</td>
</tr>
<tr>
<td>Others</td>
<td>1-2%</td>
<td>150-400</td>
</tr>
</tbody>
</table>

*Based on a potential cumulative computer market of $20 billion.

The Future

As remarkable as the progress has been in computer technology over the past decade, industry experts realize that we are in the same stage of development that automobiles were when they began to be generally accepted by the public. Advances in the state of the art will bring third-generation computers employing thin-films, cryogenics, micro-miniaturation, and solid-state devices. These components will not only lower costs, but permit operating speeds measured in nanoseconds, or billions of a second. Looking further to the future, operating speeds some day may be measured in terms of light speed. Today's computers perform 200,000 operations per second, two-thirds of a second, MIP has developed a working model for a new generation of machines which will perform over 100,000 computations per second. Future computers will be reduced in size to extend the use to smaller organizations, and reduced in price and rental charges to increase their markets. Advances made in the miniaturization area, such as optical scanners, data communication equipment, and data processing equipment, will open up new multi-million dollar industries.

Extension of computer applications will come with increased central processing systems. In the next decade, direct communications with computers from a point of sale will not really result in ordering, filling, data recording, and inventory control, but could extend for a line in the back end, the credit, and data communications equipment. Commercial banks will have intercomputer systems which will lead to up-to-the-minute information on bank and customer balances, eliminating a great deal of the floating in the banking system. Total information systems will be possible by communication between the internal computer systems and data processing computers, transferring the industrial complex into one big web of synchronized data flow.

Electronic computers will be a great impetus to technological development. They will expand man's capabilities and intelligence. The day of trial-and-error will soon be over. The computer can provide data for politicians to decide and the number of users will not grow as fast as the total number of competitors. Increased automation and productivity will not only lead to increased profits on the part of overall business, but it will be a vital factor in meeting the serious challenge facing our country in international trade competition.

Respectfully submitted,
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The New President's Inaugural Address

Continued from page 9

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Continued on page 72

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Continued from page 71

spent for children’s clothes and

The other example I would like
to cite is that of the Japanese
Telephone Company, known as
K.D.D. This company wanted to
take a three thousand mile sub-
marine telephone cable from
Tokyo to Hawaii which would
greatly improve communications
between our countries. But Amer-
can dollar exchange was not
available to them. The project did
not have a priority claim on capi-
tal in Japan and all other possible
lenders said “no.” An American
investment banking firm worked
out a plan which gave to Ameri-
can institutional investors a chance
to make a profit on their invest-
ment and the work was underway.
Here is the end result. Orders for
$25,000,000 of labor and equipment
have been placed In this country.
About half is given to the Western
Electric plant in Point Breeze,
Maryland, where submarine cable
is manufactured. This will give
important additional work to the
five thousand workers in that
plant. Another important part of
the order was given to a plant in
Allentown, Pa., where undersea
repeaters and amplifiers are made.
These cost $50,000 each and one
was placed every 30 miles of the
cable, so a lot of work is involved
—in a contribution to the people
of Allentown. And, finally, the
American Telephone & Telegraph
company laying the cable, “The Long
Lines,” with a crew of 200 Ameri-
can sailors, will work six months
laying the cable. All of this work
started when the Investment
Bankers succeeded in interesting
investors in the project. Investors
became interested when given the
incentive of profit on the invest-
ment—so the relationship between
profits—investment and employ-
ment is direct and clear.

Broader Picture

This basic principle of the Free
World—that profit attracts invest-
ment and so creates employment—
is clear and understandable in the
individual case but does it apply
to the country as a whole? Let’s
look at this broader picture.

The U. S. Department of Com-
merce keeps a record of Total
After Tax Corporate Profits and
Investment and the U. S. Depart-
ment of Labor keeps a record of
Employment and Unemployment.
In Chart III the records are com-
pared. Four times in the last 15
years, we have had a fairly sharp
decline in profits. These de-
creases are shown by arrows in
the top line of the chart. Four
times in the last 15 years we
have had a sharp decrease in invest-
ments as shown by arrows In the
middle of the chart and four times
we have had a rise in unemploy-
ment, as shown by arrows at the
foot of the chart. Every time prof-
its after taxes went down, private
domestic investment went down,
and every time private invest-
ment went down, unemployment
went up. Four times in the last
15 years profits and investment
declined and each time from 2 to 4
million people became unem-
ployed.

And looking at the other side of
the record, four times in the last
15 years profits have gone up;
each time new private Invest-
ment has gone up, attracted by
these profits, and each time
unemployment has been reduced.
Two to three million people have
found work who otherwise would
have been unemployed.

Again, the lesson is clear. The
only effective way to combat un-
employment, is to create a busi-
ness atmosphere where business-
men will want to expand and hire
more people. The only way busi-
nesses can expand is to attract
new investment and the only way
to attract new investment is with
profits. The formula is Profits +
New Investment = Employment.

The Lesson of Profits Is Clear

Governer Bradford was wise
even in 1623 to forsake commu-
nism by allowing the incentive of
profit to energize his people. We
have built a prosperous nation on
energy of profit. The postwar
world has been remade on the
energy of individual profit—
in Japan, in West Germany. France,
England, Italy. No bureaucratic or
communist country has succeed-
ed in developing standards for
their people anywhere near the
standards developed by the ener-
gy of profit. The lesson is clear.
When we hear anyone in govern-
ment—be it in labor, in universities,
or in business, trying to limit prof-
its, we should realize that this
person has failed to understand the
record. Let the Communists
try to control profits. Profits pay
taxes, support our govern-
ment, and our schools, but most
important they make work for our
people, they energize our commu-
nity. Profit is the key word in
our economic language, and we
should, as Investment Bankers, do
our part to drive that lesson home.

In closing, I would like to speak
briefly of the problems, some of
them serious, that confront our
business. We have built a fine
record in recent years, and we
are proud of a year in which we
raise $22,000,000,000. That is a
real and substantial contribution
to the American economy. But
mistakes have been made. To
name a few: we have grown too
fast; we have taken on too many
young men without training them
thoroughly enough; we have not
trained enough managers; some
of our people have come into the
business who are not qualified; our
over-the-counter markets need
better reporting and closer super-
vision. These problems, and there
are others, are very real. Any-
thing that hurts our customers
who are the people of this coun-
try, is bad business. We have had
a decade of very rapid expansion
of our business. That and in itself
is good. But it is time to
take a careful look to see what
can be done to improve the qual-
ity of our business performance.
Final product we have been welcome
the work that is being done by the
Securities & Exchange Commis-
sion. The so-called ‘‘Cohon’’ cor-
porations are bound to point out areas
in our business where improvement
and change are necessary. We
have long ago learned to value the
contribution of government to our
business. We are probably one
of the most regulated and closest
controlled businesses in the coun-
try. We work in a gold-fish bowl
of steady examinations and we can
have no secrets. But this is good
and we know the public interest
demands it.

On the other hand, we know
that some suggestions that will
come out of government can be oppres-
sive, deadening to the sound de-
velopment of our business, and
bureaucratic without accomplis-
ning the desired result. The best
regulation and the best govern-
ment rules are those which have
been subjected to the critical
scrutiny of both industry and gov-
ernment, and where important
rules have been badly conciliated.

Therefore, I would like to close
with two pledges. The first is to
the Securities and Exchange Com-
misim and to Bill Carey: that we
in the IBA feel sincerely the
importance of doing business on
the highest standards and we will
do everything that we can to sup-
port high standards, and to back con-
structive rules and legislation.

The second pledge is to the
industry: that we in the IBA, will
marshall our keener minds to
suggest practical modification of
any proposed rules or legislation to
the end that the best product will
be, in fact, con-
structive and in the public interest.

*Acceptance speech of Mr. Amos on
assuing office of President of the IBA
Report of IBA Aviation Securities Committee

Continued from page 39 also limits the profit potential. In the interest of returning to the first principles on which American industry was built, these leaders would prefer that their companies define the national business risk provided this could be coupled with greater opportunity for profit.

Incentive Contracts

One means of giving defense contracting more of the character of free enterprise is the incentive contract. This type of contract has been increasingly discussed and used, although it cannot be indiscriminately applied. It would not be appropriate on projects involving work for which there is no precedent or background of experience. For example, it would not serve the objectives of a research project. There, cost plus a fixed fee is still the most equitable method. In development work, incentives can be applied provided they are based on a cost reimbursement contract. In production, however, there is much merit in an arrangement where the contractor assumes the risks of poor performance, provided he is correspondingly rewarded for outstanding accomplishments. In this area incentives can be used to encourage close and continuous top management attention to the most important aspects of each program. These could prompt or early delivery, high quality and reliability, or reduced costs.

Incentive contracts provide bonuses for outstanding performance, with corresponding penalties for poor performance, in each area. This type of contracting not only tends to place a premium on effective management but to benefit the taxpayer and the government as well. Most advocates of this form of contract recognize that the penalties for inadequate performance are an integral part of the method. It is this willingness on the part of the contractor to assume risk that is important to preserving his right to make a profit.

Renegotiation

Wider use of the incentive contract would be one step toward allowing American industry to function in a free environment more nearly comparable to that enjoyed by its continental European counterparts. However, it will not do this unless the boundaries of the defense area moves along with the defense production. This is particularly true of renegotiation, which has taken a proper business risk and earned the fair rewards of good performance should not be subjected to a process of renegotiation based on the brilliance of hindsight. It is encouraging that this, too, is recognized at the top of the defense establishment.

Supersonic Transport

Questions of a similarly fundamental character are raised by the issue of whether—and how—the United States is to develop a supersonic transport. Clearly, National interest is involved. England and France are jointly embarking on such a project with the possibility that Soviet Russia will join the race. The implications are obvious not only for American prestige but for the impact on our economy.

Development of a supersonic transport is beyond the financial capability of any one company. A logical approach which may be discussed would be for the government to sponsor development of the airplane by a team of companies along the lines of such projects as Apollo, Mercury and Polaris. Justification for a Defense Department contract on such grounds is made difficult in view of the controversy, over the RS-70. However, there is precedent for government sponsorship where the national interest demands it.

Since the end product of this development would be utilized commercially, it would be entirely proper, if earnings projections permitted, for the government to participate at the outset of the project and repayment to the government of the cost of its participation out of the long-run operations of the transport. In other words, the price to airlines could include a charge for the amortization over a period of years of the development costs advanced by the government. In this way the project would constitute a constructive partnership between government and industry, serving the national interest on a sound business basis.

Savings

Sales of the aerospace industry already approach those of the automotive industry and are growing rapidly. In its Joint Air Force issue, refers to estimates of NASA and military aircraft spending of upwards of $2 billion by the end of 1970, or around twice the total annual operating revenues of all U.S. civil airlines.

Understandably, satellites, spacecraft and missiles have captured the public interest with the result that the extra cost of current and future demand for manned aircraft to meet some strategic, tactical or logistical requirements is not, perhaps, very widely understood. It seems certain that procurement by the military services of substantial numbers of aircraft of many types will not only continue but probably increase.

Similarly, the production of commercial aircraft, including passenger transports, freighters, helicopters, corporate and private-owner airplanes is expected to continue to occupy an important part of the industry.

In all, it is clear that we are dealing with an industry, in its many ramifications, that is essential not only to our defense but, perhaps, to our very survival. It seems certain that it will have a profound influence on our economic life for a long time to come, whether or not military expenditures continue at high levels.

From this industry's tremendous reservoir of scientific knowledge and creativity, technological talent and advanced research facilities, will surely flow many benefits both diplomatic and economic to nature which will mark the lives of this and succeeding generations.

It is hoped that the creative forces of the free enterprise system will continue to operate and maintain the full strength and diverse capabilities of the many thousands of companies that are a part of the aerospace industry. Thus, we believe, will the best interests be served.

Continued on page 74
CORPORATE AND MUNICIPAL SECURITIES

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The Civil Aeronautics Board began in 1965 a policy of certifying multiple competition in major domestic markets. Unfortunately, most of these markets could not efficiently support this additional competition. Internationally, foreign carriers have cuttingedge rather than free access to lucrative U.S. markets resulting in a decline in the percentage of total international traffic carried by U.S. flag carriers.

The Financial Position of the industry's financial position can be seen from Table VIII. From the end of 1955 to the middle of 1964, working capital of the domestic trunk airlines rose 12%, net fixed assets rose 304%, long-term debt rose 63% and net worth rose 41%. The debt equity ratio rose from 3 to 1 to 2.6 to 1.

Table IX shows depreciation and amortization and net income of the domestic trunk airlines. The data show that cash earnings are quite large in relation to debt. Debt is now equal to over six years of cash earnings compared with slightly over one year of cash earnings at the end of 1955.

Earnings and Outlook
The airlines appear to be on the verge of significant earnings improvement. Additional credit to be added in 1965 is relatively small. Traffic growth of only moderate proportions would be sufficient to allow the trend of declining load factors to be arrested. The fare level currently firmly firm both domestically and internationally. Unit load factors are declining. The breakeven load factor should continue to decline.

Non-operating charges appear to have about reached a peak so that no further pressure on earnings is visualized from these changes. Net earnings should rise in 1965. Capacity should not rise significantly in 1964, despite quantity deliveries of the Boeing Model 727 jet transport in 1964. Most of these aircraft will replace existing equipment. Barring a significant decline in general economic activity, we believe the major factors detailed above will continue to have a favorable effect on earnings of these carriers.

TABLE VII

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<thead>
<tr>
<th>Domestic Airlines</th>
<th>International and Territorial Airlines</th>
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<tr>
<td><strong>Operating Revenue</strong> per available ton mile</td>
<td><strong>Operating Expense</strong> per available ton mile</td>
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**Mergers**
There has been considerable discussion of the past few years about the possibility that mergers among the trunk airlines might help solve the problem of excess capacity. The only merger so far approved was the 1961 case concerning United and Capital, which the CAB approved to keep open.

Continued on page 75

**Sources** Air Transport Facts and Figures.

**Domestic and International Airlines**

**Operating Income (Expense)**

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**Sources** Air Transport Facts and Figures.
Report of IBA Oil, Natural Gas Securities Committee

Continued from page 35

the best solution for raising capital from going bankrupt. No decision has been made in the American - Eastern merger case. Pan American and Trans World are discussing possible merger but no concrete proposals have yet been agreed upon. While CAB Chairman Alan Boyd said last year that "mergers probably present the best solution" for easing the plight of several of the financially weak lines, he more recently has stated that too much emphasis has been given to mergers as a solution to the problems of this industry. Mergers may alleviate some of the excessive competition in certain areas but so far no real clues can be found as to the Board's receptivity on this subject.

Respectfully submitted,
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F. S. Smithers & Co.
New York, N. Y.

TABLE V
FREE WORLD OIL PROJECTIONS

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Demand</th>
<th>Gas Demand</th>
<th>Total Gas Demand</th>
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<tbody>
<tr>
<td>1960</td>
<td>14.0</td>
<td>1.0</td>
<td>15.0</td>
</tr>
<tr>
<td>1961</td>
<td>14.5</td>
<td>1.5</td>
<td>16.0</td>
</tr>
<tr>
<td>1962</td>
<td>15.0</td>
<td>2.0</td>
<td>17.0</td>
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*Includes nuclear power.

Demand
The growth of oil demand in the Free World will be quite different in the 1960-1970 decade. All areas of the Free World outside the United States are experiencing a rapid population growth, which will add some 250 million people by 1970. At the same time, many nations are seeking a higher standard of living which depends on an increased per capita consumption of energy. If Western Europe and the United States are the automobile, the consumer is sure to collapse to the same level. The standard of living approaches higher levels. In the United States, the ratio of people to registered vehicles is now three persons per passenger car as compared to four persons per car in 1950. But in the Free World the ratio has been reduced from 120 persons per car in 1950 to 22 in 1960. This has been achieved by reducing the number of cars per person from 47 in 1955 to 15 in 1960. In view of the anticipated improved standard of living, the potential for increased per capita consumption, the demand for petroleum energy is likely to continue its dynamic growth in the foreseeable future in the Free World.

Various studies indicate that the consumption of energy in the Free World will increase some 50% in the 1960-1970 decade. In the same period, oil is expected to increase its share of that energy market from 41% to 48%. As a result, the consumption of oil in the Free World is estimated to increase at a rate of 6% per year or about 750,000 b/d annually. The rate of growth of oil demand in the United States in this decade is estimated to be only 2-3.5% annually but the volume increase will be upwards of 300,000 b/d annually. Total oil demand in the Free World is, therefore, expected to increase at an annual rate of over 1 million b/d annually, or 4.5% per annum during the decade of the Sixties.

Supply
Several years ago, it was estimated that the economic reserve productive capacity of crude oil in the Free World exceeded the then demand requirements by approximately 5.0 million b/d or 28%. Today excess productive capacity is estimated to be approximately 6.0 million b/d, or 30% over demand requirements. However, it should be remembered that demand in the Free World is growing at rates which approximate the full production of one new Iraq or Iran each year. It is, therefore, quite necessary to continue exploration for the reserves needed years hence, though the world appears surfeited today. For instance, while Algeria and Libya have added to the oversupply recently, it should be remembered that exploration in these two areas began many years ago. Today, Algeria is producing some 460,000 barrels daily and Libya only some 275,000 barrels daily. In fact, these two most promising new producing areas do not yet have a combined production equal to one year's growth of Free World demand. And political instability in North Africa, the Middle East and Venezuela requires excess producing capacity in many diversified areas as a hedge against political upheavals. Therefore, despite the present excess capacity, it is necessary from a long range standpoint for the Free World oil industry to continue its active search for new reserves in order to keep pace with the increasing demand.

The Desire to Go Abroad
The increasing difficulty and rising cost of finding and developing new reserves in the United States have caused nearly all

Continued on page 76
Report of IBA Oil, Natural Gas Securities Committee

Continued from page 75 companies with sufficient capital resources to venture abroad in an attempt to develop additional reserves for both domestic and foreign markets. The number of United States oil companies operating abroad increased from approximately 30 in 1945 to some 200 in recent years. In fact, among the 35 largest United States oil enterprises, there are only two companies that do not have an interest in operations outside the United States. This must be regarded as a partial testimony to industry management that participation in the growth of the international industry is attractive and necessary.

Reserves

The Free World's oil reserves are located, for the most part, in areas far removed from the major consuming centers. The United States, the largest consumer in the world, accounting for nearly 50% of Free World demand, has but 11.4% of the estimated crude oil reserves of the Free World, which at the end of 1961 were estimated to be 278 billion barrels. On the other hand, the entire Middle East, which accounts for more than two-thirds of the Free World's crude oil reserves, consumed only 3% of Free World demand in 1961. Western Europe, one of the fastest growing areas of petroleum demand and which in 1961 accounted for 23% of Free World oil consumption, has less than 1% of the Free World's proved crude oil reserves.

Getting Oil to Market

Obviously, the Free World as a whole has more than ample reserves to fulfill current demand. Yet, to move these reserves to consuming markets requires massive logistical planning and a vast tanker fleet. The availability of such tanker fleets, of course, has a direct bearing on the ease of movement of the oil and, more importantly, since an abundance of tankers is conducive to lower transport rates, an effect on the final price of products to the consumer. At the end of 1961, the world tanker fleet (excluding ships of less than 2,000 dead weight tons) totaled 67.1 million dead weight tons, a 3.1 million-ton increase over that which existed a year earlier. The trend toward unusually large tankers of upwards of 80,000 dead weight tons and the retirement of smaller tankers continues. There is more than ample tanker availability to satisfy the movement of oil under current world supply patterns. Short of a major interruption in the Free World supply pattern, there is no reason to expect that the present very low tanker rates will be significantly increased. This likelihood insures that oil produced in prolific quantities and at low cost, such as Persian Gulf crude, will continue to be economically available in most parts of the world.

The Organization of Petroleum Exporting Countries (OPEC)

At the fourth conference of the member nations of the Organization of Petroleum Exporting Countries, held at Geneva in June of this year, a number of resolutions were proposed which involve a restoration of posted prices for crude oil to the pre-August 1960 level and a request for a study to formulate long range policies linking crude oil prices to an index of prices of goods which member countries import. Further, the resolution stated that such governments are not being adequately compensated for the

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intrinsic value of their oil. The oil companies have had some post-Geneva meetings and have cited certain factors as mitigating against crude oil price increases, such as a current abundant supply of crude oil in several areas of the Free World, the possibility of competitive energy elements in Western Europe, an area which takes about 60% of Middle East production, and the willingness of Russia to supply certain consuming countries with oil. To date, no actions have been taken regarding OPEC's resolution nor are any important results likely for some time.

Russian Oil

Geologically, the Russians can produce substantial amounts of oil. Politically, it is apparent that it will sell much of its surplus in the Western world but in amounts that it is hoped will not be damaging to the price structure. The best estimate of Russia's exports to the Free World markets in 1965 is about 750,000 b/d, up from approximately 600,000 b/d in 1961. But the 1965 estimate would constitute less than 10% of the then anticipated Free World total demand and leave ample opportunity for the private companies to provide over-every-supplies at a profit.

Russian crude oil has quality shortcomings and often has not lived up to the specifications of the buyer. It has damaged refineries and the Russians have often failed to deliver the quantities for which they contracted. Several nations which in the past have used spot cargoes of Russian oil have voluntarily set maximum limits on the percentage of internal energy requirements they would allow to be satisfied by Russian crude. The Common Market countries of Europe, which have established an energy coordinating committee, are currently considering the establishment of upper limits on the amount of the Common Market's energy which may be supplied by Russian crude oil.

Preliminary reports indicate that the Soviet Union increased its crude oil exports 24% in 1961 to approximately 850,000 barrels per day. Of this, it is estimated that Free World markets took approximately 600,000 barrels per day. This is about one-fifth more than Russia exported to the Free World in 1960. However, in 1962, Russian oil exports have not expanded appreciably.

Financial

Capital expenditures for petroleum facilities in the Free World approximated $11.4 billion in 1961, slightly more than the record $10.5 billion in 1960. Capital expenditures outside the United States amounted to $6.3 billion in 1961, or more than half of the Free World total. Gross fixed assets at the beginning of the year totaled $112 billion, of which some $61 billion, or 54%, were located in the United States, and the remaining 46%, or $51 billion, was located in the free foreign areas. Of all American industrial corporate spending abroad, oil companies are still by far the dominant investors.

A recent survey by the McGraw-Hill Department of Economics and the United States Department of Commerce indicates that American petroleum corporations are expected to spend about $1.75 billion abroad in 1962, as opposed to $1.85 billion for all other manufacturing concerns. The $1.75 billion figure is little changed from that of 1961 and a similar level of expenditures is indicated for 1963. The seven major international oil organizations had indicated cash earnings of about $4.8 billion in 1961, and their aggregate capital expenditures approximated $3.3 billion. Dividends totaled $1.3 billion, leaving approximately $200 million in retained earnings.

Thus the indication is that internally generated cash is ample to meet anticipated requirements of the larger companies engaged in international oil trade for the next few years. This would indicate that the likelihood of any major public financing by these companies during this period is unlikely. However, the newcomers fortunate enough to find substantial reserves abroad have also the necessity for providing market outlets, and this has often necessitated outside financing.

Gains in oil use have been substantial in recent years, and the indications are that they will continue.

Continued on page 78
Report of IBA Oil, Natural Gas Securities Committee

Continued from page 77

time to be so in the foreseeable future. Yet, the appearance of new companies to the international scene and an abundance of oil to the Free World market have contributed to competitive price practices which have prevented net income from growing in line with increases in consumption. Many of the companies have, despite the deterioration of price in recent years, increased income through such measures as reorganization, cost reduction programs, and increased efficiency. It is likely, however, that the growth of earnings over the next few years for most companies engaged in international oil will come largely from volumetric growth and increased efficiency—not improved prices for products or crude oil. On the other hand, it would appear unlikely that prices would deteriorate further.

Thus, all of the major international oil enterprises should continue to report increased earnings over the next few years. Many of the formerly domestic oil enterprises which have found oil abroad in significant quantities and produced a method of marketing it should also be able to post gains in net income during this period. It is significant that the five United States international oil companies have completely recovered from the earnings drop of 1960 by showing aggregate net income of over $2 billion in 1961, a new all-time high. And, in 1962, earnings are climbing for these companies.

Most of the international oil companies have increased their cash dividends within the last 12 months. With the international petroleum industry generating large amounts of cash income and a comfortable reserve of productive capacity, it appears reasonable to anticipate more increased dividends in the foreseeable future and little in the way of public financing. This should also be true of most of the successful newcomers to the international scene.

Developments in the Natural Gas Industry

During the past year, the Federal Power Commission continued to press forward towards the achievement of its announced goals of: (1) establishing an area pricing policy for the regulation of producer prices, and (2) eliminating the backlog of pipeline and producer rate cases. The trend towards more stringent federal regulation continued with the FPC, requesting jurisdiction over matters it does not control at the present time. Also, a number of important regulatory problems remain unresolved which, when decided, will have a significant effect on the future of the industry.

Regulation of Producer Prices

There remains strong feeling in some quarters, particularly the producing segment of the industry, that FPC regulation of producer prices may be detrimental to the industry in the long run because of failure to provide the necessary incentives to encourage exploration for additional reserves to meet the ever expanding demand and maintain the present reserve-production ratio. However, Mr. Joseph C. Swidler, Chairman of the FPC, recently stated that the Commission, as presently constituted, believes in the feasibility and desirability of such regulation as “settled government policy.” Since 1954 when the United States Supreme Court issued its decision in the Phillips Petroleum Company case, the FPC has had the responsibility for regulating producer sales of gas in interstate commerce. During the period 1954-1960, the FPC attempted to regulate the producers on an individual company basis using the traditional utility-type cost of service and return on rate of return approach. This proved time-consuming and virtually impossible to administer with the result that an increasing backlog of producer rate cases continued to accumulate.

In 1960 the FPC announced its area pricing policy and rejected the cost of service approach as “unworkable.” The Commission then instituted area rate proceedings in two large producing areas, (1) the Permian Basin in west Texas, and (2) southern Louisiana, by consolidating a large number of producer rate cases in those areas. Late in 1961 the FPC won an important test case when the United States Court of Appeals approved its authority to regulate producers on an area price basis. Two additional court cases are pending. The FPC is convinced that area pricing is the answer to producer regulation, and Mr. Swidler has stated that if the courts reject this concept, the Commission will pursue its aims through the legislative process. The Commission is concentrating its efforts on the Permian Basin proceedings and hopes to conclude these hearings in the near future. However, while the area price hearings are going on, the backlog of producer rate cases remains very large although some progress has been made through the encouragement of voluntary settlements.

During the past two years, the wellhead price of gas has tended to level off. Although this may be attributed in part to the area price ceilings, it is important to point out that the price stabilization has...
also resulted from severe competition from other forms of energy (mainly oil and electric power), as well as from excess supplies of gas. Contracts for new supplies of gas are currently being made at prices below the area price maximums. Also, the Commission is attempting to encourage voluntary settlements of producer rate cases and, at the same time, arrange for moratoriums of up to ten years on future increases. These settlements will also tend to stabilize wellhead prices in the future.

**Pipeline Rate Cases**

The FPC has made substantial progress in its program to encourage settlements of pending pipeline rate cases rather than processing them through the time-consuming hearing and decision procedure. The Commission has instituted procedural and organizational changes which have helped to improve the work flow. Settlements have been made in 90 major pipeline rate cases, and large refunds have been made to the distributing companies. Most of the rate settlement contain moratoriums on future increases. These settlements will tend to stabilize future pipeline rates and enable the distribution companies to expand with the assurance that their gas purchase costs will remain firm. The rate case settlements have also had a beneficial effect upon the pipeline industry from an investor's standpoint by eliminating the uncertainties involved in reporting earnings contingent upon rate increases.

**Other Regulatory Questions**

Although the FPC has done a creditable job in attempting to carry out its regulatory duties in an efficient and equitable manner, it has also attempted to extend its regulatory powers over areas of the industry it does not now control. The Commission has requested jurisdiction over the issuance of securities by pipeline companies. Mr. Swidler has stated that he favors competitive bidding over negotiated sales of securities. The FPC has also recommended that direct industrial sales by pipeline companies be made jurisdictional. This trend towards increased regulation bears watching lest the industry become burdened with too much regulation and, therefore, not responsive to changing economic conditions.

A number of important policy questions in the field of pipeline rate regulation are still undecided. Most of these have been raised in pending cases and will be settled on the basis of the record in those cases. One of the most important matters is whether pipeline-owned gas production will be subject to utility-type regulation or treated as other production under the area price concept. The outcome of this question will have a significant effect on those companies that possess large company-owned gas reserves. Thus far, the FPC has advocated area pricing for the independent producer only and not for the interstate pipeline company producing its own gas reserves. The Commission has continued to regulate pipeline-owned production on the cost of service, return on rate base method. In a decision issued in October, 1963, involving the consolidated rate proceedings of El Paso Natural Gas Company, the Commission ordered a 6 1/2% return on the overall rate base without any additional element of return on producing facilities. El Paso had requested a 6 1/2% return on pipeline property and a 9 1/2% return on producing property. The fact is that the FPC failed to recognize the need for a higher return on wellmouth properties does not augur well for those companies that have made the investment and taken the risks involved in developing their own gas reserves.

Another question with an important bearing on the future of the industry is whether sales of "gas in place" to pipeline companies subsequently to be sold in interstate commerce are subject to FPC jurisdiction. Sales of "gas in place" will tend to have a stabilizing effect on pipeline gas rates because they enable the pipeline to acquire substantial reserves at fixed prices. This will be beneficial to both the pipeline and the ultimate consumer. A matter currently under study by the Commission is how to treat the tax benefits associated with liberalized depreciation. Although the previous Commission's practice was to allow an item for deferred tax expense in the cost of service as well as a small return on the deferred tax reserve, the present Commission may insist that the tax benefits from liberalized depreciation "flow through" to the pipeline's customers. However, in a recent United States Court of Appeals decision involving Panhandle Eastern Pipeline Company, the FPC was ordered to allow a full return on the deferred tax reserve rather than the 1.5% return previously authorized by the Commission. The FPC will seek a rehearing in the case. The outcome of this case will have an effect on the FPC's future decisions concerning the rate treatment to be accorded the tax benefits associated with liberalized depreciation.

For the past several years, pipeline stocks have not been in favor among investors. This situation resulted not only from the many uncertainties clouding the regulatory picture but also from the rate of return decisions issued by the Commission in which return on common equity was limited to 10%-12% regardless of the degree of leverage in the capital structure. From the third quarter of 1963 to the first quarter of 1964 the mutual funds were, on balance, sellers of pipeline stocks with the selling beginning about the time the Commission began issuing its decisions authorizing the lower returns on common equity. However, this mutual fund selling reversed itself in the second quarter of this year when the

Continued on page 80

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Continued from page 79

funds became, on balance, buyers of pipeline stocks. The reversal in mutual fund investment policy no doubt resulted, in part, from the Commission's efforts to reduce the backlog of pipeline rate cases and eliminate some of the uncertainties in the regulatory picture, as well as the relatively reasonable-priced pipeline common stocks.

National Fuels Policy

A special study group appointed by the Senate Interior Committee issued a report in September, 1962, stating that any national fuels policy should emphasize free enterprise and hold government regulation to a minimum. This was an encouraging report for the natural gas industry in view of the fact that the coal industry had been advocating a national fuels policy with end-use control of fuel resources, particularly natural gas. The study group concluded that end-use controls are not feasible and would likely result in a misuse of natural resources. The report also supported the gas industry's position that interruptible gas sales make a significant contribution towards fixed charges and are not "unfair competition" as claimed by the coal industry. The report recognized the benefits of operating the nation's fuel industries in a free, competitive atmosphere and, therefore, reduced the likelihood of the Federal Government injecting itself into end-use controls on competitive fuels.

Industry Growth

The gas industry continued its expansion in 1961, reaching new highs in almost all measurements of growth. As reported by the AGA, the industry added 980,000 new customers, bringing the total served to 33.8 million. Total revenues increased 15% to reach a new high of just under $6 billion.

Natural gas continued to capture an increasing share of the United States energy markets. Natural gas contributed 28% of the nation's energy requirements in 1960 and 29% in 1961. In a study published by The Chase Manhattan Bank in 1961, entitled "Future Growth of the World Petroleum Industry," an estimate was made that in 1970 natural gas would supply 35% of the United States energy market. This estimate anticipates an average annual growth rate of 5.7% for natural gas compared to 3.6% for total energy and 2.7% for oil.

Proven natural gas reserves, as estimated by the AGA, amounted to a new high of 207.7 trillion cubic feet as of Dec. 31, 1961. Net production during the year was 13.3 trillion cubic feet, so that the reserve-production ratio remained at about 20.

Total gas industry construction expenditures amounted to $1,662 million in 1961, a 10% reduction from the all-time high of $1,845 million in 1960. Of the total 1961 construction expenditures, 41% was spent on distribution facilities and 40% on transmission properties. Table VI below shows gas utility and pipeline construction expenditures for the period 1958-61 compared to an estimate for the period 1962-65, as reported by the individual companies to the AGA.

The table shows that the future trend will be towards increased expenditures on distribution properties and less on transmission facilities. Distribution expenditures are projected to increase from 37% of the industry total in the 1958-61 period to 34% in the period 1962-1965. The drop in transmission expenditures can be attributed to the fact that pipelines have been built to serve all large population centers in the nation and future growth will be limited mainly to expansion of existing lines rather than formation of large new projects. Furthermore, the low rates of return being awarded in pipeline rate cases will tend to hold down expenditures on transmission facilities. On the other hand, distribution systems continue to expand by virtue of the extension of service to new areas as well as from large new projects.

TABLE VI

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958-61</td>
<td>Millions</td>
<td>% of Total</td>
</tr>
<tr>
<td>Distribution</td>
<td>2,567</td>
<td>37</td>
</tr>
<tr>
<td>Transmission</td>
<td>2,911</td>
<td>43</td>
</tr>
<tr>
<td>Production and Storage</td>
<td>774</td>
<td>11</td>
</tr>
<tr>
<td>Underground Storage</td>
<td>366</td>
<td>5</td>
</tr>
<tr>
<td>General</td>
<td>335</td>
<td>5</td>
</tr>
<tr>
<td>Total Industry</td>
<td>6,853</td>
<td>100</td>
</tr>
</tbody>
</table>


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the conversion of individual homes from competing fuels to natural gas in existing service areas. Of the $7,451 million of construction expenditures estimated for the period 1962-65, it is expected that 44% of the funds will be generated from internal sources and 56% will come from outside financing. Of the new financing, 84% is expected to come from debt issues and 16% from the sale of equity securities. This represents heavier debt financing than occurred in 1961, when 70% of gas utility issues were debt securities, 8% preferred stock, and 15% common stock.

Pipeline and Distribution Companies

In view of the regulatory uncertainties and the relatively low returns awarded the pipeline companies by the FPC in recent years, it is not surprising that distribution companies have been more attractive to investors. Table VII illustrates what has happened to these two categories of stocks during the past five years. The transmission company stock average has shown little growth since 1957 and has maintained a yield of 4%-5%. On the other hand, the distribution company stock average has more than doubled since 1957, and since dividends have not kept pace with the growth in market price, the yield has dropped from 3.43% to its present level of 3.83%. The distribution company stock average showed its greatest growth in 1961 with an increase of 38% over the previous year. Both averages are below their highs reached in March, 1963, as a result of the general market decline of last spring. Although the pipeline companies will probably continue to show only mild growth, some companies present favorable investments by virtue of the fact that their rate cases have been settled and the stocks offer attractive yields. Distribution company stocks should continue to show good growth because of the likelihood of their gas purchased costs becoming more stable and the continued expansion of natural gas service to new retail markets.

Canadian Oil Developments

The announcement of Canada's National Oil Policy in February, 1961 may well be remembered as the genesis of a stable and growing Canadian oil industry. At the time, achievement of the policy's goals was doubted by many people, but events to date have proved its feasibility and its fulfillment is assured.

Crude Oil

The government's policy indicated a desirable production target of 640,000 b/d of crude and gas liquids in 1961, up 300,000 b/d over 1960. The target was made and exceeded by a small margin. Production levels so far this year indicate that the interim target of 720,000 b/d will also be passed and prospect of attainment of the 800,000 b/d goal by the end of 1963 appear to be good.

Two factors share responsibility for these significant increases in production. Foremost was the major increase in exports of crude oil and liquids to the United States. The spread of the domestic market for Canadian oil products almost to the Quebec-Ontario border was also of great importance. This latter factor is responsible for displacing substantial amounts of products derived from foreign crude imports. Table VIII reproduced from The Oil and Gas Journal of August 13, 1962, describes in detail the anticipated supply and demand pattern in Canada.

Export gains envisioned by the National Oil Policy were from 113,000 b/d in 1960 to 235,000 b/d by the end of 1963, which represents an increase of 122,000 b/d. About 100,000 b/d, or 82%, was to be shipped into refineries on the Puget Sound and displace imported crude. The balance was to be supplied to refineries located on the Great Lakes. Time has proved this forecast to be erroneous geographically. In 1961, exports to the Midwest rose about 50%, or 32,000 b/d, and Puget Sound plants took an additional 40,000 b/d, which indicated that the two areas took roughly equal shares of the additional exports.

So far this year, exports have increased by about 20,000 b/d over 1961, of which 20,000 b/d appears to be going to the Great Lakes area and 30,000 b/d to the Pacific Northwest. It might be noted that total exports for 1962 are only 1% below the National Oil Policy target that was set for 1963.

During 1963, exports are supposed to rise by about 10%, or 24,000 b/d. Of this amount 14,000 b/d should enter Great Lakes refineries and the balance is slated for the Puget Sound plants. These export figures will have to be watched very closely in coming months because pressure of Canadian crude on producers operating in the upper Midcontinent area of the United States may lead to restrictive repercussions.

Natural Gas

Growth in the output of natural gas is in line with the improvement in the production of crude and liquids. A liberalized export policy was adopted by the National Energy Board of Canada.

Continued on page 82

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Report of IBA Oil, Natural Gas Securities Committee

Continued from page 81—over two years ago, and this has fostered major expansion in natu-
ral gas output.

In western Alberta and north-
ern British Columbia new lines have been completed that are supplying gas to California and Wisconsin. These and larger loads in older lines have been re-
sponsible for the increased gas production, as shown in Table IX. It appears that Canadian gas pro-
duction will reach 3 billion cubic feet per day by 1965, assuming some further increases in exports.

Natural Gas Liquids

Accompanying the rise in natu-
ral gas production has been a significant increase in the output of liquids. In 1961, $100 million was invested in stripping plants, and an additional $30 million will probably be spent this year. Gas processing capacity grew from 1.9 billion cubic feet per day in 1960 to 2.7 billion cubic feet per day in 1961 to 3.1 billion cubic feet per day at the end of this year and may reach 3.9 billion cubic feet in 1963. Further, it is expected to reach 3.7 billion cubic feet per day in 1965. Such expansion has pushed the capacity for produc-
tion of liquid hydrocarbons from 58,000 b/d in 1960 to 88,000 b/d in 1965, and it may reach 112,000 b/d by the end of this year. Most of these plants are emphasizing the production of condensate (pen-
tanes plus) for which there is an ade-
quate market and minimizing the output of LPG’s and sulphur that are in surplus supply.

Exploration

Significant changes by the pro-
vincial government of Alberta in certain laws governing allowable, spacing requirements and leasing terms are also having a favorable effect on the Canadian oil indus-
ty. Under the new allowable sys-
tem, the more prolific fields have been awarded a larger share of the market at the expense of nonmarginal discoveries. In addition, 166-acre spacing has been adopted for all new fields which represents significant savings in costs, the 40-acre and 80-acre spacing that was in effect in Alberta prior to the new rule. And, the time limits on leases has been reduced substantially, while royalties have been increased slightly. These new regulations should have a favorable effect on the explora-
tion activity of the industry in Alberta.

For several years there have been no really significant discov-
ersies of new oil in Canada. Reserve growth has been fostered mainly by expansion and water-
flooding of existing fields. In 1963, 167 new discoveries added only 25 million barrels to Canadian re-
sevves of crude and liquids, while revisions and extensions were re-
quired for 744 million barrels.

Refining

Significant refinery expansion is underway in the province of Ontario, in order to consume more Canadian crude, about 56-900 b/d of new capacity has been built or is under construction. Two plants have been completed. These are a 16,000 b/d facility at Sarnia, which is owned by Im-
perial and a Texaco affiliate’s 9,000 b/d plant at Port Credit. Mar-
or impetus will be gained by this program when Shell opens a 31,000 b/d refinery at Toronto in the mid-
dle of 1963. At that time, the Trans-Canadian Pipeline, which now carries products from Mon-
treal to Toronto, will change its operations. Part of the line will carry products produced from the Canadian crude up to Kingston, Ontario, and there will probably be some shipments from the other end of the line to a point near Ottawa. This may leave about 100 miles of this line relatively idle.

Marketing

Marketing in Canada is under-
going strains similar to those in the United States. Price wars are plaguing the country, and a re-
turn to more normal marketing practices does not appear likely over the near term.

Financial

Devaluation has played a sig-
ificant part in the improvement of the Canadian oil picture. The Canadian dollar is now pegged at 0.925 U.S., whereas it was at a premium until fairly recently. As the Canadian dollar trended downward, Canadian crude be-
came more competitive with American oil, and it was possible to raise the wellhead price in Canada. This, together with the increased sales of gas, has placed the Canadian producer in a much stronger financial position.

While new discoveries have been lacking in Canada, additional oil reserves have been purchased by several companies through the acquisition route. And refining and marketing operations have been acquired by large integrated com-
panies. The offer of Shell of Can-
da for Canadian Oil Companies, Ltd. and British American’s offers for both Royalite and Superior Pro-
pane are examples of this trend. In addition, Calgary & Edmonton, Tidal Petroleum, Canadian Chieftain, Scarry-Rainbow, and West-
burne Oil are all involved in nego-
tiations of one sort or another. We would expect this trend to continue for some time.

Another important development is that all larger Canadian com-
panies have matured to the point where they are able to supply their cash requirements from funds generated internally, with-
out dependence upon outside capi-
tal. And another trend is that wholly-owned Canadian subsidi-
aries of United States or foreign corporations are selling a portion of their equity to Canadian in-
vestors. These sales are encour-
aged by the Canadian government with the aim of having their citi-
zens participate in the business expansion and prosperity of the country.

As a result of the enactment of the National Oil Policy, the out-
look for Canadian oil stocks ap-
pears more promising than it has in the past. Instead of reporting substantial losses due usually to noncash charges and drilling ex-
penses, many of the relatively strong independents are now oper-
ating profitably. And dividends can be initiated or increased, a sign of a healthy industry. All in all, the outlook for Canadian oils appears favorable at this time.

The Offshore Oil and Gas

The first body of water over which extensive exploration, de-
velopment, production and trans-
portation of oil took place was Lake Maracaibo, Venezuela, com-
plete investment facilities

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mencing in the 1920's. Similar activity began in a modest way off the Louisiana coast in the late 1930's but was halted by World War II and the Supreme Court decision in 1947 questioning whether the title to the offshore properties resided with the Federal government or the states. After settlement of the title question by awarding the states the area within three miles of land and the Federal government the area outside the three-mile limit, a boom stage developed between 1955 and 1957, with a subsequent letdown during 1958 and 1959. The offshore drilling industry has subsequently become a stable business with drilling production and service activity steadily growing.

Meanwhile, utilizing techniques and equipment developed on Lake Maracaibo, the United States Gulf Coast and California, offshore oil operations are progressing throughout the free world. In the Western Hemisphere, offshore production has been established on the Gulf of Mexico, offshore Louisiana, Texas, and Mexico; off the California coast; in the Gulf of Paria offshore Venezuela and Trinidad. During 1963 offshore exploratory drilling is planned for the southeastern coastal area offshore Trinidad, the coast offshore Washington (and possibly British Columbia), and the Cook Inlet of Alaska. Disappointing to date have been exploratory results off the southwest coast of Florida, the Bahamas, Peru, Argentina, Colombia, northwest Venezuela, British Honduras, Panama and Guatemala.

In the Eastern Hemisphere, the Persian Gulf is under development and results have been outstandingly successful. The coastal waters of Africa are in early stages of development. Production has been established offshore Nigeria. Gabon and the Gulf of Suez off Egypt's Sinai Peninsula are other scenes of present exploratory drilling activity, with similar operations scheduled to commence offshore Libya's Gulf of Sirte early next year. Off the Dutch coast in the North Sea there has been initial drilling without success so far. In offshore Borneo, drilling operations have begun, with a test offshore Australia in prospect for early 1963.

It is apparent that offshore oil operations are firmly established and are expanding. Considerable publicity has been focused on some of the more sensational factors associated with offshore operations, such as costs of leasing, novel drilling equipment, underwater storage facilities, and the like. Perhaps too little attention has been given to results achieved and to some of the long-term implications for investment bankers concerning an industry which must eventually be recognized by the investing public and the institutional investor as established and having growth characteristics in all of its segments.

The major economic consideration behind a decision to venture into offshore oil exploration is the probability of finding and developing a major hydrocarbon reserve (i.e., 50,000,000 barrels of oil and/or gas equivalent or more) at a reasonable cost per barrel, with a chance to recover the capital committed within a reasonable time. Of the many geological and economic factors which must be weighed, some are no more predictable than those related to onshore prospects. In some important respects, however, the offshore prospect has greater predictability than its onshore counterpart. Insofar as the important factor of geologic prediction is concerned, many offshore areas benefit from years of accumulated geological knowledge of their land counterparts, thereby improving substantially the chances of finding a major oil or gas reserve.

There are other factors peculiar to production over water as contrasted to land operations which are favorable economically. Area control is generally facilitated by one ownership rather than by myriad ownerships. Thus, title problems, spacing problems, and development practices tend to be governed by engineering and reservoir considerations rather than by political pressures of many small landowners. Production and marketing are also facilitated by the ability to use marine transportation and even marine housing facilities rather than having to build roads, towns, camps, and elaborate land installations, often in

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**TABLE VIII**

<table>
<thead>
<tr>
<th>Total Canada Supply and Demand</th>
<th>Crude Oil, Natural Gas Liquids and Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Crude Oil, Natural Gas Liquids and Products</strong></td>
<td><strong>Thousands of Barrels Per Day</strong></td>
</tr>
<tr>
<td><strong>Actual</strong></td>
<td><strong>Estimated</strong></td>
</tr>
<tr>
<td><strong>1961</strong></td>
<td><strong>1962</strong></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>604</td>
</tr>
<tr>
<td>Pentanes Plus</td>
<td>42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>656</strong></td>
</tr>
<tr>
<td>Less Exports</td>
<td><strong>183</strong></td>
</tr>
<tr>
<td><strong>For Domestic Markets</strong></td>
<td><strong>473</strong></td>
</tr>
<tr>
<td>Crude Imports</td>
<td><strong>365</strong></td>
</tr>
<tr>
<td><strong>Total Supply</strong></td>
<td><strong>910</strong></td>
</tr>
<tr>
<td><strong>Inventory—Increase or (decrease)</strong></td>
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</tr>
<tr>
<td>Charged to Refiners</td>
<td><strong>808</strong></td>
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<tr>
<td>Less Fuel and Loss</td>
<td><strong>64</strong></td>
</tr>
<tr>
<td>Product Yields</td>
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<tr>
<td>Product Imports</td>
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</tr>
<tr>
<td>Less Product Exports</td>
<td><strong>5</strong></td>
</tr>
<tr>
<td><strong>Total Demand</strong></td>
<td><strong>817</strong></td>
</tr>
</tbody>
</table>

**TABLE IX**

<table>
<thead>
<tr>
<th>Canadian Gas Production</th>
<th><strong>Billion Cubic Feet</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Per Day</strong></td>
<td><strong>1960</strong></td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td><strong>1.3</strong></td>
</tr>
<tr>
<td>Exports</td>
<td><strong>0.3</strong></td>
</tr>
<tr>
<td><strong>Total Production</strong></td>
<td><strong>1.6</strong></td>
</tr>
</tbody>
</table>

*Estimated.*

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Continued from page 83

remote areas. For example, in the exploratory stage, the dry-hole cost of contracting for an offshore drilling rig and marine housing facilities on the northern coast of Borneo is much cheaper than a similar operation in the Borneo jungle. And, assuming an oil discovery, it is much cheaper to develop and market the production from an offshore location.

The economic criticism of offshore oil exploration has centered around the low return of capital afforded by oil operations in the area offshore Louisiana. Oil companies in the aggregate have committed in excess of $1.5 billion to the area over the past 15 years. To date, aggregate net cash realization, before taxes, is probably about $2 billion and is now running at the rate of about $400 million each year, based on current production of 325,000 b/d and substantial gas production. Thus, the payout and return on invested capital have been slow, but are now accelerating.

This poor economic performance, however, is the result of fierce competitive bidding for acreage for fear of missing out on what appears to be the last rich geologic province for the discovery of large reserves of oil and gas in the United States. The fact that oil companies are willing to commit large amounts of capital to the area (an additional $446 million was paid for leases in March, 1962) is testimony to political stability, the high cost of finding domestic oil, and the fact that in this particular province it is still possible to hit a real bonanza field.

An illustration of the lure of this offshore area is afforded by a rough analysis of what is probably the most outstanding reserve developed to date off the Louisiana coast. This particular reserve, it is believed by competent engineers, is capable of containing in excess of 600 million barrels of hydrocarbons and plus associated natural gas. The cost of leasing, drilling, laying flow lines and building all ancillary installations is estimated at less than $100 million. In other words, the cost of proven and developed oil in the ground in this reserve is estimated at less than $0.20 per barrel. Annual production is now around 22 million barrels. Net cash realization, before taxes, is estimated at $1.90 per barrel, a total of about $42 million per year. Thus, even at present restricted levels of production (less than 4% of the estimated reserve is being produced per year), invested capital, before taxes, is being returned at about a 42% rate. However, a large part of the total cost was tied up for four to six years during which the return of capital was quite meager.

The number of rotary rigs operating in the offshore United States has increased gradually in recent years. After reaching a peak of 120 rigs in 1957 and declining rapidly to a low of 36 in 1958, the number of offshore rigs increased to its present level of 68 rigs. However, total rigs operating in the United States declined steadily from about 2,400 to 1,640 rigs during the same period. Drilling activity is likely to increase further in United States offshore areas over the next few years.

Summary

Thus, offshore areas are attractive because they offer oil companies better prospects of major oil discoveries at cheaper costs than their land counterparts. Even though the industry has tremendous unrecovered capital investments in offshore areas, by sufficiently spread risk of risk in offshore exploration over a period of time, they expect to show a better profit than by expending comparable sums in land exploration.

For the investment banking industry, there are a number of long-range investment possibilities. Only companies of substantial size can afford to undertake offshore exploration programs. Capital requirements of these companies will be served by conventional financing methods including services of investment bankers.

But in addition, there are a number of companies which have been formed and expanded around the concept of serving the specialized needs of offshore explorers: a market as yet unmet, and transportation of oil. It has been more economic for the major oil explorers to utilize the services of these companies than to attempt completely self-contained operations. The growth of some has been rapid in spite of limited access to capital. Long-term financing through debt has been virtually impossible because of brief operational history and because institutions are not yet assured that the offshore oil servicing industry is sufficiently large and stable.

The 10-15 independent companies which are the largest offshore service specialists (tanker operations are eliminated) have invested a total of some $200 million in the equipment and ancillary facilities which they require to render their services. Other smaller companies, many in number, probably account for an equal amount of invested capital. In 1962, the combined gross revenues of the companies which constitute the offshore service industry is estimated at around $270 million (tanker operations omitted). While these figures are not substantial when related to the entire industry, five years ago they were less than half this amount. In view of the probability of success of offshore exploratory programs in many new areas throughout the world and the growth assured by continued development of production in known areas, offshore service operations should double again in the next five to ten years. Arranging long-term financing for this new, rapidly growing segment of a vital industry should provide opportunities for investment banking functions.

Respectfully submitted,
OIL AND NATURAL GAS SECURITIES COMMITTEE

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Don't Go Short on the Future of the SBICs

Continued from page 16

qualified to be president of a small company? I am reminded of an experience a number of years ago when I participated in a panel discussion at a prominent graduate business school. The subject under discussion was how to find and finance a small business. As part of my talk, I asked the question, "If you succeed in finding such a company, do you think you are qualified to run it?" An immediate question from the floor was, "Don't you think any graduate of this school is qualified to be president of a small business?" When I replied that in my opinion only about one out of ten might make it, my popularity slipped several points. To my way of thinking, this lack of humility on the part of many businessmen is a very serious problem. The brilliant scientist who automatically assumes he can master the skills of commerce and administration, the businessman who cannot be honest with himself as well as his associates, or the man who believes he can run any business by himself—all are likely to be poor risks. I know of no answer to this problem if it is really desperate, other than to try to avoid it through recognizing the symptoms before an investment is made.

Sense of Values

You are all familiar with the exaggerated values that most small businessmen place on their companies. The recent shakedown in the stock market has brought about some improvement but I do not feel that the lesson has registered as fully as it should. In this particular area there is a cure. Negotiate a proper deal or decline the application. Investment bankers could be helpful if they would be more conscious of this problem. The matter of sense of values also goes beyond the worth of the company's stock. There is a tendency to overrate products—to think that customers will beat their way to the company's door. It also shows up in the form of ornate offices, company Cadillacs and the like.

Sense of Urgency

Managing a small business—or an SBIC—does not lend itself to a 40 hour week with time off for golf, yachting or trips to Europe. It is an occupation of one crisis after another, each of which should be dealt with today—not tomorrow. Time is running against the small business concern in the form of aggressive competition, advancing technology and shortage of capital. Small business must be in a hurry.

Sense of Direction

Not infrequently we are approached by a group of skilled scientists who wish to form a new company. When asked what they plan to do, they answer, "get government contracts." When asked about the field, their answer is not apt to be evasive, but along the line of "almost anything." In today's competitive market, it seems...
Don't Go Short on the Future of the SBICs

Continued from page 85
to me that overdiversified small companies with no proprietary product lines are heading for trouble. At Boston Capital, we are primarily interested in companies that are dedicated to a particular product line or area of concentration, and that have built their plans around growth and leadership in their own specialized field.

A sense of organization is not as uncommon as the four senses already mentioned, but unfortunately, is sometimes totally lacking in the so-called one-man show. In every growing business there is a crisis point at which the company becomes too large for the president to do it all and where he has to start delegating responsibilities to others. The individual becomes a team. For some, this transition is fairly smooth—for others, it never happens. This is a critical point in a company's history because often expenditures will have to precede results. A sales manager, a controller, a manufacturing director, or a team and expenses come ahead of the sales volume. This is part of the price of success, however, and must be incorporated in the company's forward plans.

Sense of Planning

The final sense is one of planning. By this I refer to such things as a quarterly budget, a one-year plan and a five-year plan. How many small companies plan three months ahead with confidence and a fair degree of accuracy? Few, indeed; and fewer still have given any real thought to their needs and progress goals one year hence and five years hence. The development of a sense of planning comes with maturity and it is in this area that SBICs can be particularly helpful if they, themselves, understand what is meant by business planning.

If the foregoing six senses are recognized and accepted by management of SBICs, the question then naturally arises, "What can be done about them?" My answer is "Plenty!" In the case of the first three, the senses of humility, values and urgency, the SBIC management can and should be completely satisfied as to the extent of their presence before an investment is made. In the case of humility and urgency, I would say that the investment should be avoided if the key people do not give evidence of a reasonable amount of these two senses. As for the sense of values, this is partly a matter for negotiation, and often a challenge to the management of the SBIC to make its position not only reasonable but understandable. Obviously, also, values beyond the actual deal should be considered.

With respect to sense of direction, sense of organization and sense of planning, it is my belief that SBICs can and should offer significant assistance to affiliated companies for a considerable period after an investment has been made. The basic investment agreement can provide that a company shall not, without the consent of the SBIC, enter unrelated fields, for example; but it cannot state what related fields the company shall enter or when new endeavors should be attempted. Instead, these are questions which the SBIC can be helpful in answering only on the basis of a continuing review and a close, knowledgeable relationship.

The development of organization and planning skills are areas in which the SBIC often has an opportunity to be especially constructive. The SBIC is a good vehicle for screening potential employees when growth has made necessary the addition of key people to a company, and often the SBIC will have access to individuals whom the small business itself would have difficulty locating. Moreover, the personnel of an SBIC have a unique opportunity to observe different business situations. I do not mean to say that they know all the answers about the businesses, but they do get a chance to see their operations on a week-to-week basis and to note particular strengths and weaknesses among them. Often they can transplant the successful administrative techniques of one to others which may not yet have reached levels of similar skill on their own. This is an area of real challenge and is in line with a fact that is becoming increasingly apparent—that small businesses need management help at least as much as they need financing. Dollars are not enough. I am firmly convinced that over a period of time the successful SBICs will prove to be those which have developed sound, effective methods of working with their portfolio companies through the critical years.

Now, let me summarize very briefly what I have tried to say up to this point. First, I have attempted to indicate that there are some workable yardsticks by which both investors and managers can operate with respect to SBICs. Secondly, I have tried to explain that there are also a few axioms by which the SBIC management can draw conclusions as to the futures for individual small business concerns. Finally, I have tried to communicate my conviction...
tion that the management of SBICs is a job for professionals who have a keen appreciation of and interest in the operations of the firms in which they have invested.

SBICs Face the Future

Speaking for the publicly-owned SBICs as a group, I think it is fair to say that they are showing signs of maturity. The management of most of them are sincere about their jobs and are working hard at them. In a way, SBICs must develop their own six senses and the same yardsticks that apply to the small business concerns can be applied to the top officers of small business investment companies. Until a full appreciation of these points has been developed within an SBIC organization, not much is going to be accomplished in terms of helping the management of portfolio companies to develop their own six senses. It was encouraging to me to note the enthusiasm with which an SBIC executive training program was received last month. A one-week seminar was held at the University of Wisconsin in Madison and was attended by representatives of 38 SBICs, both large and small. Everyone present indicated an intention of returning for another session next year. The National Association and the Regional Associations of Small Business Investment Companies, through regular meetings and discussions, are providing a means of exchanging experiences and basic information. The industry has developed a code of ethics, standard loan forms, group insurance plans, methods of doing business with one another and many other similar aids. There is much work still to be done, but the outlook is good. It is my considered opinion that the future will see several strong organizations emerge, organizations that have learned how to recognize and help the growth companies of tomorrow.

The foregoing observations lead naturally into the problem that is of special interest to security analysts. How can the stronger organizations be identified? What should you look for in an SBIC? What might be the hallmarks of potential success or failure? It seems to me that the following four areas are the ones to which analysts should direct their attention.

Management

What experiences have the key personnel had in operating businesses? What has been their exposure to venture capital? Is management well balanced in terms of technical, marketing, manufacturing and financial skills? Are the Directors men who can can use in formulating investment opportunities in evaluating growth prospects? Are the key people employed on a full-time basis? How do they rate in terms of the "six senses"?

Investment Philosophy

What kind of investments is the particular SBIC seeking? Is it limited to a single field or is it interested in opportunities generally? What are the sizes of investments? Is emphasis on income or on capital gains? Are investments concentrated in new high risk, high return situations or is a more conservative course being followed? Does the company have clearly defined investment policies? How does it go about finding investments? Does it handle its own investigations or rely on outsiders?

Assistance to Portfolio Companies

Does the SBIC recognize the importance of such guidance for its portfolio companies? It is organized to provide it? What are some examples of effective assistance? In what areas does the SBIC become active with its small business concerns? Does it have a policy of trying to control or has it developed effective methods for guidance? What do some of the portfolio companies think of the SBIC? How good a job has been done of working out of difficult situations?

Review of Portfolio Companies

How well are they doing as Continued on page 88

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Continued from page 87

compared with forecasts? How many are currently profitable? How many should be profitable next year? How many may lend themselves to public financing in the future? What are the prospects for some real appreciation among the portfolio companies? How many appear headed for trouble? How many have a public market so that published financial information is available? An SBIC is not an easy business to analyze, because it is a composite of a lot of small businesses for which financial information is not readily available. As in the case of small businesses, your bet must be made largely on management.

Closing Comments

Don't write off the SBIC movement. It was soundly conceived and fills a much needed gap in the over-all financial picture. Like anything new that has started off with a rush, numerous problems have arisen. I would expect the next year or two to be years of change and consolidation. Beyond that, you think you will see some outstanding progress if you place your bets on the right companies. Needless to say, I hope that Boston Capital Corp. will be among the front runners.

*From an address by Mr. Powell at the Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 20, 1962.

“Keep Government At Our Sides—Not On Our Backs”

Continued from page 15

tor of the economy in providing personal security for our citizens, we must never lose sight of the fact that the private sector has been and continues to be the wellspring of our high level economic flow that makes possible the very activity undertaken in the public sector. If big government continues to invade "right freedom" which has served us so well through the years, our system in essence will become like the totalitarian systems we oppose. In that event, it will have been futile to join the fight in the first place.

Healthy Economic Growth Is Essential

In the 1960 Presidential campaign the two candidates frequently debated the optimum rate of economic growth for the country. Large numbers of our population came to know what was meant by the GNP, although few understood it.

Through the decade of the 1950's the GNP was growing approximately 3.5% annually. It has grown somewhat less rapidly than that in the first two years of the Kennedy Administration. This is a matter of serious concern. It is not growing rapidly enough to provide productive employment for our growing labor force. It must grow at a healthy rate if we are to achieve our American goals of national security and personal security.

In recent years we have divided on the question of whether healthy economic growth can best be achieved by the private sector or the public sector of the economy. Those individuals who argue for an increasing role by the public sector of the economy are not disloyal — not un-American — not left wingers. They are perfectly sincere, capable, dedicated people like you and me, except that they honestly believe they can run the country better from Washington than you can run it from your own home state. Having been in government myself for three years, and knowing the difficulty of making correct economic decisions at the Washington level, I can't accept that thesis myself.

Our Free Enterprise System Works

The potential growth ahead for America can be attained best if we continue to protect and expand our traditional American business system. Our economic system of free enterprise is under constant attack, from within as well as from without. There are many well-meaning people among us who would turn increasingly to government for security guarantees of one kind or another and junk the economic system which has made us great.

We must cultivate within our society an environment in which individual producers and scientists are free of experiment with new techniques and new ideas, and so enjoy the fruits of their labor. We shall experience phenomenal progress in the generation ahead if we can preserve our system of free prices and free enterprise.

There are too many people in America today who do not really believe in free enterprise but who still believe they can look to Washington for price supports, price regulations, price ceilings, and so on. We must get the point across to every citizen of our country that the incentives under free prices make our economy great, and make it strong, and make it productive.

America's greatest danger today is our general indifference to the organized attempts to limit output per worker, per factory, and per farm. Indeed, most of us belong to groups which subscribe in one way or another to the stranglehold of limited output. One of the remarkable phenomenons of our age is that America continues to grow in total production and standard of living, in spite of widespread organized attempts to prevent it. Let us some day be different to those abominable practices round about us.

What we all seem to be doing in America today is somehow trying to get more golden eggs out of the goose that lays the golden eggs. Different groups approach the goose differently. Some groups say, "I'll squeeze the goose and more eggs will come out somehow or other." Government says, "I'll eat the goose and lay the eggs myself." But there are some of us in America — and I would like to point to you among that group— who believe that the way to get more golden eggs over a period of years is to feed the goose, put a little fat on its back, pour a little profit back into it, and put a little investment back into it; let it eat an egg itself once in a while, let it enjoy some of the fruits of its own production effort. That's the system that made America the greatest, strong, prosperous nation it is. That's the only system that will keep it that way. Good government must help promote that kind of system.

Our potential production capacity in America is so great that we can never be destroyed from without, unless we first disinte¬ grate and deteriorate from with¬ in.

Free Men With Vision Will Do the Job Best

We must be careful not to lose at home the freedoms we struggle abroad to preserve. The whole American system and the whole American way of life are dedicated upon the recognition of the dignity and the freedom of the individual. In recent years, a great many sectors of American agriculture and industry have fallen under governmental controls and restrictions. In the case of agriculture, these controls have followed in the wage of price supports at uneven economic levels.

When a commodity gets itself into the fix of producing for the government rather than producing for a growing market, it almost inevitably finds a ceiling placed on opportunities.

Government production and

[Image of underwriters-distributors: State, municipal and revenue bonds]

[Image of FOSTER & MARSHALL INC. INVESTMENT BANKERS]

State and Municipal Bonds

U.S. Government Bonds

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[Image of Underwriters-Distributors: State, Municipal and Revenue Bonds]
marketing controls on the individual are essentially backward looking — not forward looking. Under these circumstances, producers with above average managerial capacity and ambition are severely limited in what they can do. They suffer, consumers suffer, and all America suffers.

The future of practically all of our business, industry and commerce is closely tied in with increased efficiency of production, processing and distribution, through which we can reach an ever-growing circle of consumers in the market place, here and abroad. Private enterprise must exercise the initiative in getting this job done.

Making Private Business the Senior Partner
We must strive ever to preserve a proper relationship between industry and government. We must always keep private enterprise the senior partner, and government the junior partner. It would be easy to reverse this relationship. There are many who would change it. We must be ever vigilant that industry assumes the responsibilities put upon it by our private enterprise system. Otherwise, government will become the senior partner. This is inherent in the very nature of government.

We must constantly remind ourselves that the advances of science can be applied most effectively by individual managers in a free industry, unhampered by excessive governmental regulation and restriction.

We must keep before us always the concept that the fruits of our toil are produced to be consumed in useful outlets and not diverted into purposeless storage or uneconomic uses through politically-inspired governmental price and income support programs.

We must all work together to preserve an atmosphere in which freedom of choice remains one of the basic pillars of our economic system. Under such a system, individual producers and individual processors can grow and prosper as far as their ambition and their ability will take them. The right to succeed will be open to everyone. Conversely, the right to fail will also be present.

In our free society, the right to succeed carries with it the right to fail. If, through legislative action of one kind or another, we remove the right to fail, we ultimately will also remove the right to succeed beyond mediocrity. Men of vision and ambition do not want that. They know their future is most secure in an environment which guarantees freedom to choose, freedom to experiment, freedom to become more efficient, freedom to seek and develop new markets, freedom to dream and freedom to enjoy economic rewards if their dreams are successful.

One of the great challenges facing all of us is to see that our economy is not dominated by government — that government helps rather than displaces private enterprise. We can do this only if we are willing to throw our influence on the side of keeping government the servant of all of us—not our master. We must keep government at our sides—not on our backs.

Our economic system of individual initiative, private property, competitive pricing, and of profits work for us. It has enabled us in profit-seeking America, most nearly of all the nations of the world, to achieve the communist goal—Plenty for Everyone in a Classless Society.

The system is worth preserving

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Self-Regulation in The Securities Industry

Continued from page 11

unless it be voting stock, or unless the shareholders have the right to vote on acquisitions. It has required interim financial reports and has regulated the qualifications and conduct of its members. In general these rules demonstrate the dynamic element of self-regulation of which Mr. Punston may well be proud.

At the same time, I do not think his question calls for an answer of one or the other: the securities industry or the government. It seems to deny the need for oversight or public participation at all. I cannot agree that any exchange or any other institution including the SEC has achieved perfection. Certainly, I shall not attempt to justify every action we have ever taken. We make mistakes, but are doing the best we can. Thus I take the position that Commission participation is not only required under the statute, but also healthful. Inter-action is stimulating.

Every member of the New York Stock Exchange will concede that the Exchange, though a public institution, still seems to have certain characteristics of a private club, a very good club, I might say. Without prejudging the facts, it seems to me that periodically the role and performance of its members—whether floor traders, odd-lot houses or specialists—or the rate structure—should be re-examined. I can assure you that we recognize most of these problems are in the grey area—without black or white solutions. The public is intimately involved, and any institution having public responsibilities but operating as a private association benefits by oversight.

**Self-Regulation Requires Oversight**

Philosophical limits upon unchecked self-regulation are suggested by consideration of anti-trust principles. One purpose of the Sherman Act is to prevent private groups acting in concert from exercising their power to the detriment of competitors and the public interest. Now the Exchange says there must be either exemption from anti-trust or erosion of self-regulation. If the Exchange wants abolition, can it be achieved without some other form of governmental participation, i.e., the SEC? In legal circles today there is much talk of primary jurisdiction—for example the Federal Power Commission versus the Department of Justice as to pipe lines, the Civil Aeronautics Board versus the Department of Justice as to airline mergers. In the securities industry the Exchange tends to sponsor a maximum freedom from both. Whether or not the anti-trust laws apply, some government oversight is warranted, indeed necessary, to insure that action in the name of self-regulation is neither discriminatory nor capricious.

In sum, I do not agree that the Commission should have to resign itself to a vestigial role in dealing with an exchange and its members. I feel we must become directly involved, as we have in major disciplinary proceedings involving exchange members, where important questions of principle are at stake. I have in mind cases involving improper credit devices, or even Cady, Roberts & Co., of which some of you may have heard, and which the New York Stock Exchange has sought to interpret responsibly. I further believe that general rules and practices should be scrutinized by the Commission. There is some health and vitality in inter-action, just as Congress forces the Commission to keep alert.

At the same time, I foresee no major expansion of the SEC—which must still focus on broad-scale problems of self-regulation on policy rather than day-to-day administration.

VI

The preceding discussion turns us logically to the NASD. Here a self-regulatory institution was deliberately created and its functions were concretely spelled out in the Maloney Act. Recently the NASD has demonstrated its initiative in developing policies to unconditionally underwriting compensation and—we hope—suitability, i.e., what is suitable for the customer. As the NASD moves ahead and raises standards, the SEC should encourage this initiative. I cannot yet outline the conclusions of our special study, but I can go so far as to say that in the Over-the-Counter Market self-regulation has much room for growth. The opportunity is there. The industry should accept it, and finance it with adequate budget.

**O-C Quotations Affected With Public Interest**

For example, the wholesale quotation system is of basic importance to the operations of the Over-the-Counter Market. At present, this system is a privately owned enterprise. By immense good fortune it is under the direction of a person having a high sense of integrity. But what if subsequently one of less scruples and responsibility were to assume control of the system? Many responsible people in the securities industry believe the quotation system is clearly affected with a public interest. What steps in the long run could be taken that would ensure responsible management or control over its operations?

Again, we now find that many IBAs who opposed reporting requirements for a broader spectrum of companies as recently as 1957 believe the time has come when the public needs more information about stocks not listed on the exchanges but traded Over-the-counter. If this is a logical development, there is still the problem of how such information (once public) can become more widely available to broker-dealers and their customers, and more closely tied to the selling process. (We have recently had an example of essential information available in our periodic reports totally unused by the advisory services.

Finally, some industry regulatory agency, presumably the NASD, must assume a more active and vigorous role in connection with the retailing aspects of the Over-the-Counter Market, including selling literature and market-letterkets.

**Expanding NASD Role**

For the NASD and any association with which it may share duties, I can see an expanding role for self-regulation. The Commission is reluctant to assume the primary responsibility and detailed supervision over an area which requires more regulatory attention than it has had thus far. Thus I anticipate substantial growth on the part of the exchanges and the NASD. Those members who are budget conscious should bear this in mind. Do not begrudge the funds to increase self-regulation. Governmental action is called for when
there is a void; but the SEC is sincerely anxious that any vacuum be filled by industry policing.

Finally in this connection may I say that government officials—outside the SEC—Congressional and otherwise, have asked us whether our fees should be raised to make the Commission self-sustaining. Our own suggestion was that heavier charges might be deferred. We believed a much greater financial burden will be placed upon investment bankers as self-regulators, and that you should be in a posture to tolerate it.

VII

Turning now to the Investment Company Institute, we come to an industry in which self-regulation has been generally rejected thus far. This point was heighted by my colleague, Commissioner Whitney, before the Institute last spring.1 In one area which we discussed concretely with the Institute and its Chairman, the paradox is that the SEC is in favor of less governmental intrusion and industry prefers more. All of us—the I. C. I. and the Commission—seem agreed upon the principle that more inspection of investment companies is called for. With our limited personnel to date, we have had roughly a 15-year cycle. This is inadequate, indeed absurd. The industry believes we should perform the inspection, if necessary financing ourselves in a self-sustaining way akin to national bank examinations. Since this would require a statute, one can see future delays while inspections continue to lag. We suggested that the Institute take the initiative. It, or some association connected with it, could retain independent certified public accounting firms to carry out a major role in the inspection program. They would thus be independent of the particular investment company, and of this Commission as well. Their work, duly certified could then be submitted to the SEC. Thus the fundamental responsibility would fall upon the Institute and its agents, and Commission personnel need not be measurably increased.

I can understand how the Industry would quibble over the content and scope of the inspection, but cannot fathom the reason for rejecting the idea in principle. We need only go back to 1933 to recall that a large staff of government personnel was suggested to audit companies seeking to register their securities. Happily, the alternative of thrusting the burden upon the independent C. P. A. was adopted. Accountants, conservative like all of us professional people, might hesitate to accept this innovation as to investment companies which might broaden their auditing responsibilities. But looking back to the thirties they can appreciate the enormous stimulus for raising standards which resulted.

Perhaps the problem in the Investment Company Institute is that there is little common ground among its members. This is a point frequently made by its officers. As we said upon publication of the Wharton School Report, we have no preconceptions about this industry. Perhaps in order for some measure of self-regulation to develop, the members must recognize their many diverse facets.

Are the problems of load and no-load funds the same?

Are the problems of funds with management companies the same as those few which have no management contracts?

Are the interests of the management company members of the Institute the same as those of the fund members?

Are the problems of closed-end and open-end funds alike?

The industry itself seems to recognize distinctions, as evidenced by the formation of the Association of Closed-End Investment Companies.

VIII

In conclusion, what is self-regulation and what are the prospects for it? It does not exclude participation by the Commission with the industry associations. They need suggestions, and so do we. As my predecessor on the Commission, now Mr. Douglas, said in 1938: "... the point where self-determination should cease and direct regulation by government should commence must usually be determined not by arbitrary action but by nearly balanced judgment and discretion on both sides." Our participation should not reduce the industry's initiative any more than Congress' oversight should stifle ours. As we see it, the opportunity for self-regulation is abundant: both for the exchanges and the NASD. As I said earlier, this Commission is in no mood to expand, to seek growth for growth's sake. Government steps in to fill an evident public need; we urge the investment banking industry, indeed entreat it, to acknowledge this need and fulfill it yourselves.

1For text of Mr. Whitney's address, see the May 21, 1962 issue of the "Chronicle," p. 12-16.

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Report of IBA Governmental Securities Committee

Continued from page 23

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

Report of IBA Railroad Securities Committee

Continued from page 32

in 1959—92,000 in 1961 and 165,-

000 in 1955.

After interim years of fluctu-

ating amounts of orders in no-

where the volume of any of these

three years, the 1961 total sank
to a mere 31,000 units vs. 45,000

for 1960 and 56,000 for 1958.

In the light of this data, con-

sider the "age" factor of the Class I Railroad ownership of Freight

Cars excluding cabooses. As of

the latest date available, Jan. 1,

1961, of the fleet of 1,653,000 cars,

377,000 cars OR 23% of the total

was older THAN THIRTY YEARS

OF AGE; if we add to this total

those freight cars older than 16

years of age, then the combined

total would equal 875,000 units or

50% of the total of 18 years or

older VINTAGE!

If one wanted to "toy" around

with some figures, and using a

base cost of, say, $12,000 per

freight car for new ones today

with roller bearings—mind you,

not "special type" cars—then po-
tential replacement of half of the

Industry's present 16-year-old

and older freight cars would cost $101/2

billion; were such replacement to

be spread out over, say, a 10-year

period, annual replacements would

require $5,700 cars and annual

expenditures would work out at

ONE BILLION DOLLARS per

year!

Rail's Impoverishment Causes Unemployment

Late last summer, millions of

American citizens viewed Presi-
dent Kennedy on television and

heard him state in an address to

the Nation that partial income tax

reflex to individuals and corpora-
tions for 1962 was unworkable; that

it would have to be deferred

until 1963. Accompanying this dis-

appointing news was a constant

reference to the "hard core" of un-

employed which our economy for

sometime now has been unable to

absorb—notwithstanding the at-

tainment of new highs in the em-

ployment total.

In the opinion of this Commit-
tee, the financial impoverishment

of the railroads has been a mate-

rial influence on the employee re-

quirements of the Industry, and

heavy industry, generally.

Such impoverishment also has

had a most telling effect on Fed-

eral Income Taxes paid to the

United States Government by the

Railroad Industry. For example,

in the year 1952, the Railroad In-
dustry accrued $613 million of

Federal Income Taxes, whereas

for the calendar year 1961, such

accruals had shrunk to $242 mil-

lion.

It should be noted that the re-
duction in Tax accruals was not-

withstanding a rise in the C N P,

and the FRB Index of Production,
to a height never before attained in this country. It should also be noted in this connection that the pre-tax Net Income of the Railroad Industry stood at only $625 million in the year 1961, as compared with $1.458 billion in 1952.

**Loss of Traffic to Motor Carriers**

The deterioration of railroad traffic and earning power, which has contributed to the financial and economic results herebefore discussed may be attributed to numerous factors of varying degrees of importance.

One of the most significant of such factors is the increasing diversion of freight traffic to a part of the motor carrier industry, which if not curbed, even poses a threat to the regulated Common Carrier Trucking Industry, which also must be recognized as having a definite place in the transportation area.

A measure of the impact of this diversion on the traffic volume of the Common Carrier industry may be gleaned from the following statistics:

Between 1945 and 1960—a 15-year period—revenue Ton-Miles of the Class I Railroads declined 103 billion.

In the same 15-year interval total highway Ton-Miles (estimated) jumped by 226 billion—an absorption ALONE of the 103-billion Railroad Ton-Mile loss, plus a growth of 123 billion Ton-Miles to boot!

Ton-Miles accounted for by the Regulated motor common carriers increased by 70 billion—BUT private and exempt motor carriers more than doubled such gain, jumping by the stupendous amount of an estimated 156 billion ton-miles! This fact allows for another very expressive adjective when one is bit with the import of the next observation! In 1945 private and exempt motor carrier ton-miles exceeded the output for the regulated companies by an estimated margin of 13 billion ton-miles, while for 1960 the estimated excess by the private and exempt carriers swelled to a fantastic estimated margin of 100 billion ton-miles!

**Tax Advantage Enjoyed by Motor Carriers**

Regulated, private and exempt motor carriers do not have a capital investment in rights of way, such as has been laid down by the railroads. The trucking companies pay relatively little Real Estate and Personal Property taxes, compared with the impact of State and Local Taxes paid by the railroads. To the motor trucking industry does pay excise taxes on fuel, oil, axle weights and tires, the total being but a small percentage of their Revenue Dollars, contrasted with the much greater percentage paid by the Railroads of their Revenue Dollars to maintain their rights-of-way!

Despite these adverse factors with which the railroads have to contend, the situation is even more aggravated by regulatory edict that compels railroads to maintain rates at "umbrella levels" over those of barge lines and trucks.

Furthermore, Private and Exempt Motor Carriers frequently engage in various forms of illegal "for hire" transportation in order to conduct their operations on a "break-even" basis.

This vicious form of competition by many of the unregulated or exempt motor carriers is tearing at the very bowels of the profitability of Common Carrier transportation.

**Outmoded Regulatory Concepts**

The railroads have also been hampered in maintaining or increasing their share of available traffic volume by the restrictions imposed on them by outmoded regulatory concepts applied to their competitive rate-making efforts. Legislation was introduced in the last Congress which would allow the carriers greater freedom to establish volume, incentive or other reduced but compensatory rates in order to enable them to compete more effectively with other modes of transportation. In many instances the public as a whole would benefit from lower transportation costs and a strengthened railroad transportation system, this Committee supports the proposed legislation.

To conclude we would like to reiterate that the long impoverishment of the railroads of this country has so depleted their financial strength that their physical well being has reached a state of dangerous deterioration. While it is bad enough to tolerate an unsatisfactory railroad transportation system during peacetime, it makes us shudder to think of the consequences should the railroads, because of the predicament in which they now find themselves (in large part through no fault of their own), fail the country in an emergency. Elaboration on this point hardly seems necessary, in view of all that has been said and written on this subject in recent years; what is required is action.

If the railroad industry is to recover its strength, and its retributive powers are tremendous, it requires Congress to legislate to the extent necessary merely to permit the railroads to compete on equitable terms with other modes of transportation.

It also requires the Interstate Commerce Commission to do everything in their power to preserve the inherent strength of the railroads. In this connection, it might be mentioned "umbrella rates" must go—if for no reason other than the public is entitled to the lowest cost transportation available. If the railroads are in a position to supply the lowest cost transportation they are entitled to the business, providing they can persuade the shippers to avail themselves of their services.

Respectfully submitted,

**RAILROAD SECURITIES COMMITTEE**

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Value of Tax Immunity On Municipal Bonds

Continued from page 14

Issued Corporate Bonds, a weighted average, and Investment Bankers Association of America New Issue Recoferring Yields, a median, on General Obligations of 20-year maturity. Both indexes are published monthly for each of the four top ratings, Aaa, Aa, A and Baa. The annual average is the unweighted arithmetic mean of the difference between the two indexes in every month in which there were new issues of corpora¬
tion bonds of such rating. For each rating of state bonds, the months from July 1958 through June 1959 were used. The differen¬
tials were: Aaa, 1.52%; Aa, 1.24%; A, 1.19%; and Baa, 1.22%. For the unrated bonds and the Caa bonds an average of these four ratings, i.e., 1.26%, was used. For local long-term securities, which were not classified by rating, an average of the differentials of the four ratings for the 12 months in Calendar Year 1959 was used, 1.33%.

Just to check on the current size of the differential I made the computations for July 1962, the latest month available, and found it to be somewhat the same: Aaa, 1.29%; Aa, 1.22%; and A, 1.03%.

Dollar Value of Tax-Exemption To Public Bodies

The differential between tax-exempt and taxable short-term securities was computed to be the difference between the yields of local Public Authority and comparable temporary notes, which are ex¬
empt, and the yields of finance company paper placed directly of

three to six month maturity, which are fully taxable. The dif¬
ference between the two yields in any one calendar month is con¬
sidered the value of tax-exemp¬
tion, on the assumption that the quality of these two types of paper is similar. For state debt, the 12 months from July 1958 to June 1959 were averaged, an a short¬
term differential of 1.03% ob¬
tained, for local debt, the 12 months of Calendar Year 1959 were averaged and a short-term differential of 1.494% developed. The differential for each of the nine classes was multiplied by the outstanding debt at the end of the fiscal year to determine the additional interest that would have been payable during the fiscal period were Municipalities tax¬
able by the Federal Government.

The estimated $827 million in additional interest payments was distributed among the various classes of bondholders in propor¬
tion to the amount of state and local securities owned by them June 30, 1959, and then further prorated among the 50 states. Us¬
ting the same method of calcula¬
tion that was used for Government, it is estimated that states could have raised $13 million in 1958-59 from the taxation of the $827 million in additional interest that would have been payable to municipal bondholders if their securities were taxable.

Few States Would Gain From Reciprocal Taxation If there had been no intergov¬
ernmental tax immunity of secu¬
rities, states and local govern¬
ments would have had to pay an additional $827 million in interest on their obligations in 1959. The income tax states, under their statu¬
ytory provisions in effect at that time, could have obtained $81 million (or less than 10%) from the taxation of interest income from Federal, state, and local obligations. Since national banking busi¬
ness corporations and banks meas¬
ured, all events, rather than tax¬
ations on net income, interest income from Governments is now fully taxable, the taxation of Federal securities will pro¬
do no additional yield. Of the $81 million, which might have come from individuals, $9 mil¬
ion, or 11% from business corpo¬
rations, and $4 million, or 16% from banks.

Since so much of the potential income tax revenue from the re¬
ciprocal taxation of governmental securities would be raised in a few states, it might seem as though some states might gain financially from such an arrangement. Using 1959 tax rates and tax statutes in the val¬
e of the distribution of Federal, state, and local securities from the states. There were, however, four states that could have handled more than half of the additional costs of borrowing that would have been brought about by re¬
ciprocal taxation of governmental securities. They were Wisconsin (77%), Iowa (64%), and North Dakota (59%). These states practice pay-as-you¬
go financing, or, at least, were not then heavily in debt, and hence would be little affected by the rise in interest rates that comes with taxability, but would secure substantial sums from taxing dependable bondholders.

There were a dozen states where the income tax revenue from govern¬
mental securities would have exceeded the additional borrow¬
costs of the state government only. In these states there is small state indebtedness, larger local in¬
debtedness, and high income taxes, which contribute to this result.

Conclusion

Permissive reciprocal taxation of Federal securities is not a substan¬
tial, nor a significant, inducment to the states to give up volun¬
tarily the intergovernmental tax immunity of their securities. The immediate effect of permissi¬
ve reciprocal taxation of securities would be to give some states additional tax revenues. As time went on, every new taxable issue of state and local governments would have to pay higher inter¬
cost rates. It would take two or three decades for the interest pay¬
ments of states and localities to reach the amounts suggested by the present differential. To esti¬
mate additional interest costs of state and local governments and the revenues income tax states would receive from those addi¬
tional costs, it was necessary to assume an instan¬
taneous readjustment to higher taxable interest rates. On this basis, no state could recoup in in¬
come taxes the additional borrow¬
ing costs of issuing taxable securi¬
ties.

A program of reciprocal state taxation of U. S. Government se¬
curities (assuming instantaneous readjustment) would have pro¬
duced a net deficit to all states and local governments of $760

have been paid were municipal bonds not tax-exempt, or almost half as much as that. This is an average which probably in¬
cludes some places where interest payments would have doubled or tripled. While additional expen¬
tives of $827 million may not look large against total state and local expenditures of $59 billion the $827 million is still an item for which additional revenues must be sought.

Although states and localities should be prepared to pay the go¬
ing rate of interest on all debt that they incur, there is no politi¬
cal glory to be achieved in rais¬
ing taxes to pay interest on govern¬
mental debt. It is even more of a political trick to convince states and localities to raise their regressive taxes to pay higher in¬
terest rates on their securities while the Federal Government keeps talking of a "tax cut" in its own individual income tax rates. If the Federal Government believes that the value of the tax immunity of municipal bonds is too high, it can reduce that value temporarily by simply reducing the top bracket individual income tax rates of 70%, 80%, and 90% to a level that would encourage the states to readjust.

SOURCE: Frank, looking at the meeting of the Municipal Forum at the 51st Annual Convention of the Invest¬
**Newly Elected Officers:**

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The IBA’s Accomplishments
And Tasks Which Lie Ahead

Continued from page 10

surprising to find perhaps more interest in this subject than any other. At the various group meet¬ings I have reported on these de¬velopments as they appeared to me at the time.

You will recall that Chairman Cary addressed us at our Conven¬tion here last year and gave us the broad outline of the study as he then foresaw it. You will recall that, among other things, he made the points that (1) the Commission is not anti-Wall Street and (2) the study would not be a publicity venture but rather, would be conducted in a responsible manner. He indicated the Commission’s interest in our elevating the standards and ethics of our business and improving our programs for training and super¬vising our representatives who deal with the public. In state¬ments throughout the year, and in personal conversations I have had with him, he has reiterated his belief in cooperative self regu¬lation under governmental super¬vision.

Praises SEC
Looking back over the develop¬ments in connection with this study since our last convention, I think it is fair to say that he gave us an accurate picture of the Commission’s approach to this matter. It has certainly not been a publicity venture to date although the public hearings of the Stuart Group and other developments have pointed up many problems with which all of us should be concerned.

As your program indicates, Chairman Cary is to address us again on Wednesday of this week. I am sure we shall all be greatly interested in what he has to say. From our point of view, however, it seems to me clear that, as an industry and an association, we should cooperate in every practicable way with the Commission and the Congress to elevate the standards and ethics of our business, to do an even better job of training and supervising our personnel, and to make self-regulation work.

Encouraging Domestic and World Changes
And finally, in an overall sense the past year has been encourag¬ing changes on the world scene as well as domestically.

Domestically, only a few short weeks or months ago, the country appeared to be on the way to worrying itself into a recession. Despite high levels of employ¬ment, personal income and total production, the fact that we were not growing fast enough seemed to be overpowering. I sense that there has now been a change in the right direction.

Just a few weeks ago we found ourselves with mistakes about to be pointed at us from the Carib¬bean. The response of the nation to the actions of our government confirmed our best hopes of the faith, courage and determination of our people to face up to the necessities when the chips are down.

And now about the immediate future. The year immediately ahead looks to me like a very busy one for both the Association and the industry, assuming of course that the cold war doesn’t turn into a hot one and that world tensions are substantially on greater than they are today.

We will be getting the reports on the SEC study in 1963 and this will undoubtedly make for considerable work and activity in connection with legislative and regulatory matters in this area.

At the moment, it would seem that there should be much activity in the Federal tax field next year as we have all noted the Administration’s promise to recom¬mend to the next Congress substantial tax reduction and tax reform.

Early in the year we should have our first experience with Government bond issues on a competitively underwritten basis. This may be a significant development. The Treasury in this manner is seek¬ing to use the distributing power of our member year a new way. As I have said, next year indeed looks as a very busy one. And your new President will have his work cut out for him. At this point I would like to say that judging from the reaction I have received from members all over the country, and personally know¬ing of his great abilities, the se¬lection of the Nominating Com¬mittee for our new President is indeed fortunate. A most able and wise man to head up our efforts in the coming year.

In conclusion I wish to express my heartfelt thanks and apprecia¬tion to all those who in a large measure are responsible for whatever progress we have made.

Few Presidents have ever had an Executive Committee and a Board of Governors who were more able and willing to assume responsibility than I. Their eager¬ness to cooperate and respond to any assignment, made for me one of the most heart-warming gratifying experiences of my life.

The fulfillment of our policies and programs lies to a large ex¬tent on the National Committee and Group Chairs. To all of these my sincerest thanks.

Of great importance is our staff. Murray Hanson has surrounded himself with a most effective and cooperative group of people, of whom we are proud. Many times I turned to Murray for advice and never found him wanting. In his work with Committees he pro¬duced the results desired with dispatch and effectiveness and as a traveling companion, Mary and I found him great.

I would love to eulogize indi¬vidually all the staff. Bob Stev¬enson, who was always a step ahead of me on anything I wanted and of immeasurable help. Gordon Calvert our most able and talented Municipal Director. Er¬win Boehmer, our Educational Director, and Bill Zenitz, our Re¬search Director. Bob Girmschid and John Nash for their excellent work. To these gentlemen and to the entire staff, my sincerest thanks.

And last, but by no means least, my deep appreciation to Mary, my wife. With her help and un¬derstanding, and sharing with me the joy of renewing so many old friendships and making so many new ones, it has all made this past year the happiest and most rewarding one of my life.

*An address by Mr. Bingham at the Annual Convention of the Investment Bankers Association of America, Holly¬wood, Calif., Nov. 26, 1962.
We Need a Strong Economy to Meet All of Our Objectives

Continued from page 13

mine arbitrarily the ideal size of a business organization. I have never heard of it. Businesses grow because they win the preference of the customers they serve. If a company is truly successful, it provides greater satisfaction to the customers, the competitor gets the business, as he should.

I mentioned earlier that the Du Pont Company started out as a small powder mill, but it has become a huge enterprise because its businesses have grown. The United States Government, which asked us to undertake the difficult and unprecedented tasks of constructing the Savannah River, has been successful in developing the resources of the country. No one could have predicted that these would be the United States Government, which asked us to undertake the difficult and unprecedented tasks of constructing the Savannah River, has been successful in developing the resources of the country. No one could have predicted that these would be.

Anti-Trust Laws Are Needed

We need antitrust laws because businesmen, like any other group in society, will always include an unscrupulous and dis¬ honest minority who will seek what is in their interest, no matter what the consequences. It seems to me, however, that antitrust policy should be directed toward the elimination of unfair competition rather than toward the breaking up of enterprises which have grown because they were successful in meeting human needs. It is doubtful as a result of the antitrust laws that business organization to become too large to be efficiently managed. It should, if you can be sure that its customers will take action.

As one voice in the dialogue, therefore, we must come back to a self-evident truth: we need a strong, healthy, and expanding economy if there is to be any hope of attaining the common objectives of all groups in our society. I believe strongly that there is no single bootstrap which government can pull to launch business into a higher orbit. If the expansion of any government spending program is certain to be expected, either through taxes which drain away just that much of the individual purchasing power and re¬ sources for investment in the pri¬

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In Attendance at Convention

Continued from page 100

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“Golden Dates” of the IBA

Continued from page 21

the need for public education program to caution investors against fraudulent securities and to give public a better understanding of sound investments and the reputable investment business. This resulted in a great many articles, booklets, and courses for the public throughout the country.

Association moved to larger quarters on LaSalle Street in Chicago.

1924
Weekly radio series sponsored in Chicago over WMAQ — featured representatives of IBA member firms on investment topics.

1924-25
National advertising campaign begun to educate the public on dangers of get-rich-quick schemes and necessity for sound investing. Budget of $250,000 for the first year; IBA Publicity Committee formed.

1925
Position of Executive Secretary created; first full-time manager of Association office.

1926
IBA Code of Ethics prepared by special committee for consideration of Groups. Executive Secretary, Frederick R. Fenton died; Alden H. Little appointed new Executive Secretary. IBA Field Secretary (Arthur G. Davis) appointed to work on Blue Sky legislative matters.

1926-27
Institute of International Finance founded by Board of Governors. Two hundred and seventy members subscribed funds to support the work of the Institute at New York University on international finance, in publishing bulletins, assembling a library, and maintaining contacts with foreign issuers of bonds.

1927
New IBA Constitution and By-Laws approved by membership (replaced original which had become cumbersome due to repeated amendments).


1927
Harry Rasecvar, Director of Publicity from 1912 to 1927, died; his publicity functions were inherited by the Educational Department.

1929
New York Group offered five-week course in Security Salesmanship for 150 salesmen; this was followed in 1930 and 1931 by courses offered in Chicago, Philadelphia, Baltimore, Minneapolis, Los Angeles, San Francisco, and Denver under local Group auspices.

1930
Security Salesmanship, book prepared by IBA based on the highly successful course offered by the New York Group; used as test in courses offered by other Groups and in training programs by individual members.

1931
IBA of A Bulletin replaced by Investment Banking in April as the official Association publication. Originally planned as a monthly magazine, publication became less and less frequent until the final issue appeared in June, 1940.

Cost Accounting Subcommittee created to set up standards of cost and executive control for the investment banking business.

National Credit Corporation created by President Hoover, endorsed by IBA Board of Governors as an aid to stabilizing the nation’s economy.

Continued on page 110

Montana Power —
Growing with a Growing State

The population of our service area is up 27% since 1950. Electric customers are up 25% and gas customers up 79% in the past 10 years.

In this same period residential consumption of electricity has increased 120%, commercial use is up 111%.

During the past years we’ve added 153 new industrial customers, bringing the total to 2,937 industrial customers of all classes and sizes.

Our 50th Year

In our 50th year we’re adding new service in new areas. For example, this fall we installed transmission and distribution facilities to supply natural gas for the first time to 17 Montana communities which ultimately will give us 7,500 new customers.

To supply growing Montana, we have invested more than $150,000,000 in new plant and property since 1950.

Annual Report

We’d like you to know more about our growing company and state. Drop us a line and we’ll be happy to send you our Report to Stockholders.

The Montana Power Company

General Office: Butte, Montana
“Golden Dates” of the IBA

Continued from page 109

1933
Bank Act of 1933 (Glass-Steagall Act)—investment bankers were prohibited from accepting deposits; banks of deposit were prohibited from underwriting or dealing in corporate securities of any kind.

Securities Act of 1933—Act was aimed primarily at achieving “full and fair disclosure” of all pertinent and material facts relating to any corporate securities issue publicly offered, and those facts relating to these issuers and also to the relations between the issuer and the investment banker.

Twenty-second Annual Convention featured ten round-table forums, subject for interest; Forum on Securities Act of 1933 drew most delegates.

Fair Practice Rule drafted for Investment Banking Code (under National Recovery Act).

1934
Securities Exchange Act of 1934—Act was designed primarily to regulate the secondary market for securities, to enforce informational requirements and institute trading rules. It also provided an important supplement to the disclosure requirements under the 1933 Act. This act created the Securities and Exchange Commission.

1935
IBA Group operations reorganized; Southern and Texas Group created; local Groups encouraged to create Group committees parallel to national Committees.

First issue of IBA Blue Book, directory of all members and registered branch offices.

Public Utility Holding Act of 1935.

1936
Central States Group sponsored first Group Conference; more than 300 attended. Spring Conference has been conducted annually ever since.


Special Advisory Committee appointed to make recommendations leading to a stronger, more useful Association.

1938
"Maloney Amendment" to 1934 Act—provided methods whereby NASD, Inc. was recognized as an Association of Securities Dealers with "Rules of Fair Practice" approved by the Securities and Exchange Commission. The genesis of the Maloney Act was in the Code of Fair Practice which had been drafted by the Association in 1934 under the NRA. IBA could have become such a regulatory association—however, the Board of Governors meeting in Chicago in 1938 decided against doing so.

IBA Municipal Division Council created by Board of Governors to deal more closely with municipal problems.

1939
Trust Indenture Act of 1939.

National Association of Securities Dealers, Inc. becomes "national association" under the Maloney Act to regulate the securities business, including the over-the-counter markets. (Successor to Investment Bankers Conference, Inc.)

IBA Essay Awards Program—four essays which contribute a better public understanding of the investment banking business.

1940
Consortium of IBA members conducted to compile data on membership, activities.

Public Information Program initiated to promote the American system of free enterprise, to increase the flow of private capital into industry, and to stress the important role of investment banking to our economy. Members subscribed nearly $700,000 for this program which was conducted from 1940-42 by the Public Information Committee under Presidents Emmett F. Connely and John S. Fleck.

Investment Company Act of 1940.

Investment Advisor Act of 1940.

"America Looks Ahead"—IBA Film premiered at Annual Convention subsequently shown to millions throughout the country.

1942
Victory Fund Committees—Many IBA representatives were members of these Committees throughout the country to aid the Treasury Department in the distribution of government securities to finance the war.

War Finance Conference in New York to discuss the vast job of financing defense needs—coincided with 1942 Annual Convention.

1946
Washington office of IBA opened in February; Murray Hanson appointed General Counsel.

Gordon L. Culvert appointed Assistant General Counsel, Washington.

1946-47
Educational training programs initiated to indoctrinate new men (principally veterans) into the securities business. Ultimately over 2,000 men received such training through courses offered in cooperation with over 30 colleges and universities throughout the country. (Program has continued in Chicago each year).

1947-53
Anti-Trust Case—October 30, 1947—complaint filed against IBA and 17-member investment banking firms in a civil suit alleging violation of the Anti-Trust Law in the District Court of the United States for the Southern District of New York. On motion of the government the IBA was eliminated as a defendant and the charge that it was a co-conspirator was withdrawn. U. S. Circuit Court Judge Harold R. Medina in his opinion on October 14, 1953, dismissed the claim as filed against each of the 17 defendants.

1947
Fundamentals of Investment Banking published in booklet form; official IBA text for courses above.

Personnel Selection Program developed by Education Committee in conjunction with Robert N. McMurray Company and Science House Associates; kit of materials and booklet sold to interested members.

1948
Erwin W. Boehmert appointed Public Education Director.

Joint Committee on Education Representing the American Securities Business began; sponsors Annual Forum on Finance. IBA was charter member of this program to educate college professors on securities business and free enterprise system.

1949
Retirement program begun for IBA employees.

Savings Bond Committee added Treasury in selling bonds to investing public.

Since 1932
we have been sponsoring a growing number of companies whose securities are unlisted, through the distribution of descriptive literature and the making of close and sizable position markets. We are always interested in blocks of sound stocks to be utilized by our retail organization or distributed through our trading department.

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Fundamentals of Investment Banking, official IBA text, published by Prentice-Hall, Inc. Approximately 10,000 copies have been sold to date. Public Education Forum sponsored by Public Education Committee preceding Annual Convention in Hollywood. IBA Public Education Bulletin (later known as IBA Educational Bulletin) began as official IBA organ in the fields of education, training, and promotion. Reproductions of IBA Member Firms Advertisements initialed to stimulate member interest in advertising and to improve the overall approach on the part of the industry. Published periodically through 1957 (12 issues).

1950
First Invest-in-America Dinner held in Philadelphia; forerunner of Invest in America program which is now national in origin. Northern Ohio Group began sponsoring an annual six-week lecture series entitled “Investing for Security and Profit”.

1951
Institute of Investment Banking begun by IBA in cooperation with the Home-Study Department at the University of Chicago. Since then nearly 2,000 persons have enrolled for the course.

1952
IBA film “Opportunity, U. S. A.” released; since then this story of investment banking has been seen by over 32 million viewers, either on TV or in local screenings.

1953
Three-year Institute of Investment Banking begun in cooperation with Wharton School. This expanded management program was the outgrowth of the successful Seminars conducted in 1951 and 1952. Over 1,200 men and women have enrolled for the three-year program; nearly 500 have graduated.

Anti-Trust charges against 17 member firms were dropped by Judge Medina in his opinion, Oct. 14.

1954
IBA office moved from Chicago and consolidated with General Counsel’s office in Washington, D. C. Moved on Friday, Aug. 13, to 13th floor of building fronting on 13th Street!

1955
Frank Morris appointed Research Director. IBA Research Department created to conduct studies of the municipal bond market and other economic research.

1956
Industrial Council Conference on “The American Securities Business” was sponsored by the Education Committee at Rensselaer Polytechnic Institute in New York, Oct. 11–13. Nearly 600 high school teachers and administrators heard industry leaders discuss all phases of the securities business. First series of “Ticker Tape,” Central States Group educational television program, the forerunner of IBA Group television activities (now known as “Investors’ Forum”) and sponsored on a commercial channel.

IBA Statistical Bulletin became organ for new Research Department.

1957
“Fundamentals of Municipal Bonds” published by Municipal Department. Second edition was published in 1961; to date over 11,500 copies have been sold.

IBA four-week Summer Course in Fundamentals of Investment Banking first offered in cooperation with Northwestern University; it has become an annual program being augmented in 1961 by an additional week devoted to “Stock Exchange Procedures.”

California Group Education Committee began two successful courses; Institute of Finance in Los Angeles for trainees and Seminar in Investment Banking in San Francisco for experienced personnel.

IBA supported publication of “Wall Street 20th Century” by Professor John L. Merwin; a comprehensive book distributed free of charge to every college, university, and public library in the country as well as to numerous professors, students, and placement officers.

1960
New York Group sponsored its first seminar on “The Management Function in the Investment Banking Industry.” This has become an annual program each fall.

1961
Board of Governors approved a three-year Research Study of the investment banking industry at a cost of $150,000; study now in process by Wharton School of Finance and Commerce. Municipal Public Education Program begun.

1961
Advisory Committee conducted by Special Municipal Committee on Public Education.

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HOLLYWOOD, Fla. — John W. Haner, Jr. of Wertheim & Co.,
New York, was named the winner of the 1962 All-Institute Essay
Competition sponsored by the Institute of
Investment Bankers Association as part of its annual Institute of
Investment Banking. John M. Mc¬
Carthy of Lord, Abbott & Co.,
New York, was named as winner of the Second Year Class Essay
Competition. Both winners were
announced at the Association’s 51st Annual Convention by the
Chairman of the I.B.A. Education Committee, Robert Mason of Mer¬
rill Lynch, Pierce, Fenner &
Smith Inc., Chicago.

The Institute of
Investment Banking is a three-year advanced
development program sponsored
by the Association for partners, officers, and other experienced personnel from I.B.A.
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. Members of the first and second year classes are required to submit essays in
order to continue in the three-
year program.

Mr. Haner received a $500
award and briefly addressed the
Convention delegates on “Indus¬
trial Aid Bonds”, the subject of his essay. Mr. McCarthy received a $250 award for his paper, “An
Investment Analysis of the Elec¬
tronics Industry.”

A graduate of Yale, Mr. Haner has been with Wertheim & Co.
since June, 1961. Prior to that he
served eight years with the De¬
partment of State in Washington,
resigning as Assistant Secretary of
State in January, 1961. He has been
president of the Board of Directors of the Hanes Foundation since
1952. Mr. Haner is also a director of the FairFax National Bank and a member of the Fair¬
fax County Commercial and In¬
dustrial Development Commission (both in Fairfax, Va.).

Mr. McCarthy is a senior secu¬
rities analyst with Lord, Abbott &
Co., investment manager for two open-end investment companies
(Affiliated Fund, Inc. and Ameri¬
can Business Shares, Inc.). Prior
to his present association, Mr.
McCarthy served nine years as a
member and an officer in the In¬
vestment 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.

Continued from page 105

DAVIS, SCOTT*

DEAN, ROBERT L.

DEGH, ROBERT A.

DELANEY, JAMES J.

DEAN, ROBERT A.

DESHAUTER, EUGENE L.*

DEWS, ROBERT R.

DEW, H. M.

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Greenbaum, Robert B.
Gros, Louis A.
Gruen, F. I.
Gruen, F. I.
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Hagopian, J. M.
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Hannan, Paul G.
Harbison, S.
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Harrell, C. E.
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Education Committee Report

Continued from page 19

course in Stock Exchange Operations over a six-week period. Both of these classroom courses were given in cooperation with the Northwestern University School of Business.

The California Group in cooperation with the Pacific Coast Stock Exchange and the New York Stock Exchange offered two programs in Los Angeles and two in San Francisco: one for trainees just entering the business and the other an advanced course for experienced registered representatives.

Other Activities

One of the outstanding Group public information programs is offered in Cleveland by the Northern Ohio Group in cooperation with Western Reserve University. This program, an annual public lecture series, has been given for 13 years. The six sessions presented at one week intervals during February and March, 1962, had a capacity registration of 1,000 persons who paid a fee of $15 each or $20 a couple. Proceeds from this successful lecture series are used by the Group in support of other educational activities such as Invest-In-America Week, Junior Achievement and a Graduate Loan and Scholarship Fund.

The Central States Group pioneered an educational TV series "Ticker Tape" from 1956 through 1960. In 1961 a new program, "Investors' Forum" was televised over a commercial station. It is estimated that "Investors' Forum" reached almost 100,000 persons for a total viewing audience of approximately 275,000 persons each Sunday afternoon. The program is being repeated in 1963 starting Jan. 8.

In many sections of the country other IBA Groups and members are taking an active interest in local Junior Achievement programs. They assist organizers of Junior Achievement companies, publicize formation of the enterprises, and give scholarships and other awards to outstanding Junior Achievers.

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

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In Attendance at Convention

Continued from page 119

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KNOTHER, NEWELL S.*  First National Bank, St. Louis
KNOTHR, PETTON H.  Esmalloy & Co., New York
KNOTHE, STANNARD B.  Halle & Sturgis, St. Louis
KOCH, JOHN Y.  Federal Land Bank, New York
KINCOURT, ARNOLD J.  Roseeker, Pierce & Co., San Antonio
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KRAUSE, JOHN  Reinhart & Gardner, St. Louis
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Larkin, JOHN J.  First National City Bank, New York
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Lascell, Jr., Charles R.  Common, Dean & Co., Buffalo
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Lawson, John B.  Discount Corporation, New York
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Lee, JR., GARRETT G.  Anderson & Stoudab, Richmond
LecHton, EDGAR K.*  First Cleveland Corporation, New York
Levy, R. WILKES  Hurst & Leff, Boston
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Liefeld, A. R.  Security Securities Corporation, Buffalo
Leverton, R. M.*  Leverton, Weprin & Co., Los Angeles
Lewis, ERNEST  F.  Munir & Co., Cleveland
Lewis, WALTER B.  Citizens National Bank, New York
Lewis, MILTON  A. O. Reeder & Co., New York
Lucille, WILLIAM C.  Land, Blair & Co., Washington
Lieberman, WILLIAM L.  Levey & Co., Milwaukee
Lindley, ANTHony R.  Citron & Company, Chicago
Lindley, ERWIN  B.  Lee & Co., Chicago
Lington, ROBERT E.  Brenham & Co., Philadelphia
Littell, CHARLES  First National City Bank, New York
Little, ALLEN H.*  Investment Banking Association, Hollywood
Lowery, J. VICTOR  London, Delaware & Tyson, New York
Lowe, J. D.  S. P. Bowie & Co., New York
Loyd, J. D., ANDREW  Loyd & Co., New York
Love, MALCOLM E.  Bart Brothers & Co., New York
Loydell, CHARLES E.  Siegel & Company, New York
Low, V. THEODORE  Sterne & Co., New York
Lowell, JAMES B.  Price, Wilson, Jackson & Curtis, New York
Low, JOSEPH M.  Price, Wilson, Jackson & Curtis, New York
Luce, JR., MARK A.  E. F. Hutton & Co., New York
Lucien, Joseph  Mr. & Mrs. H. George Carrison, Carrison, Wallace, Inc., Jacksonvile, Fla.
Lynch, J. H., Thomas*  Moore, Leonard & Lynch, Pittsburgh
Lye, LEWIS F.*  Mercantile National Bank, Dallas
Lynn, GENE*  First National City Bank, New York
Lynns, LAWRENCE  Allen & Co., New York
Lynns, S. H.  Crichton, Arbuckle & Miller, Chicago
Lynns, Jr., W. L.  W. C. Lewis & Co., Louisville
Lynns, R. W.*  A. B. Steiger & Co., Chicago
Lynns, W. E.*  Magness & Co., Cincinnati
Lyons, John B.*  Magness & Co., Cincinnati
Manley, MELTON F.*  Manley, Kimble & Co., New York
Manley, MELTON F.*  Manley, Kimble & Co., New York
Mann, R. W.  Shepard, Benenti & Co., Chicago
Marchand, ANDREW K.*  Discount Corporation, New York
Marchant, T. A.  Investment Dealers' Digest, New York
Mariner, WILLIAM K.  Bears & Co., New York
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In Attendance at Convention

Continued from page 121

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November 25 - November 30, 1962

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Report of IBA Foreign Investment Committee

Continued from page 26

no change in that view." His remarks on Rome did give rise to some concern both here and abroad.

Subsequent comment of Federal Reserve and Treasury officials confirm their earlier assurances that no restrictions on the U.S. capital market were intended.

It is of interest to note that the Chamber of Commerce of the United States in its July 13 report to President Kennedy, as one of ten policy guide-lines for dealing with the U. S. balance of payments situation, recommended "rejection of any move in the direction of limitation of the United States as a capital market."

Before the Governors of the International Monetary Fund in Washington on September 18, the Secretary of the Treasury, in referring to the sizable number of foreign securities floated in the New York market this year and to his previous suggestion for "the further development of the capital markets in Western Europe and the abandonment of outdated controls on the free flow of capital that still are for too prevalent," stated:

"Impostion of capital controls by the major countries would not be a satisfactory solution. It would be contrary to all that we have been striving for in freeing trade and payments between countries. It would not be in keeping with our special restrictions as custodians of a reserve currency. And it would be contrary to our own long-run interest in ensuring that funds move to where they will be used most productively."

The Foreign Investment Committee who jointly agreed with this statement of the Secretary of the Treasury.

I wish to express to the members of the Committee and to the IBA staff my gratitude and appreciation for their great interest and their excellent cooperation in the work of the Committee during the year.

Respectfully submitted,

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New York, N. Y.

TABLE I

Purchases of Foreign Securities by U. S. Investors* ($ Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Net</th>
<th>Gross Net</th>
<th>Bonds</th>
<th>Stocks</th>
<th>Bonds</th>
<th>Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>63.6</td>
<td>63.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>63.6</td>
<td>63.6</td>
<td>943.4</td>
<td>30.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1948</td>
<td>96.7</td>
<td>96.7</td>
<td>291.4</td>
<td>79.8</td>
<td>392.8</td>
<td>94.8</td>
</tr>
<tr>
<td>1949</td>
<td>70.8</td>
<td>70.8</td>
<td>311.5</td>
<td>9.8</td>
<td>382.3</td>
<td>27.8</td>
</tr>
<tr>
<td>1950</td>
<td>198.2</td>
<td>198.2</td>
<td>710.2</td>
<td>121.0</td>
<td>908.4</td>
<td>145.4</td>
</tr>
<tr>
<td>1951</td>
<td>348.7</td>
<td>348.7</td>
<td>601.0</td>
<td>300.8</td>
<td>3,148.7</td>
<td>777.0</td>
</tr>
<tr>
<td>1952</td>
<td>577.1</td>
<td>577.1</td>
<td>1,077.0</td>
<td>217.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>504.4</td>
<td>504.4</td>
<td>621.5</td>
<td>79.0</td>
<td>924.9</td>
<td>72.2</td>
</tr>
<tr>
<td>1954</td>
<td>64.9</td>
<td>64.9</td>
<td>215.1</td>
<td>84.3</td>
<td>485.7</td>
<td>304.4</td>
</tr>
<tr>
<td>1956</td>
<td>877.9</td>
<td>877.9</td>
<td>509.4</td>
<td>183.3</td>
<td>1,387.3</td>
<td>30.4</td>
</tr>
<tr>
<td>1957</td>
<td>872.6</td>
<td>872.6</td>
<td>951.1</td>
<td>350.5</td>
<td>1,306.6</td>
<td>511.1</td>
</tr>
<tr>
<td>1958</td>
<td>711.9</td>
<td>711.9</td>
<td>1,109.5</td>
<td>722.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>837.3</td>
<td>837.3</td>
<td>1,915.1</td>
<td>1,026.1</td>
<td>2,918.6</td>
<td>1,326.5</td>
</tr>
<tr>
<td>1960</td>
<td>833.7</td>
<td>833.7</td>
<td>1,457.6</td>
<td>512.0</td>
<td>2,961.5</td>
<td>749.1</td>
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<tr>
<td>1961</td>
<td>695.6</td>
<td>695.6</td>
<td>825.6</td>
<td>644.4</td>
<td>1,470.0</td>
<td>559.6</td>
</tr>
<tr>
<td>1962</td>
<td>628.9</td>
<td>628.9</td>
<td>1,099.9</td>
<td>441.2</td>
<td>1,688.8</td>
<td>564.2</td>
</tr>
</tbody>
</table>

*January-August.

TABLE II

Forbes of Foreign Securities

<table>
<thead>
<tr>
<th>Country of Dollar</th>
<th>Gross Purchases</th>
<th>Net Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Purchases</td>
<td>Net Purchases</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>12,326</td>
<td>200</td>
</tr>
<tr>
<td>Belgium</td>
<td>16,602</td>
<td>10,537</td>
</tr>
<tr>
<td>France</td>
<td>2,927</td>
<td>606</td>
</tr>
<tr>
<td>Germany</td>
<td>12,725</td>
<td>836</td>
</tr>
<tr>
<td>Italy</td>
<td>4,221</td>
<td>2,082</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3,336</td>
<td>1,457</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9,840</td>
<td>7,813</td>
</tr>
<tr>
<td>United States</td>
<td>14,616</td>
<td>14,616</td>
</tr>
<tr>
<td>Total</td>
<td>75,912</td>
<td>27,854</td>
</tr>
<tr>
<td>Canada</td>
<td>1,490,000</td>
<td>1,490,000</td>
</tr>
<tr>
<td>Latin America</td>
<td>79,877</td>
<td>79,877</td>
</tr>
<tr>
<td>Other Europe</td>
<td>162,917</td>
<td>162,917</td>
</tr>
<tr>
<td>Other Countries</td>
<td>90,639</td>
<td>90,639</td>
</tr>
<tr>
<td>Total</td>
<td>3,107,471</td>
<td>3,107,471</td>
</tr>
</tbody>
</table>

TABLE III

FOREIGN DOLLAR BOND OFFERINGS (1961-1962)*

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Offered</th>
<th>Term</th>
<th>Rate</th>
<th>Date- Of- Issue</th>
<th>Payment Clause</th>
<th>Offered</th>
<th>Price</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kingdom of Norway</td>
<td>18,000</td>
<td>None</td>
<td></td>
<td>5 yr. 5/12</td>
<td>5-1-76</td>
<td>Dollars</td>
<td>5-7-61</td>
<td>1/2</td>
</tr>
</tbody>
</table>
| H. P. Remington, Philadelphia, checking the market with John R. Brown, Jr., Ulricen & Lin Corporation, demonstrating Ulricen & Lin Stockmaster

<table>
<thead>
<tr>
<th>State</th>
<th>Advertisers</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALABAMA</td>
<td>Page</td>
</tr>
<tr>
<td>AMERICA</td>
<td>Page</td>
</tr>
<tr>
<td>BIRMINGHAM</td>
<td>Page</td>
</tr>
<tr>
<td>CALIFORNIA</td>
<td>Page</td>
</tr>
<tr>
<td>DALLAS</td>
<td>Page</td>
</tr>
<tr>
<td>COLORADO</td>
<td>Page</td>
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**Note:** The table above represents the Roster of Advertisers from the Commercial and Financial Chronicle for Thursday, December 27, 1962.
Completion of the first full year of the Teletype Network concept created by the J. J. Kenny Co. has amply demonstrated its usefulness in the secondary market.

It has enabled us to provide an instantaneous "showing" for bids of many different municipal bonds to scores of active dealers and dealer banks.

This specialized service has been steadily expanded, and now reaches 98 active dealers. It is automatically supplemented by direct private wires to 127 dealers. Its beneficial effect upon the entire municipal bond market seems obvious.

The entire operation is serviced by a professional staff large enough, equipped and trained to extract the maximum efficiency from it.

Where the Secondary Market Comes First

OUR TELETYPE NETWORK HAS INSTITUTED A NEW ERA IN MUNICIPAL BOND MARKET OPERATIONS

J. J. KENNY CO.

Digby 4-9440 212-571-0020
California's Sequoia gigantea trees are among the oldest living things on earth! The towering "General Grant" was just a seedling when the pyramids were still new, about 4,000 years ago. Here's growth, slow and steady, spanning most of recorded history!

The State of California, too, is establishing a record for growth with stability. Its growth since World War II has been the fastest of any state in history. Its population will pass New York's this year, making it the No. 1 state. Growth of industry keeps pace. Stability is maintained by sound fiscal policies and municipal financing plays a prominent role in the healthy economic evolution of California.

Bank of America has long been the leader in the field of municipal finance in California, making and maintaining markets for California bonds and bidding on virtually all bonds offered for sale in the Golden State.