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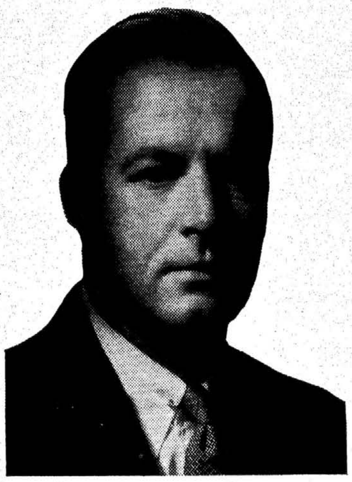

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# The New President's Inaugural Address

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 with 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 stamping ground at Hollywood Beach—but that instead of stamping, I would be taking the office of President.

Amyas Ames

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 felt compelled to end it. Listen to his words. "So they began to think how they might raise as much corn as they could, and obtain a better crop than they had done, that they might not still thus languish 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 almost miraculous comeback of nations destroyed by war—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 55%; while Communist Russia has only reached 28%. 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

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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 President of Bingham, Walter & Hurry, Inc., 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 Cary's approach to the industry and calls for cooperation with the SEC in every possible 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 markets, and in areas only 90 miles to the south of us, I can assure you that the current official IBA family deeply appreciates this manifestation of your loyalty, interest and support.

Curtis H. Bingham

We have planned an interesting program of distinguished guest speakers, and I would urge you to be prompt in your attendance at these open sessions of the Convention. I know that the discussions we shall have of current matters by our guest speakers, 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 depart somewhat from this custom as 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. Let me hasten to assure you, however, that Walter Schmidt, the Chairman of our 50th 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 manner in which we have worked to resolve these problems and to make the great adjustments 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 our first annual convention our predecessors were concerned with problems growing out of the emergence of the Blue Sky laws. The first Federal income tax law was enacted in 1913 and the law establishing the Federal Reserve System was adopted the same year. George B. Caldwell, 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 field for the many houses daily springing up having little or no capital, likewise experience and, what is more dangerous, little care for what they offer beyond their ability to market and their immediate profit." Thus you can see at a glance that our predecessors, at the very 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 banking and the 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 then so-called "mature economy." However, the industry and the Association and other interested groups in that period rolled up their sleeves and went to work. We cooperated to help make the new rules work. We made the necssary adjustments to the new order of things, and the results in the interim show that our industry and our country are the stronger and better off today as the result of all these events and efforts.

### Post-World War II New Money Raised

Our industry, of course, played a big part in helping finance business and local governments during this entire period and made special efforts to help our Federal Government finance two world wars. But, I was impressed particularly by a few more recent figures in this booklet. Over the 16 year period, 1946-1961, with which most of us are personally familiar, $120 billion of new money was obtained by industry through the sale of securities, and the investment banker of course played a major, if not dominant, role in this operation. During the same period, the various states and municiupalities obtained over $82 billion for the construction of all types of public facilities. Here, again, the investment banker played a major role. When figures such as these are translated into their resultant new jobs, plant and equipment, public facilities, services, taxes and all of their other economic and social implications there can be no doubt but that all of us can be proud of the vital role which our business and our Association has played and is playing in our economic, social and political system as we know it today. All of this gives me, and I think it should give you, reassurance and hope for the future.

I now want 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 that of our committees at both the National and the Group levels. I believe our industry is unique in its ability to call upon and get really top flight talent to serve on our committes, committees of the NASD and other industry organizations, and all on a voluntary non-compensated basis. I have been impressed in my work with both the NASD and the IBA at the great amount of time and effort which these committeemen put in for our collective benefit. We couldn't hire such talent on a staff basis if our budget was vastly greater than it is ever likely to be. We all owe a great debt of gratitude to these committeemen and I particularly want to express my personal deep appreciation to those who have so served with me this year. Their names, indeed even the names of the committees, are too numerous to mention here.

You will readily gather from the reports of these committees which are to be summarized at our Convention sessions, and from the full reports available in the lobby, the scope and depth and effectiveness of their work. You will get a bird's eye view of similar activities at the Group level through the Education Bulletin, which is also available in the lobby. I shall not, therefore, steal any of the thunder of these committees by even attempting to summarize this phase of the work of the Association. Rather, I just say "thanks" and "well done" to all involved.

I am happy to be able to report that I visited each of our 18 groups during the past year, and my good wife, Mary and Murray Hanson accompanied me on most of these visits. Mary, Murray and I are deeply grateful to the Group Chairmen, to local Governors and others who were so kind and hospitable to us.

### Of Particular Significance

In connection with these group visits, I want to leave with you just a few general observations on developments 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 municipal fields. This obviously is good for the Association and the industry.

(2) Of particular significance to me was both the number and the caliber of the young men coming to the top in their respective firms and their interest in the problems as well as the opportunities of the industries. Of even greater significance, many are taking an acitve part in local and national politics.

(3) I was struck by the many indications that our member firms throughout the country are studying and tightening up on their operations. This, I believe, is in large part—but not wholly—due to disclosures which have already been made in connection with the current SEC study of our industry. This was particularly noticeable in 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 good common sense for them 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 our public image is disproportionately affected by the spectacular improprieties of a few. Thus, in going around the country, I took every opportunity to talk with local financial editors and reporters to try and point up, in proper perspective, the great contribution which our industry makes to our economy and our way of life. Where we had time to go into all of the aspects of this problem, I believe such discussions were most worthwhile from their point of view as well as ours. I recommend that each of you make a point of getting to know your local press to help them get our story in proper perspective.

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

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# Self-Regulation in The Securities Industry

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

**SEC head delineates the extent to which the securities industry still has to go to improve the scope of its self-regulation to obviate 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 definitely requiring improvement; and prods the Investment Company Institute to once and for all take on the task of internal regulation. Mr. Cary makes clear that overseeing by his agency is not intended to stifle initiative for self-regulation or to interfere with day-by-day details, and takes issue with Keith Funston as to the necessity and degree of 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 agencies. Indeed, it has the imprimatur of statute, in the 1934 Act's provisions relating to exchanges as well as the more elaborate effort at regulating 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 evolving standards. No one, including even the most hardened bureaucrat, would conceive that the government can or should prescribe a fully detailed pattern of doing business fairly.

William L. Cary

Self-regulation is a phrase that calls for definition. Some think it means total autonomy. My effort today is to convey 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 in 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, down here the class gives the marks." Furthermore, our budget and legislation must pass through the Chief 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 in an industry dealing 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 some twenty-eight years ago and has been proven by experience. Of course, the public participant 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 discouragement. This is true for the exchanges and the NASD on the one hand, and for this Commission on the other. I firmly believe that any institution—*private or public* — can be run honestly and tirelessly and yet at the same time it can die. Rigor 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 oversight, we hold no brief for empire building. The Commission has expanded by a third since early 1961 when I came. This much was imperative: no one had time to think beyond *ad hoc* 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 businessman experienced 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 desire not to enlarge, we have recently had an ironic difference with the NASD before a House Committee. During the past two years the SEC has been faced with a real regulatory problem in the District of Columbia. We greatly accelerated our enforcement activities, but vigorous enforcement can never be a substitute for high standards. We therefore recommended adoption of a strong Blue Sky Law for the District of Columbia administered by local government as preferable 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 supersede *local* regulation, nor I might say self-regulation.

IV

Our attitude toward self-regulation has been demonstrated concretely this year in connection with the American Stock Exchange. It seems to me in poor taste to exhume the problems explicitly set forth in our report and well known in the financial community. These problems are now being resolved. If the SEC worried about its "image," it might have brought immediate proceedings and publicly forced through a reorganization plan. Then we might have been hailed as "vigorous" (a politically attractive label). But we do believe in the principle of self-regulation, and we mean what we say. As an understatement encouragement was indeed necessary. Here was a dramatic example of the need for oversight. But once the situation was fully appreciated by the American Stock Exchange community, responsible members assumed leadership and reorganized the Exchange. They have taken an interest in it, reframed its constitution, abolished the committee system, strengthened staff responsibility, and elected an able president.

On this general subject, I should like to attempt one generalization about achieving effective self-regulation through membership organizations in the securities industry. It appears safe to conclude that success depends in substantial part on the adequacy and ability of the professional staff and the amount of responsibility vested in them. This in turn rests upon the wisdom and vision of the Board of Governors. But the staff provides a continuity and objectivity which is needed to raise standards in the industry. I appreciate the philosophy of the NASD that the members should regulate their fellow members, but as the scope of self-regulation enlarges, it will become increasingly arduous without an effective staff.

V

### Differs With Funston

Keith Funston has framed his attitude toward self-regulation in a somewhat different light. Who, he asks, can best set operating standards and determine the most effective level of service to the public? The Securities industry? Or the government? He did not answer that rhetorical question, but I doubt if we need be more explicit with this distinguished audience. I can appreciate the basis for his point of view. After all, he is the head of the New York Stock Exchange, and has been emphasizing the lifting of standards in the industry. The Exchange, for example, has enacted rules that stock may not be listed

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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 purpose of profits is not wholly understood by the public — as evidenced by those who only see in profits something to be taxed, regulated or eliminated — and he further contends that business and other groups 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 chafing 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.

L. du Pont Copeland

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 1802 to start the manufacture of black powder near Wilmington, Delaware, he had $36,000 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 Philadelphia 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 60 miles to Philadelphia to renew his loans.

It is somewhat comforting for the 11th president to know the Du Pont Company is debt free. But I can assure you our management has never hesitated, and I do not believe it would hesitate in the future, to call upon you for assistance if we should be unable internally to finance a promising commercial opportunity.

We did so some 40 years ago to protect our still unlamented investment in the General Motors Corporation. We enlisted your help again just before the Second World War and, after its conclusion, for the sale of two issues of preferred stock. While in recent years we have been able to finance our growth through retained earnings and depreciation, we could be knocking at your doors again if new products should emerge from our research laboratories with the promise—for example—of nylon.

Under ordinary circumstances, 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 him in finance. 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 a change in my own circumstances, as your chairman noted. This happens to be my first public speech since I became 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, farm, 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 every 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 is brain work, 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—not government—who foot 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—through taxation—are available from a strong private economy. It is equally apparent that no progress 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 businessman, 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 proportionate. 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 needs.

Nevertheless, fundamental and applied research in the physical sciences is carried on by most 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 his 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 as quickly as yesterday's 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 existing things in the same way. We must look to research for the important new industries of the future, just as it has given birth in this century to such imposing segments as automobiles, 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 advancing costs, 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 of labor. This has led to pressure for costly and wasteful practices such as overstaffing and featherbedding, which, in turn, has led to strikes and shutdowns which waste our resources.

I am quite sure that responsible businesses, 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 when older operations will be discontinued and by retraining its employees. It is quite a different matter, however, to be confronted with unreasonable demands whose burdensome 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, the stockholders of 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 glossary. It is profoundly misunderstood by the public, and it is all too frequently misunderstood even 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 manufacture 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 misundestanding 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 good 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 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, provide 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, jus as a suit of clothes is tailored to fit the individual who wears it.

If there is any way to deter-

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# Value of Tax Immunity On Municipal Bonds

By Dr. 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 permissive reciprocal taxation of Federal securities. Based on 1959 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 $750 million of which a dozen State governments might gain by this arrangement, and 38 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 (Governments) 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.

Henry J. Frank

The possible taxation of Municipals 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, 1959 by the Committee on Ways and Means.

### The Proponents Case

Pressure for the removal of the income tax immunity of Governments and Municipals 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 Municipals 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 Finance, 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 Municipals 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 Municipals are concerned with the "tax loss" to the United States Treasury. If Municipals 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 $1½ billion.

### The "Status Quo" Position

The defenders of the status quo are concerned primarily with the political sovereignty of states and local governments. Any infringement of intergovernmental tax immunity is considered an opening wedge for centralism into our federal system. They are afraid that the additional costs of financing public works, if interest from Municipals 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 Municipals contend that a Constitutional amendment permitting their taxation is necessary, while many proponents believe a nondiscriminatory tax statute is sufficient. They base their opinion on the Supreme Court decision in *Helvering vs. Gerhardt* (1938) in which the Federal income tax on the salaries of the employees of the Port of New York Authority was upheld on the ground that the tax was nondiscriminatory. In that case Justice Stone declared for the Supreme Court that a nondiscriminatory tax on the net income of state employees could not possibly obstruct the performance of state functions. "Immunity cannot be allowed," he said, "when the burden on the state is so speculative and uncertain that if allowed it would restrict the Federal taxing power without affording any corresponding tangible protection to the state government."

Those who believe a Constitutional amendment is necessary cite this same opinion and point out that the burden on the states and localities in additional interest payments, were their securities taxable, is far from uncertain.

For my own part, I like to speculate on how the Supreme Court would have decided *Helvering vs. Gerhardt* if the Federal income tax rates of 1962 were in effect in 1938. Would it then have overruled "a century of precedents"?

### The Reciprocity Argument

The suggestion has often been made that a substantial portion of the additional interest that would be payable by states and local governments in the event that their securities were subject to federal taxation, could be recouped by state income taxation of Federal instrumentalities of indebtedness. How much could the states and local units realize from the taxation of Governments? How much more interest would states and localities have to pay 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 their personal income, corporation income, and intangibles tax laws; local governments could tax them under general property and municipal income tax laws.

In actual practice most of the municipalities would get nothing from the permitted taxation of 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 in 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 intangibles taxes, or their income taxes, but only states imposing income taxes can hope to recoup substantial sums from the reciprocal taxation of Federal debt instruments. Of the 14 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 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 $68 million, according to calculations I made for the year 1959, would be raised in those states now imposing income taxes on individuals, business corporations, or banks. This amount was derived by first prorating the interest payments on Federal securities among the several classes of owners, then prorating it among the states, and finally, multiplying the assumed interest income within each state by class of owner by the applicable state income tax rates. The $68 million is the sum of $8 million that would be raised in ten states that would get additional revenues from banks, $8 million that would be raised in 28 of the corporation income tax states from businesses that own Governments, 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 *ex parte* taxation of Municipals by the Federal Government would raise the interest rates payable on subsequent issues of such securities. This increase in interest payments then would be subject to income taxation in those states now taxing interest income from state and local securities. It is estimated that, in 1959, states and their political subdivisions would have had to pay an additional $827 million (over the $1,740 million paid) in interest on their securities if the interest from their securities was subject to Federal income taxation. Income tax states 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 the interest income from their securities had been subject to Federal income taxation at the time of issue, the $63 billion in outstanding indebtedness in 1959 was divided into nine groups and the sum in each category 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, Baa, Caa, and unrated bonds. Long-term *local* debt was treated as one group since classification by rating was impracticable. Short-term *state* debt and short-term *local* debt 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, whereas additional interest for local obligations was calculated for the Calendar Year 1959 which is a usual fiscal period for local governments.

The differential, i.e., the additional interest payable were Municipals taxable, was calculated for long-term debt as the difference between Moody's Investors Service Index of Yields of Newly-

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# "Keep Government At Our Sides—Not On Our Backs"

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

**Agricultural expert sees the wellspring of our economic strength being increasingly vitiated, and lays down a formula to secure simultaneously our goals of national security, personal security and economic growth. He would make private business the senior partner in its relationship with government; add a fifth freedom of going and doing as one pleases to the Four Freedoms of World War II; and continue to have the government provide a minimum personal security floor under pockets of poverty, poor housing, illness, etc., without, however, undercutting the incentives and initiative that made our economic system possible. He declares government cannot provide security or economic growth by mere passage of laws but only by nourishing and protecting our traditional economic system.**

Nearly every individual has his own set of personal goals, even though he may never have taken the time to clearly define them. Some people seek wealth, others prestige, and still others power. Some people seek happiness, and sometimes find it without wealth, prestige, or power. Certain individuals become so wrapped up in their work that work itself becomes a goal, while others strive for "full leisure."

Earl L. Butz

Indeed, the personal goals are legion for the individuals that make up our nation.

The goals for all of us taken together, as a nation, must differ from our individual goals because the nation can and must accomplish ends not possible for the individual.

### Goals of America

Our collective goals, which in this discussion I shall call Goals for America, may be grouped into three broad categories. They are:

(1) National security.
(2) Personal security.
(3) Economic growth.

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.

National security involves a **total concept.** My 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 the goal of 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.

It is obvious to all that a strong military establishment can 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, if they are proud of America down deep in their hearts, if they believe in the ideal that we call America, if they are willing to fight and sacrifice for the principles that made America great.

### National Will

Our National Will is perhaps the weakest link in the equation for National Power outlined above. There are among us too many apologists for America, too many people who don't really understand the American system of individual freedom and responsibility, too many who seek the easy life without productive effort, too many who place politics above principle.

On my office wall hangs a large replica of the Declaration of Independence. I love frequently to read the last sentence in that inspired document: "And for the support of this Declaration, and with a firm reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes, and our sacred Honor." Then follow the signatures of those fearless patriots, headed by that "John Hancock" so large "the King can read it without his glasses." It was no idle gesture when those men signed that Declaration. To do so invited the hangman's noose.

Those men believed in something. They had a National Will. They were willing to put even their lives on the line. And some did.

What those men lacked in Military Power they made up in Spiritual Power. Today we try to cover up our deficit of Spiritual Power by pouring more resources into Military Power. This won't work. The equation for National Power, which is multiplicative rather than additive, is only as strong as its weakest factor.

### The Goal of Personal Security

One of our national goals is and must be the provision of a minimum level of personal security for all our people. This can be done either through the private sector of our economy or the public sector, or both. As a matter of practice, this goal is achieved through both the private and public sectors of the economy. We may differ individually, and politically, on the relative contribution to personal security that either the private or the public sector should make, but we all agree on the importance of the national goal of personal security for all our people. This may take the form of job opportunity, growth opportunity, adequate housing and food, educational opportunities for all our children, good health and health facilities, and finally retirement security. These are the obvious things we seek in personal security.

Yet there is another item of personal security, precious to all of us, so often overlooked. That is the protection of the individual citizen against autocratic, and sometimes tyrannical, action of government. The framers of our Constitution recognized this when they adopted the first ten amendments, commonly referred to as "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 is 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: Freedom from Want, Freedom from Fear, Freedom of Speech, and 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 jailor, 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 ask 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 bled and died to attain. 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 larger and moves to the public sector of the economy, increasing responsibility for provision of personal security for the masses of our people. Witness for example the growing maze of ironclad economic and financial regulations over our farmers, over transportation, over commerce, 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 the incentive 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 they are built on the solid base of a high level of economic productivity.

As we continue to debate the question of the relative roles of the public versus the private sec-

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# Don't Go Short on the Future of the SBICs

By Joseph W. Powell, Jr.,* *President, Boston Capital Corp., Boston, Mass.*

**Mr. Powell's intimate experience with his own firm and knowledge of other SBIC's underlie his admonitory advice—don't lose sight of the SBIC's intrinsic worth because of current market's underassessment which he also believes is as wide of the mark as it was not too long ago when overassessed. 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 candidacy and worthwhileness of small individual business for financing. Publicly owned SBICs are said to be showing signs of maturity and to fill a much needed gap in the overall financial picture. As the basic and technical problems are solved —assisted by needed pending technical changes by Congress—outstanding progress can be expected and easily spotted with 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 next few months. My second hat refers to my position as President of Boston Capital Corporation, the second largest of the Small Business Investment Companies, or SIBSs.

Joseph W. Powell

### Criticizes Sounding of SBIC's 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, propounded in many cases by people who have had only a superficial knowledge of their subject. For example, in an address to the Bank Credit Associates of New York on October 10, 1962, Mr. Theodore H. Silbert, president of Standard Financial Corporation, is quoted by his company'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 SBICs 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 disenchantment 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 severely 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 managements to meet and solve such problems will, I hope, be of more significance to you than the temporary considerations of a generally depressed securities 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 governing SBICs. A few brief 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 at the start of 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 restored.

(2) Doubling of SBA funds available for borrowing. Loan limits would be increased from 50% of paid-in capital to 100%, with a top limit of $8,000,000 compared with $4,000,000 at present.

(3) Establishment of legalized reserves against possible losses up to 20% of invested capital.

(4) Exemption of SBICs from those provisions of the Investment Company Act of 1940 which prohibit stock options, and relief from the controversial Section 30-f, governing short swing profits.

While there are several other items in these Bills, the foregoing provisions are of particular significance to the publicly-owned SBICs. As indicated previously, however, regulations and legislation will not assure the success or failure of SBICs, and I have mentioned these matters primarily to indicate the type of technical problem with which we are concerned. In the long run, SBICs will stand or fall depending on how well they succeed in investing funds in small business concerns which in turn grow into 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, American Research and Development Corp., with which I served as Vice-President for seven years, was a forerunner of the SBIC of today. Private groups like J. H. Whitney Co., Payson - Trask, Rockefeller Brothers and others have been performing with highly skilled organizations for over 15 years. As there has been a good deal of information on the results of 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 the skillful 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 get into trouble faster than a good one can show results.

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

(5) The ability of top management of small business concerns is ordinarily more important than the products, markets or competion.

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

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

(8) Managing venture capital is a full time job, requiring wide business experience and a practiced, professional approach.

(9) Rigid controls should be incorporated into basic financing instruments to permit corrective measures to be undertaken promptly when weaknesses are apparent.

(10) Well informed, mutually respectful relations between a small business and its financial supporters are a necessary concomitant to a successful operation.

I pose these conclusions as guideposts to some of the characteristics of this particular industry, and to indicate that there is a fairly good body of experience available to venture capitaists to help them make their decisions.

### A New Force in Venture Capital—The SBIC

At the present time investors have committed more than half a billion dollars to the SBIC concept through more than 600 individual companies, of which about $350 million has been entrusted to some 47 publicly held organizations. Only about half of the total amount raised has actually been invested so there still remains over a quarter of a billion dollars seeking attractive opportunities among small business concerns, enough money to support $2 or 3 billion of sales. The industry is, therefore, far from extinct.

SBICs vary in size, organization concept, investment philosophy and fields of interest. They all have one thing in common, however: *problems* — operating 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 prospers."

I don't think this particular individual, had he thought about it, could 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 before, we stand or fall with our companies and, to the extent we do a good job of selecting and assisting them, we will grow and prosper. To the extent we do not, we will have failed.

### The Six Senses of Small Business

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

These areas are:
- Sense of Humility
- Sense of Values
- Sense of Urgency
- Sense of Direction
- Sense of Organization
- Sense of Planning

*Sense of Humility*

Have you ever met any businessman who didn't think he was

*Continued on page 85*

# Canada's Objectives Now That Stability Is Achieved

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

**Canadian investment banker avers 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 overcome its inordinately large 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 Commonwealth loss which may arise from U.K.'s entry into E.C.M. will be offset by our new trade program and enlargement of the E.C.M. 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 IBA 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.

Dudley Dawson

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 92.5 cents U. S., 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 invisibles (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 the United States had a similar imbalance on current account, allowing for the difference in the size of our two economies, it would be equal on an annual basis to a staggering $17 billion. As a matter of interest, Canada has throughout the postwar period been buying substantially more from the United States than any other country in the world.

Viewed in this light, Canada's efforts to resist artificial curbs on its exports and to expand its sales in the United States market are surely understandable.

### Canada's New Exchange Rate

One factor which is obviously going to assist us in bringing about a better balance in our exchange of goods and services is the devalued Canadian dollar. The new exchange rate of 92.5 cents U. S. undoubtedly represents a more appropriate relationship between our currencies, than the premium at which our dollar continued to trade, after the unprecedented resource development in Canada came to a close in 1956-57.

Among the measures that have recently been taken—or have at least been proposed — with the object of making Canadian industries more competitive in world markets and increasing the volume of our exports, I would like to mention:

### Other Helpful Measures

First, the provision contained in the 1962-63 Federal Budget which allows for reduced taxes on corporate profits derived from increased sales. This will, undoubtedly, act as a powerful stimulus to our export industries.

Second, the announcement that the Federal Government intends to authorize the export of hydroelectric power.

Third, the recent move towards implementation of the Bladen Royal Commission's recommendations on the automobile industry. In this respect, it is proposed that Canadian car manufacturers will be able to import duty-free automobile engines and automatic transmissions to the extent only to which they increase their exports of parts. This should help Canada to reduce its trade deficit in automobile parts which amounted last year to $300 million.

I am sure the Federal Budget for fiscal 1963-64 which will be brought down early next year will contain further measures along these lines. I believe there is a growing feeling that the Canadian tax structure might be rearranged whereby direct taxes, corporate and income, would be reduced and indirect taxes increased. This 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 initiative 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 re-inforced 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.**

# 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 proportionate 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 problems have not been concerned with 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 devote at least some part of each day to hating the Internal Revenue Service.

Art Linkletter

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 lush Diamond Jim Brady days before income taxes when the money that we now send to Uncle Sam went to buy solid gold shoe horns and diamond studded slippers for champagne sipping. A typical letter from the revenue department in the year 1906 would read: "Dear Mr. Vanderbilt. It is with the greatest reluctance I must beg leave to inform you that in accidentally going over your tax accounts this year we find you owe the government $35. If you will forgive us for prying into your private affairs, we couldn't help noticing that when you sold the Pennsylvania and Great Northern Railroads at a profit of $45 million, you sent us a tax check for $8 when your records show that the amount should be $43. We hope you will receive this letter in the spirit with which it was sent. We do need the money dreadfully. Humbly yours, U. S. Internal Revenue Collector."

Of course, in these days it's a little different. Let's say that you have put in a good hard year working and you have earned a modest figure, let's say a million dollars. This puts you into what is called the upper brackets: Translated, that means that the government is hot on your tail.

The letter you NOW get reads as follows:

"Dear Sir: You owe the government $950,000. Shall we come and get IT or YOU? Signed. You Know Who."

### Taxes Override Business Decisions

For a number of years now, I have been in the 90% bracket . . . which of course, means that contrary to all sensible, moral, responsible, economically sound principles, I have been making business decisions based on Tax considerations rather than 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.

Permit me to take a moment right here to point out that I consider the capacity to succeed in business and industry is as much a TALENT as the ability to sing, dance, write poetry, act, or any of the other so-called Talents of show business.

You people in this audience are highly talented people, and your talents, while not as rare perhaps as the ability to write or compose music, nevertheless are limited to a fairly small percentage of the population.

You are enormously important to the nation's economic growth. You are the innovators, the creators, the entrepreneurs, the administrators who motivate and direct the whole, vast process. There will never be enough of you.

And while you enjoy recognition, prestige, status and power, just as much as artists do . . . nevertheless, money is still the principal yardstick 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.

### Evils 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 penalizing in direct proportion 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 literature, for example, and told our American writers that after a certain number of their works were published, the rest would either be anonymous or credited to other less talented writers, the world would 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 hard as you do. Still . . . as you know, many of our most economically talented men 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 one reason only: taxes.

The drive to beat estate taxes, turn income into capital gains, get stock options, pension plans, deferred compensation, profit sharing trusts, insurance programs and unlimited expense accounts all simply underline the fact that under our PROGRESSIVE income tax, it isn't possible to provide enough incentive through regular income to get the nation's work done and realize the full economic potential of the American people.

### Proposes 23% Tax Rate

I would propose a national income tax of 23% . . . a proportionate 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 adandon 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 65% is not necessarily fair. It is just less unfair. Under a 23% tax, the man with a $100,000 taxable income would pay $23,000. The man with $1,000 taxable income would pay $230. This seems fair.

It is hard to believe that any one U. S citizen is getting more than 100 times as many benefits from the Federal Government as his neighbor.

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 proportionate 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 policing 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.

Wouldn't it be refreshing to discover that right, for once, could not only triumph over political expediency, but be politically expedient as well.

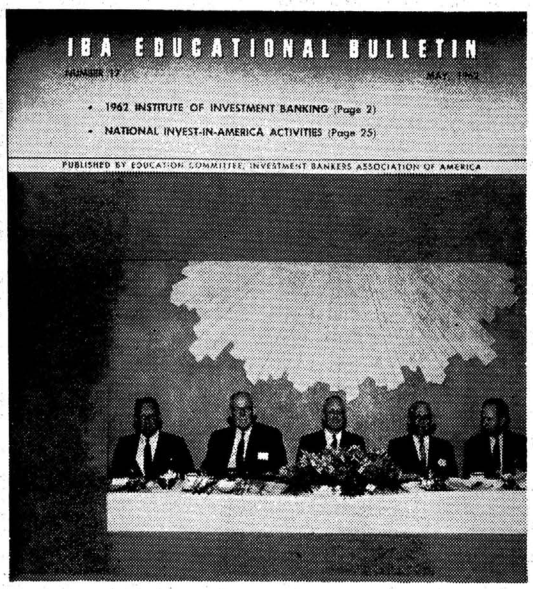
The Investment Bankers in the last 50 years have accomplished wonders; Income Tax Law has been changed through your Legislative Committee efforts . . . back in 1913. The Bank Act of 1933 was a milestone in financial history, prohibiting banks of deposit from underwriting or dealing in corporate securities. 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 binding.

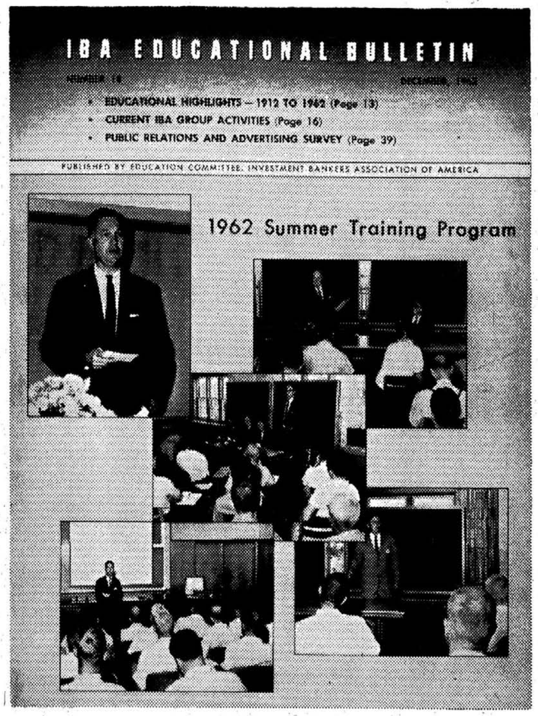
All through your history the importance of Self-Regulation has been stressed by your educational and management committees.

Why not the principle of Proportionate 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.

# 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 17 Group Education Committees in the United States, and like activities on the part of member organizations.**

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 approvimately 800 IBA member organizations sponsored 1,980 popular lecture courses on investing, with an enrollment of nearly 200,000 persons. The great majority of these programs were offered without charge—more than 182,000 persons attended free courses, and approximately 10,000 paid a modest fee. 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 offered from two to six public lecture courses per year. A number of members, however, sponsored a great many more—six members each sponsored 50 or more lecture courses a year and two organizations each reported more than 300 lecture courses nanually. The results of the overall survey are described in greater detail in the December issue of the "IBA Educational Bulletin."

**Radio and TV Programs**

Also provided by the survey results were data on radio and television programs sponsored by 140 IBA member organizations. Findings 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 reviewed, and the nature 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 343 junior officers 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 Firm Liaison, 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 classroom course in Fundamentals of Investment Banking over a three-month period and for the fifth year a

*Continued on page 117*

# 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.

Amyas Ames

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., Incorporated, and is also Chairman of the Investment Advisory Board of the latter organization.

Mr. Ames has been active in the affairs of the Investment Bankers Association of America at both the national and group level. He was Chairman of the IBA Taxation Committee, a member of both the Education Committee and the Research Committee and in 1951-1953 served as a Governor of the Association. The New York Group of the IBA elected him Chairman, 1950-1951.

Other positions of industry leadership held by Mr. Ames include two terms as a Governor of the New York Stock Exchange, 1949-1955. He headed two committees of the exchange that brought innovations to securities firms operations: namely, permissive incorporation of member firms, and, industry-wide cost accounting.

For the past 15 years he has been Chairman of the Joint Committee on Education representing the American Securities Business and was one of the organizers of the fellowship program sponsored by this Committee. Under that project for university professors and administrators, more than 400 academic personnel from all states of the union have been brought to Wall Street to study the operations of investment banking and the securities business.

Mr. Ames is General Chairman of the Friends of the Philharmonic Orchestra of New York and Vice-President of The Philharmonic-Symphony Society of New York, Inc.

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.

### 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 the University of Chicago in 1935, Mr. Harris went to work for Sills, Minton & Co.; he became Executive Vice-President in 1944 and President in 1945. He continued as President with its successor organizations, Sills, Fairman & Harris, Inc., and Fairman, Harris & Co., until the latter merged with Bache & Co. in May, 1956. Since then he has been Administrative Resident Partner of Bache & Co. in Chicago in charge of the Middle West Regional Area.

David J. Harris

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 Chairmen's Committee, 1955-56; Chairman, 1957-59.

Finance Committee, 1956-59.

Membership Committee, 1956-1957.

Nominating Committee, 1958-59.

At the regional level he was Chairman of the Central States Group in 1955-56 and for several years was a member of the Group's Executive Committee. Mr. Harris has held positions of leadership in other organizations in the investment business: Vice-Chairman, District No. 8, National Association of Securities Dealers, 1953-55, and Governor of the Midwest Stock Exchange, 1959 to the present; he is now Chairman of the Exchange's Executive Committee. He has also been a member of the Chicago Board of Trade since 1956. Mr. Harris is on the Board of Directors of the Liberty Loan Corporation, Kaufman & Broad Building Corporation, and Colonial Acceptance Corporation.

His activities in local civic affairs have included membership on the Lake County District 107 School Board, 1954-57, and Chairmanship of the Highland Park Community Chest Drive in 1958. Since 1958 he has been a trustee of the Highland Park Hospital.

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

Mr. Harris is married to the former Evelyn R. Carr. They have a daughter and two sons and the family lives in Highland Park, Illinois.

### 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 White, Weld & Co. in 1953 and is a general partner and member of the firm's Executive Committee.

Lloyd B. Hatcher

Mr. Hatcher has been active in IBA affairs since 1940, 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; 1956-62.

Governmental Securities Committee, 1952-53.

Group Chairmen's Committee, 1960-61.

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

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

### WILLIAM T. KEMBLE
### Vice-President

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

William T. Kemble

Active in the affairs of the Association since 1952, Mr. Kemble served as Chairman of the New England Group, 1953-54, Governor 1954-55, Vice-President 1961-62, and on the following national committees:

Railroad Securities Committee, 1953-58.

Group Chairmen's Committee, 1953-54.

Savings Bond Committee, 1953-1954.

Administrative Review Committee, 1956-57.

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

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

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

### JAMES H. LEMON
### Vice-President

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

James H. Lemon

Active in the affairs of the Association since 1942, Mr. Lemon has served as Chairman of the Southeastern Group, 1948-49, Governor, 1951-54, Vice-President, 1961-62, and on the following national committees:

Federal Taxation Committee, 1942-53.

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

Education Committee, 1945-46.

Group Chairmen's Committee, 1948-49.

Nominating Committee, 1952-53.

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

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

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

**GEORGE J. OTTO**
**Vice-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 Mitchum, 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.

George J. Otto

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 followniq 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, Inc., 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 Schlage 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 I.B.A. 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 ABA Executive Council decided against it. The organizing committee of 30 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. 8, 1912. Under Chairman George B. Caldwell a number of standing committees were appointed and the Constitution and By-Laws of the IBA were approved.

First Annual Convention of the Association, Nov. 21 and 22, Waldorf-Astoria Hotel, New York. George B. Caldwell elected first President of the Association.

**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.

**1913-16**

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:

Corporation Finance & Investment (1917)
Stock Exchange Business (1918 — in cooperation with ASEF)
Legal Aspects of the Transfer of Securities (1920)
Industrial Securities (1921)
Railroad Securities (1921)
Individual and Corporation Mortgages (1921)
The Work of the Cashier's Cage (1923)

**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.

**1922**

Financial Advertising Exhibit at 10th Annual Convention—in cooperation with Financial Advertisers Association.

**1923**

IBA Educational Director appointed—Samuel O. Rice. Association had become convinced of

*Continued on page 109*

# 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.


George B. Wendt

The volume of sales of new issues of municipal bonds during the 1st 10 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 a 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 3.37 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 now exceeds $300 billion, while the total state and municipal bonded debt is estimated at about $73 billion.

In view of the urgent demands 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 more proper representation in state legislatures so that they can obtain greater assistance at the state level in financing needed facilities. This should strengthen state and local financial independence and diminish the demand for assistance from the federal government.

**I**

**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 the enthusiasm of the registrants led this Committee to recommend and the Board of Governors to approve that another Municipal Conference be held next year.

**II**

**Municipal Public 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), 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 at the 1961 Convention approved recommendations that:

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

"(2) In states where constitutional or statutory provisions require that municipal bonds be issued only in $1,000 denominations, organizations interested in municipal financing cooperate in efforts to obtain the necessary amendments to permit the issuance of such bonds in $5,000 denominations as well as $1,000 denominations."

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

"Unless otherwise specified at the time of trade, bonds in 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 many issues during the past year have been in $5,000 denominations.

**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 appropriate committees opposing this proposal because state and local governments are furnishing the necessary classroom facilities without the proposed Federal aid, as evidenced by the facts that (1) construction of new elementary and secondary school classrooms in the school year 1960-1961 set a new record, aggregating over 72,000 classrooms and (2) sales of new issues of municipal bonds in 1961 to finance such facilities set a new record, aggregating over $2.5 billion.

*(b) Federal Aid for Urban Mass Transit*

Bills were reported favorably in both the Senate and the House 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 revenues. These bills did *not* pass the Senate or the House. The IBA submitted statements to the appropriate committees opposing these bills on the basis that if a subsidy is needed for local mass transit, local government can provide it more fairly and efficiently than the Federal Government.

Bills were also introduced in Congress to authorize Federal guarantee of revenue bonds issued by local public transit agencies to finance construction of mass rapid transit systems, but these bills were not reported from committee and were not included in the bills which were reported.

*(c) Public Works Acceleration Act*

The proposed "Stand-by Public Works Act" would have authorized $2 billion of stand-by authority and $600 million of immediate authority for direct expenditure by the Federal Government or for Federal grants and loans to state and local governments under existing Federal programs. The IBA vigorously opposed this program for the reasons that:

(1) State and local governments are financing public facilities through bond sales at record levels.

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

(3) Existing Federal programs already authorized grants aggregating close to $6 billion and loans aggregating over $1 billion for fiscal year 1963 to states, municipalities and educational institutions for various forms of public facilities and

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

The act which was finally adopted, The Public Works Acceleration Act, omitted all standby authority, but authorized a program of $900 million for immediate public works projects in areas of high unemployment and Congress 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 hope that the balance of the project cost can be financed by the municipality from other sources without Federal assistance.

*(d) Proposed College Academic Facilities Act*

After H.R. 8900, to provide the College Academic Facilities Act, passed the Senate and the House in different forms, several months elapsed before conferees finally agreed on a bill to provide a total of $2.345 billion over five years, as follows:

(1) $180 million in Federal grants for each of five years and $120 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 engineering and the physical and natural sciences. Loans could be used for some additional purposes.

(2) A total of $595 million over five years for student loans, which would be non-reimbursable, so they in effect would be scholarships.

(3) $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.

*(e) Bank Underwriting of Revenue Bonds*

Identical bills were introduced in the Senate (S. 3131) and in the House (H.R. 11198) 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 Senators Clark, Humphrey, Morse, Lausche and Kefauver. The House bill was introduced by Representative Vanik. No action was taken on either bill.

*(f) Department of Urban Affairs and Housing*

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 governmental power. When favorable action was not taken on the proposal, the President sent to Congress his Reorganization Plan No. 1 of 1962 to create the proposed Department. This Plan would have taken 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) Tax Proposals Relating to Municipal Industrial Bonds*

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

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# Report of IBA Governmental Securities Committee

*George B. Kneass, who recently retired as Senior Vice-President of the Philadelphia National Bank, was Chairman of the Governmental Securities Committee. The Report is reproduced herewith.*

The year 1962 has been a significant and eventful one in terms of both economic and financial developments. The cold war has continued to contribute to an uncertain, shifting atmosphere and at times, to unsettled conditions in the security markets — both domestic and foreign. As a result, Treasury and Federal Reserve System policies again had to be developed and executed in the difficult context of a continuing deficit in our balance of payments. Currency convertibility in Western Europe and the restoration of a competitive international money market have made policy decisions particularly sensitive to questions raised abroad about the long run effectiveness of the remedial measures taken or proposed. This has in turn required the closest kind of understanding and coordination between the Treasury and the Federal Reserve System in adjusting their separate policies to their common problems. These circumstances have made the recent work of this Committee even more interesting and challenging.

George B. Kneass

**Efforts to Stem Gold Outflow**

The Treasury has actively pressed its attack on the balance of payments problem on a number of fronts intended to reduce its hard core. At the same time, the Treasury and the Federal Reserve have succeeded in creating a heightened sense of mutual responsibility and enlightened self-interest on the part of foreign central banks in cooperating to prevent disruptive capital outflows and a drain on U. S. gold holdings caused by shifts of monetary reserve. This closer international cooperation has facilitated working arrangements for the reciprocal holdings of currencies, protective forward exchange transactions, the outright borrowing of dollars or other currencies. But at the year-end a serious imbalance remained in our payments position, necessitating continued effort to implement these monetary arrangements and even greater effort to resolve the basic imbalance problem.

The broad objective of domestic economic policy during the year called for economic growth. This meant that the Federal Reserve, in contributing to that objective through a policy of credit ease, had to act within the framework of a short-term rate structure that would be internationally competitive. 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 operations to regulate the supply of reserves, continued to purchase a wide range of maturities of Treasury obligations in the pursuit of a policy of credit ease — rather than to confine such purchases to short-term issues. In addition, the Board of Governors reduced reserve requirements on time and savings deposits from 5% to 4% for the purpose of meeting a seasonal need for reserves. The release of reserves in this way tended to reduce correspondingly the amount of short-term securities that would have had to be bought in the open market by the Federal Reserve System and served to moderate any attendant downward pressure on rates that might otherwise have occurred.

Two changes were made in Regulation "Q" of the Board of Governors of the Federal Reserve System, one of which permitted member banks to pay higher rates on savings and time deposits, while the second exempted time deposits of governments and certain foreign institutions from the rate ceilings imposed by that regulation. The higher rates paid on time and savings deposits by the larger banks, pursuant to this change attracted new deposits, but also drew some funds away from the Treasury bill market. The banks receiving these funds on deposit were forced, in turn, to place them in longer term investments where the rates of return were high enough to meet their added costs. This proved to be an important factor in facilitating debt extension by the Treasury during 1962.

The Treasury, for its part, was faced with complicated fiscal and debt management problems. A deficit had to be financed and steps taken to re-structure the debt. In addition, the Treasury had to make, through the terms of financing and the lodgement of its debt, whatever direct contribution it could to the promotion of domestic economic growth and to the support of the Federal Reserve System in the shared objective of maintaining competitive short-term rates.

**Debt Extension Achieved**

Despite earlier efforts to strengthen the debt structure, the Treasury faced a year of heavy and congested maturities which in themselves presented a formidable problem of finance. But in addition to meeting these "routine" maturities, it took the initiative in carrying out two major advance refunding operations intended to adjust the distribution of debt and to facilitate the handling of scheduled maturities in the months ahead. On the first of these it successfully shifted over $2.4 billion of issues that were in or were moving into the 10-year zone out into 1980 and beyond; it also simultaneously moved some $2.8 billion of 1964-65 maturities into 1971.

Later, the Treasury used a variant of the advance refunding in anticipating February and May 1963 maturities, and successfully shifted some $7.9 billion of that debt into 1967 and 1972, thereby relieving the congestion in early 1963. Conventional refunding on a "rights" basis was used in extending maturing debt into the 1-5 and 5-10 year area. Direct cash sales and the cash refunding technique were also employed effectively in placing more moderate amounts of debt in the 5-10 year area. The choice of isues and techniques and realistic pricing were all important in the success of these operations.

**Proposed New Financing Technique**

A third method has been suggested to the Treasury, and while up to the present time, it has not chosen to use this, it may at certain times have its advantages in allowing for some greater flexibility. We might call this the exchange refunding plus cash system. Under this plan, the Treasury would not offer in exchange short-term or "anchor" issues, but would offer conceivably an issue of notes and an issue of bonds for the purpose of furthering their debt management policies and to attract holders to extend their maturities. After the books on the exchange subscription are closed, the Treasury would then know the cash required to meet the amount of the unexchanged obligations and would offer a so-called "anchor" issue of 12 to 18 months term. This would have the advantage of picking up the "attrition" and even allowing the Treasury to ask for more cash if it is its intention to raise some additional sums, or as might be the case, to achieve a market impact in line with its goals.

**Competitive Sale Planned**

A significant, though experimental, development in debt management was the Treasury's announcement in September 1962 of its plans to supplement regular techniques for the sale of long-term bonds by offering at an early date a pilot issue of some $250 million for competitive bidding by underwriting syndicates. The major success of the Treasury in the sale of long-term bonds has recently been achieved by the use of advance refunding, but the scope for extended use of that device in this section of the market may be less by reason of these achievements.

To supplement — rather than supplant — existing methods of selling long bonds the Treasury plans to explore with a pilot issue the potential of the competitive bidding practice by adopting a practice employed in corporate finance. This approach should be regarded as further evidence of a continuing effort by the Treasury to improve old and develop new procedures for marketing its debt.

**$7 Billion Increase in Marketable Debt**

For the year thus far, Treasury marketable debt has increased by nearly $7 billion, a large part of which was effectively financed outside the commercial banking system. Through its various operations the Treasury extended the average maturity of the debt by five months. This is a solid achievement that required a fairly massive net shift of debt considerably beyond the five-year area. This re-structuring has inevitably involved temporary sharp reductions in the outstanding amount of coupon issues due within one year, which were not without downward pressure on short-term rates. The Treasury attempted to counter this influence by judicious use of Treasury bills, which proved to be a flexible and relatively useful method of finance in the complicated circumstances that prevailed. As a result, the total of Treasury bills outstanding rose by some $4 billion.

The combination of factors which permitted debt extension in spite of the large additions to the supply of Treasury bills is unlikely to continue to be as prominent. It would, therefore, seem probable that in the near future other means may be required to influence the short-term rate while preserving the proper structure of our debt.

The number of marketable issues of Treasury obligations continues to increase. There may be reason to question this trend in that the availability today of each of the 64 or so coupon issues for trading purposes is a problem. Someday the Treasury may find it beneficial to consolidate a number of issues of similar term in order to improve marketability and eliminate some of the "scarcity issues" whose trading prices characteristically appear to be artificial. The result would also aid in establishing a more realistic rate structure.

**What About 1963?**

Despite the difficulties and limitations surrounding the development of financing programs the Treasury met its varied responsibilities with a degree of success that tended to reassure observers of our ability to handle a large and growing public debt. Looking ahead into 1963, there is no current evidence that the Treasury and the Federal Reserve System face any less arduous tasks at home or abroad. In fact, a larger budget deficit is now forecast for 1963. Much the same general problems and objectives remain. There can be no relaxation in the close coordination of policies, nor can there be any doubt that these two agencies will show the same understanding, competence and harmony that has characterized their relationship in the past year.

In May, 1962 an important change in the personnel of the Federal Open Market Committee of the Federal Reserve System occurred. Mr. Robert Stone of the Federal Reserve Bank of New York became Vice-President of the Bank and Manager of the System Open Market Account, and Mr. Robert G. Rouse, his predecessor, became Senior Advisor

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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 Muncipal 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 employes 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.

R. M. Ergood, Jr. George B. Wendt

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 | 28 |
| California | 21 |
| Northern Ohio | 16 |
| Western Pennsylvania | 12 |
| Southeastern | 12 |
| Michigan | 11 |
| Eastern Pennsylvania | 10 |
| Minnesota | 10 |
| Mississippi Valley | 9 |
| Ohio Valley | 9 |
| New England | 8 |
| Rocky Mountain | 6 |
| 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 every two years. The vote was about 2 to 1 in favor of holding it in Chicago again with numerous suggestions 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 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 committees on arrangements and program 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 be completely remiss if we failed to acknowledge Gordon Calvert 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.

The Board of Governors has already authorized the holding of another Municipal Conference next year. We will need assistance from many of you. We invite suggestions from all of you. We hope that the Conference next year will be even better than the one this year.

* * *

*Respectfully submitted,*

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**Edward B. Wulbern**
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* * *

*Respectfully submitted,*
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**William G. Harding**
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New York, N. Y.

**Joseph E. Lay**
The Robinson-Humphrey Co., Inc.
Atlanta, Ga.

**Loomis C. Leedy, Jr.**
Leedy, Wheeler & Alleman, Inc.
Orlando, Fla.

**Glenn L. Milburn**
Milburn, Cochran & Co., Inc.
Wichita, Kan.

**Henry Milner**
R. S. Dickson & Co., Inc.
New York, N. Y.

**Early F. Mitchell**
First National Bank of Memphis
Memphis, Tenn.

**Winston L. Molander**
Northwestern National Bank
Minneapolis, Minn.

**Carr Payne**
Cumberland Securities Corp.
Nashville, Tenn.

**W. Wallace Payne**
First of Texas Corp.
San Antonio, Tex.

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

**Charles A. Richards**
Field, Richards & Co.
Cincinnati, Ohio

**William J. Riley**
E. F. Hutton & Co., Inc.
New York, N. Y.

**Raymond L. Robinson**
Hornblower & Weeks
Denver, Colo.

**Floyd W. Sanders**
White, Weld & Co.
Chicago, Ill.

**J. B. Sanford, Jr.**
Hattier & Sanford
New Orleans, La.

**W. Marshall Schmidt**
Hornblower & Weeks
Philadelphia, Pa.

**Russell E. Siefert**
Stern Brothers & Co.
Kansas City, Mo.

**Lockett Shelton**
Republic National Bank
Dallas, Tex.

**Andrew E. Steen**
Wells Fargo Bank
San Francisco, Calif.

**Franklin Stockbridge**
Security First National Bank
Los Angeles, Calif.

**Fred D. Stone, Jr.**
Marine Trust Co. of Western New York
New York, N. Y.

**Paul E. Uhl**
United California Bank
Los Angeles, Calif.

**Joseph Vostal**
Kidder, Peabody & Co.
New York, N. Y.

**William H. Watterson**
Fahey, Clark & Co.
Cleveland, Ohio

**Alan N. Weeden**
Weeden & Co.
New York, N. Y.

**Haven L. Zebold**
Prescott & Co.
Cleveland, Ohio

# 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 officals 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.

Andrew N. Overby

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 development. 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 exporting ability 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 views 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. Just as a second class dollar could not serve as the main reserve currency of the world so a second class capital market—subject to "whispering" or informal controls or creeping restrictionism — could not fulfill its essential role for the leading financial power of the world — for it would not only impair the value of the dollar itself, but would also diminish 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 of the international flow of private capital.

Meetings to discuss matters of mutual interest in the field of foreign investment were also held in September by a sub-committee with the President of the Export-Import Bank, the Administrator of the Agency 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 SEC in October. 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 its 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 guaranty 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 in the near future under the liberalized policy recently adopted by the Agency for International Development and the State Department.

During the year the World Bank finished and made public a study of various proposals for setting up some kind of multilateral scheme for insuring 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 aimed at increasing confidence in international private investment, namely, the establishment, under the sponsorship of the Bank, of some kind of machinery for the conciliation or abitration of international disputes arising between governments and private parties. A working paper on the subject has been circulated 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 issues 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 previous annual reports, 19°2 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 $316,000,000 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, although in more recent months sharp declines in some foreign stock markets have led to decreased purchases by U. S. investors.

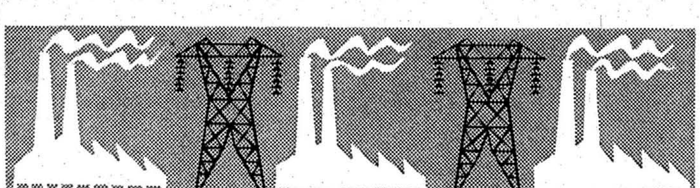
Considerable interest was aroused both here and abroad by remarks made by the Secretary of the Treasury at the Ninth Annual Monetary Conference of the American Bankers Association in Rome on May 18. In the course of his remarks, while urging European countries to mobilize more effectively their savings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

*Continued on page 129*

* In most cases substantial amounts of these issues were sold to investors abroad.





# 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 Cruttenden, 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.

Robert A. Podesta

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 its 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 licensing 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.

**II**

**Uniform Form for Registration Of Securities**

One of the major developments in recent years in simplifying the preparation of applications to register an issue in many states is the Uniform Application for state registration of securities (Form U-1), to be used only where a registration statement 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; Georgia; Hawaii; Idaho; Illinois;

Indiana; Iowa; Kansas; Kentucky; Louisiana; Maryland; Michigan; Minnesota; Missouri; Montana;

Nebraska; New Hampshire; New Mexico; 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 notice.

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 a master 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 individual state application.

The Uniform Application 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 primary and 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 business are permitted to engage in the sale of securities, there would be relatively little problem with specific 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 so that a uniform state securities examination may be adopted for use in those states which require an examination of securities salesmen.

(b) A procedure be adopted whereby examinations be offered bimonthly at a location in each state which requires examinations; a uniform passing grade be adopted; the grade of an applicant be certified 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 require special state examination for other states in which he wishes to apply for registration and have his examination forwarded to the securities commissioner of the appropriate state.

We believe that such uniform examinations and procedure would simplify the administration of examinations for the securities commissioners, as well as the applicant, and would 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 as 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 examinations for any other states 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 state involved.

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 63 million shares of General Motors common stock by Feb. 28, 1965 under a court order enforcing the anti-trust laws. du Pont owns about 1.37 shares of GM stock for each of its own out-

*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 1959 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:

Fred D. Stone, Jr.

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

(1) "That the program be directed toward the preparation of promotional material to be distributed to members. Additional copies for mailing to clients and personnel will be available upon request, on a price basis, which will defray in part the expense of the Association in the program, and in addition, the preparation of material for education of investment banking personnel and for public information through magazine articles, news stories and related media.

(2) "That an additional person be employed on the IBA staff to direct this program, in cooperation with other members on the staff, the Board of Governors and the Municipal Securities Committee.

(3) "That it be financed entirely within the IBA budget, without any increase in dues, on a trial basis for three years."

In the past year the Committee concerned itself with the preparation and distribution of promotional and educational materials focusing attention 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; (2) To create better understanding 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 a Municipal Bond Advertising Contest which attracted representative entries from a wide cross-section of our member firms. Those of you who were present at our 1961 Convention had 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 Education, 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 distribution of an extremely distinctive eye-catching flyer, has had an unusual response. Those of you in attendance at the 1962 Convention have undoubtedly seen the display of entries in the lower lobby of the hotel. Once again, this display has been prepared by John Nash in cooperation with Berke Displays, Inc. of Miami. Fifty IBA member firms are entered in this contest, including fourteen organizations that were not among those in last year's contest. Your Committee sincerely hopes that it is justified in believing that its efforts are in some way reflected in the increased interest on the part of the members in 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 rewriting at a quorum meeting of your Committee at the Central States Group meeting last March. To date, more than 150,000 copies of the booklet have been sold to and distributed by 154 member firms of our Association. It is interesting to observe that we have had 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 its March 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 a very intriguing and convincing "Ad Kit" which is receiving exceptional comment from members and professional organizations in the field as well. You will be interested to note that among the entries in our Advertising Contest are examples of member use of these ads.

**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 $20,000 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 income to stretch this limited amount substantially.

| | |
|---|---|
| **Cost of Program** | |
| Overhead— | |
| *Salaries and Travel | $16,150.09 |
| **Preparation of Materials** | |
| Printing and Mimeograph Photos, art work & layout | 11,398.68 |
| Postage | 354.34 |
| Total cost | $27,903.11 |
| Budget allowance of IBA | 20,000.00 |
| Receipts from sales of materials through Oct. 31 | 11,479.19 |
| Total funds available | $31,479.19 |
| Minus total cost | 27,903.11 |
| Balance from budget allowance | $3,576.03 |

*Salaries 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 to high schools, colleges, government agencies, and business and industry throughout the country. In support of this activity, numerous news releases were circulated. Additional releases dealing with mass transit, public works, and community facilities were distributed, covering metropolitan and local dailies. In this connection your Committee will shortly release to several thousand suburban weekly newspapers a series of news stories directed at a better understanding of the part which municipal financing plays in the daily life of our citizens.

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 program to serve the best interest of the municipal bond industry. Plans for the coming year call for the renewal and continuance of our Advertsing Contest; the further development of sample advertisements and direct mail pieces; the consideration of a program of educational information for students in our high schools and colleges, particularly directing attention to providing a 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 covering the creation, issuance, and distribution of a municipal bond issue; the development of a public relations outline and press kit for use by IBA members with their local press; the expansion of radio and television contracts; a new direct mail brochure directed to a different segment of retail prospects in the municipal field.

Several members of your Committee have expressed concern with opinions published and verbally expressed concerning "the limited marketability" of municipal bonds. We propose, with the cooperation of Dr. Bill Zentz, to prepare a study of our "secondary market" activities in an effort to prove what those of us active in the business know, that the 2,000 dealers in municipal securities make considerably better markets for the $72 billion of outstanding bonds than the general public normally gives us credit for.

It is the intent of this Committee to continue its cooperation with other IBA committees and our staff to foster the efforts of the organization to create a climate which is profitable for our industry and to further the development of an informed American public who are the informed American investors.

*Respectfully submitted,*

SPECIAL COMMITTEE FOR PUBLIC EDUCATION ON MUNICIPAL SECURITIES

**Fred D. Stone, Jr., Chairman**
The Marine Trust Company of Western New York
New York, N. Y.

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

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

**William L. Hurley**
Baker, Simonds & Co., Inc.
Detroit, Mich.

**Robert Mason**
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Chicago, Ill.

**Edward D. McGrew**
The Northern Trust Company
Chicago, Ill.

**William H. Morton**
W. H. Morton & Co., Incorporated
New York, N. Y.

**Francis R. Schanck, Jr.**
Bacon, Whipple & Co.
Chicago, Ill.

**Harold H. Sherburne**
Bacon, Whipple & Co.
New York, N. Y.

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

**Brainerd H. Whitbeck**
The First Boston Corporation
New York, N. Y.

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

**Victor H. Zahner**
Zahner and Company
Kansas City, Mo.

# 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, its activities were confined to liaison with the American Bridge, Tunnel & 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.

William F. Morgan

(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 the Accounting Subcommittee of that body, to promote further usage of standardized forms for interim monthly reports by toll road projects. As of the moment all but three of the turnpike projects are now using the standardized forms which were worked out as a cooperative effort by the ABTTA and the subcommittee a year or so ago.

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

(d) Participation by IBA representatives in the San Francisco convention of the ABTTA in October. The Subcommittee assisted also in arranging 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 criticizing 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. 3615) and the House (H. R. 11158); but these bills did **not** pass the Senate or the House. It is anticipated this legislation will again be considered at the next session of Congress opening January, 1963.

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

Your 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,*

TOLL AND TRANSPORTATION FACILITIES SUBCOMMITTEE

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

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

**W. W. Friend Jr.**
R. W. Pressprich & Co.
New York, N. Y.

**Arthur S. Friend**
Folger, Nolan, Fleming & Co. Inc.
Washington, D. C.

**Charles S. Garland, Jr.**
Alex. Brown & Sons
Baltimore, Md.

**C. Cheever Hardwick**
Smith, Barney & Co.
New York, N. Y.

**George T. Ragsdale**
Lehman Brothers
New York, N. Y.

# Report of the IBA Public Utilities Committee

*Milton F. Lewis, Vice-President, A. G. Becker & Co., Inc., New York City, presented the following Report of the Public Utilities Securities Committee, of which he was Chairman.*

This has been an eventful year for the electric utility industry — a year marked by a favorable change in the regulatory climate at the local and state level in which it operates. The electric utility industry, the telephone industry, and gas distributing companies have all shown outstanding results in 1962, a year of unpredictable climate, economic and political, national and international. The electric utility industry continued to be in an especially favorable position because of its foresight to handle greater volume of business and financial strength to meet its ever-growing needs.

Milton F. Lewis

In past reports, however, we have expressed our concern with the rapid development of public power. Again this year this threat has made strides of major proportions. We call your attention to an article which appeared in the Sept. 10 issue of *Barron's*, entitled "Treacherous Current—the U. S. is Launched on a New Wave of Public Power," a copy of which is attached to our report. This article was sent to all its stockholders by New England Gas & Electric Association.

We are concerned with expansion of TVA, with the public power authorities in the Northwest, 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 River Storage project which will interconnect with the Hoover and Parker-Davis system and with the Missouri Basin system.

Another long-range plan of the Department of the Interior is set forth in a recently completed report recommending a high-voltage intertie between the Pacific Northwest and the Pacific Southwest. This proposal would involve construction of lines from the Bonneville system to the vicinity of Los Angeles, a distance of almost 1000 miles.

Early this year, Secretary Udall approved a plan which would inter-connect the Missouri River Basin transmission system of the Bureau of Reclamation and the power transmission system of the Southwestern Power Administration.

Another study by the Department of the Interior involves the possible high-voltage intertie between the Missouri River Basin power system and the Bonneville Power Administration system in the Pacific Northwest.

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

Appropriations have again been authorized to study the feasibility of Passamaquoddy, this project having already been defeated after extensive study of costs by public power enthusiasts of a postwar era.

These are some of 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 conferees agreed on an omnibus rivers, harbors, and floor control bill which eliminated the proposed Federal Knowles project from consideration.

In the face of all 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 about three times Russia's power producing capability, and there is no sign that Russia will 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 electric power companies is expected to continue. The industry added $1.2 million new customers during 1961, having a total at the year end of about 60.1 million. Residential customers, who constitute 85% of the industry's total, increased their average annual consumption by 187 kwh during the year to around 4104 kwh.

According to the Edison Electric Institute report, revenues of the business-managed electric utilities last year advanced 5.4% to an all-time peak of $10.265 billion. Composite net income advanced to $1.85 billion from $1.75 billion in 1960, for a gain of 5.7%. The electric utilities continued as a prime 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 once again to call to your attention a serious injustice which is being done to you as a citizen, as a taxpayer, as a customer, 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 98% of the nation's farms. Approximately one half of the farms are served by each.

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

In 1944 Congress established a set 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. Eighteen years have passed, 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 the REA Act. Five out of every six REA cusomers 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 justfication 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 beseech all of you who believe in free enterprise and fair competition to express your ideas to your elected representatives in Congress. Federalization of the electric industry will be achieved if direct action is not taken. We are delighted, however, to see the aggressive articles now being sent to stockholders by many utility managements 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 early in 1961 permits the REA to grant generating loans because "generating and transmission 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 continued its policy of secrecy in the granting of all types of loans to cooperatives.

The first 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. is able and willing to furnish now. The proposed co-op plant is a high-cost plant because it does not effect the savings of large-scale generation. The cost of power to Alabama Electric Cooperative's customers will be greater than the rate paid to Alabama Power Co. by its co-op customers.

We feel that the proposed plant will damage investments already made by Alabama Power Co. to supply the power for its present

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# Report of IBA Nuclear Industry Committee

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

### Introduction

When the Atomic Energy Act was signed into law in 1954, 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 in each of these phases, starting with the mining and milling of uranium ores and extending through the chemical reprocessing and waste disposal of spent nuclear fuel. The dynamic growth resumption of each of these industrial phases of atomic energy hinges on the competitiveness of this new source of energy.

Dr. Paul F. Genachte

At the time of the first International Conference on the Peacetime Uses of Atomic Energy in Geneva in 1955, the optimistic view was expressed that competitive power would be achieved by 1960-62, not only in the technically advanced nations but in the underdeveloped parts of the world as well.

### Breakthrough by 1965

While the technology has indeed progressed far, existing power reactors are still not quite capable of delivering competitive energy. However, the gap has narrowed. The economic breakthrough in the high-cost fuel areas of the United States now appears likely to come by 1965. Soon afterward, we can expect a resumption in the growth of the industrial activities related to the atom.

What follows is an evaluation of the major developments of 1962, which have a direct bearing on the competitiveness of atomic energy.

### Reduction in Nuclear Fuel Charges

Last year on July 1, the Atomic Energy Commission reduced its base charges by about 20% for highly 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, 10% for uranium containing 3% of uranium-235, 8% for uranium containing 2% of U-235, and 4% for uranium with 1% of U-235. The combined reductions result in an overall decrease in charges varying from 30 to 40% for enriched uranium, and 40 to 55% for depleted uranium, depending upon the uranium-235 content. These reductions are based on a price of $8 per pound of natural uranium oxide, which is the price established by the AEC under its Domestic Purchase Program for the period from April 1, 1962 to Dec. 31, 1966. 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 kilowatthour for certain reactors, a significant step indeed.

### Optimistic Statement by AEC

The AEC this year investigated with particularly great care the several power cost projections which had been made in different quarters. On June 25, the Commission came out with the most optimistic statement yet made. It expressed the opinion 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 600,000 kilowatts should be as low as $170 per kilowatt by 1966, and should come down to $135 per kilowatt by 1970. Conventional plants of similar sizes, on the other hand, should cost about $120 per kilowatt by 1966 and about $100 per kilowatt after 1970. In order to arrive at the cost of the kilowatthour produced in such plants, some assumptions, of course, had to be made. We find these assumptions entirely 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 ($U_3O_8$) is priced at $8 per pound; for the 1970 plant, it is assumed the price will have come down to $5 per pound.

(5) Inventory use charge of 4¾% 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 downward to $6.70 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 $U_3O_8$ after 1966 will be $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 plutonium with no Pu-240, downward to $30 per gram for plutonium with 8.6% Pu-240 or more (see your Committee's report for 1957). From July 1, 1962 to June 30, 1963, the price is $30 per gram of plutonium, regardless of the Pu-240 content. The AEC has not yet set an official repurchase price for plutonium after June 30, 1963 and its "guess" that plutonium should be worth at least $8 per gram in the form of nitrates, in relation to present U-235 prices, is quite revealing. This represents a sharp reduction from the present price, but an $8 price per gram of plutonium is in line with its fuel value in relation to U-235.

We should further note that private ownership of nuclear fuels is not envisioned before 1970. We commented fully on this in last year's Committee report. Discussion of this subject, which had been expected to take place at Congressional hearings, has been postponed until next year.

Here is how the figures look:

| Startup Year— | Government-owned Fuel 1966 | Government-owned Fuel 1970 | Privately-owned Fuel 1970 |
|---|---|---|---|
| Capital cost per kw | $170 | $135 | $135 |
| KWH cost, in mills/KWH: | | | |
| Fixed charges | 3.4 | 2.7 | 2.7 |
| Fuel cost | 1.8 | 1.5 | 1.7 |
| Operation, maintenance and nuclear insurance | 0.6 | 0.3 | 0.3 |
| | 5.8 | 4.5 | 4.7 |

A modern conventional steam plant of the same size, under equivalent operating conditions, would produce energy at the costs indicated in the following table:

| Startup Year— | 1966 | | | 1970 | | |
|---|---|---|---|---|---|---|
| Capital cost per kw | $120 | | | $100 | | |
| Fuel cost per million BTU | 20¢ | 30¢ | 40¢ | 20¢ | 30¢ | 40¢ |
| KWH cost in mills/KWH: | | | | | | |
| Fixed charges | 2.4 | 2.4 | 2.4 | 2.0 | 2.0 | 2.0 |
| Fuel cost | 1.7 | 2.55 | 3.4 | 1.7 | 2.55 | 3.4 |
| Operation, maintenance | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| | 4.3 | 5.15 | 6.0 | 3.9 | 4.75 | 5.6 |

Therefore, for plants started in 1966, atomic energy would be competitive in areas where conventional fuel costs exceed about 35 cents per million BTU. For plants started in 1970, atomic

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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 39 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 0.7%), and the other Districts each disclosing about the same 1.03-1.07% rise.

W. Wendell Reuss

Results for the Class I Intercity and Local General Freight Motor Carriers reporting to the ICC are not yet available for the simialr 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 quantity of truck traffic back onto the railroads—notwithstanding the stellar performance of Piggyback 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 591,000, and may reach an estimated 706,000 for this year, at which level the total will equal nearly 2½% of total 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, equalling nearly half as much as Ore carloadings for last year!

In this connection, the Southern District (excluding the Pocahontas District), with Piggyback handlings for 1961 at a mere 37,000, was a small contributor to the total, comparing with 286,000 for the Eastern District, and 254,000 for the Western District.

Another new development is 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 recapture in increasing volume, automobile business which previously had been lost to other forms of transportation.

**Federal Tax Legislation**

Owing to 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 recommends that the I.C.C. should require the Raliroads to disclose in their income accounts, in the form of a footnote thereto, the difference between Depreciation charges taken for tax purposes, and those included in operating expenses, 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 Net of $60.3 million vs $48.6 million, and

The Western District revealed Net of $203.7 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 ("red" to repeat) vs. a deficit of $122.9 million, respectively.

**Eastern Carriers' Plight**

Although freight volume in the present fourth quarter of this year is running behind last year's like period of improving trend, 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, contrasted with a large deficit last year; two are indicated as still in the "red ink" class, although materially less 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 a showing alone is forceful testimony for the urgent need of initiating an immediate "back to the rails" movement of freight traffic through remedial legislation that would 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 Liabilities) likewise add their share of cause for this lack of vigor in output of a portion of heavy industry.

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 trusty 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"; and with those needs commonly 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 period of Railroad Industry annual expenditure, without any great amount of fluctuation between years.

Over this five-year period Gross Additions and Betterments averaged nearly $1.3 billion **annually**; last year (1961) was the lowest in the 13-year period and amounted to roughly $650 million—**FOR YOUR STUDIED CONSIDERATION $650 million under the five-year period, and representing a drop of 50%.** 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 $160 million annually for such five-year period, last year also declined to the lowest in the 13-year period, touching $70 million, or $90 million under the average for the period, again a reduction of more than 50%!

**Iron and Steel Products,** which averaged nearly $560 million annually for the five-year period, last year declined to $333 million, or $227 million (40%) below the earlier 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 $35 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 $75 million last year, with the actual number of tons of Rail Laid in Replacement dropping precipitously from a five-year average of 2,320,000 tons 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 straightened 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, these three years being 1950, 1951 and 1955.

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

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# Report of IBA Industrial Securities Committee

*Blancke Noyes, Partner in Hemphill, Noyes & Co., New York City, as Chairman of the Industrial Committee, presented a Report to the Convention devoted exclusively to THE COMPUTER INDUSTRY. The document, voluminous in content, most certainly can be referred to as one of the most authoritative studies of every facet of this gigantic industry ever compiled. The Report is reproduced, IN PART, herewith.*

## SUMMARY

The computer industry is relatively young in age when compared to most other industries. Measured from the date of the first computer installation in 1951, the industry is a little more than a decade old. The more significant date when discussing the industry's development would be the 1953-1954 period, when mass production 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 there are now 10-12,000 computers in use, with yearly shipments on the order of $1.5 billion. Within the short period of 10 years, this industry now finds ranking among the billion 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 business 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 when new, the value of these installations is estimated to be in excess of $4.5 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 350% from present levels.

The rate of technological improvement 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 introduced, and a third generation should be introduced by late 1964 or early 1965. These machines will incorporate such advanced components as magnetic thin films, tunnel diodes, and micro-miniaturized circuits, and will operate at speeds measured in billionths of a second. These operating speeds compare with thousands of a second in vacuum tube machines, and millionths of a second in solid state computers. Future computers will perform up to 2 million operations a second. These technological advances are leading to lower costs per calculating operation. Third generation computers will cost 2.5-times more than current equipment, but will operate 10-times faster. The greatest technological advances will come in peripheral equipment. The development of optical scanners, data transmission equipment and video display systems will open up 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. Computer usage has led to savings of 10-25% in clerical costs in many cases, and savings of 10-20% in inventory costs. The greatest payoff, however, will be in sophisticated total management information systems, employing such advanced management science techniques as operations research and linear programming. Costly decisions of the past, such as 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 these are growing every day. Future applications will include income tax processing, weather forecasting, medical analysis and diagnosis, traffic control and automatic classroom instruction, amongst many others.

The computer industry has developed some very definite patterns and characteristics during its 10-year life period. Of the nine major companies manufacturing computers, only two 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 2-3 years away. This profit picture becomes critical in view of the capital requirements necessary for effective competition. Another industry characteristic is that 80% of the computer installations are leased. The huge investment required to carry rented equipment is straining the budgets of even the largest companies in the industry. Stiff competition, 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 problem between man and machine improves with the utilization of packaged language programs offered by computer manufacturers, the computer could one day become as easy to use as a desk calculator. This will open vast, untapped 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 intellect. Computers will help to channel man's efforts into areas and directions promising the greatest profits and rate of return on investment. These machines will not only aid in the restoration of former profit levels for business as a whole, but will be an invaluable tool in meeting the serious challenge our country faces in international trade competition.

Blancke Noyes

### Computer Types

Before embarking upon an analysis or appraisal of the computer industry, it would be appropriate to define a computer, describe its basic operational units, indicate its functions and limitations, and briefly discuss why such a machine exists today. The word "computer" is difficult to define since it encompasses so many items. A slide rule, a pressure gauge, a taxi meter, a desk calculator, the Chinese abacus are all computers in a sense. All of these devices take in data or information, process this information, and feed it out in a more useful form, performing calculations by mechanical means. More recently, the greatest operational advances have been carried out by electronic means. The introduction of electronic tubes, with their ability to go through On and Off cycles at extremely fast rates with great reliability, has provided the answer to the search for rapid solutions to business and scientific problems. A combination of the Yes or No principle embodied in the electron tube, coupled with the mathematical binary system, which carries out a series of calculations with Yes or No decisions, has led to the creation of the high-speed, highly reliable electronic computers of today.

There are two basic types of computers — digital and analog. Digital computers deal with actual or discrete numbers, and in very simple terms, can be described as arithmetic machines. The final output of a digital computer is a set of numbers, or letters, which can be made as accurate as desired. A digital computer does not work instantaneously, but produces an answer after it is fed a problem. This does not make the digital computer a slow machine, however, since the time lag may be measured in millionths of a second. As the computer has to do arithmetic, there is always some lag between the problem and its solution. An important feature of the digital computer is its ability to perform according to a program of set of instructions. With this ability, the machine is capable of performing thousands of repetitive computations, involving hundreds of thousands of digits, not only without making errors, but also eliminating a good deal of the human effort which formerly went into these calculations. A digital computer is capable of performing computations such as addition more rapidly than any other device now on the market, and since it deals with discrete and precise numbers, it is particularly applicable to business data processing.

An analog computer is both a simulating and mathematical machine at the same time. It operates on the principle of substituting an analogous physical system for the system which is being investigated or by duplicating mathematical behavior. Imput and output of an analog computer are never absolute numbers, but an approximate position on a continuous scale. The output of an analog is always somewhat inaccurate, therefore, and the construction of an analog computer possessing an

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# Report of IBA Federal Taxation Committee

*John R. Haire, Director, Hugh W. Long & Co., Elizabeth, N. J., and Executive Vice President and Secretary of the Anchor Corp., holding company, was Chairman of the Federal Taxation Committee. Its report read as shown herewith.*

There have been four major developments in Federal taxation this year directly or indirectly affecting the securities business: (1) Adoption of the Revenue Act of '62; (2) Adoption of the Self-employed Individuals Tax Retirement Act of '62; (3) Adoption of new depreciation rules; and (4) Announcement that there will be submitted to Congress for consideration in 1963 a major tax revision bill.

John R. Haire

### I

### Revenue Act of 1962

The Revenue Act of 1962 (Public Law 87-834) makes numerous changes in the Federal income tax law. Probably most important to the securities industry is the fact that the Act does *not* include two major provisions sought by the Administration but vigorously opposed by the financial community and thousands of investors and savers. The bill as it passed the House contained provisions requiring withholding of income tax 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 liability in full up to $25,000 and 25% of the tax liability above $25,000. The credit is allowed for investment in "Section 38 property" which, in general, is tangible, depreciable or amortizable personal property having a useful life of four years or more from the time it is placed in service by the taxpayers.

(b) Mutual fire and casualty insurance companies are taxed at ordinary corporation income tax rates on their total income, consisting of both investment and underwriting income, less amounts temporarily set aside in a "protection against loss" account. The new provisions tax mutual fire and casualty insurance companies on substantially the same basis as stock fire and casualty insurance companies, with the new tax imposed for taxable years beginning after Dec. 31, 1962.

(c) Before enactment of this Act, United States shareholders of foreign corporations could defer tax on the foreign source income of such corporations since no United States income tax had to be paid until there was a distribution of dividends. Under the Act a United States shareholder of a "controlled foreign corporation" has to include in his gross income his share of certain income or earnings of the foreign corporation regardless of whether such income or earnings are distributed or not.

### II

### Self-Employed Individuals Tax Retirement Act of 1962

The Self-Employed Individuals Retirement Act of 1962 (Public Law 87-792), popularly known as the Keogh Bill, is designed to permit self-employed persons to establish retirement plans on a basis similar to that provided by corporations for their employees. The Act permits a self-employed individual to contribute 10% of his income up to $2,500 to a retirement plan for himself during a taxable year and 50% of the contribution is deductible for Federal income tax purposes, thus providing a maximum deduction of $1,250 for any taxable year. The law applies to all self-employed individuals who are presently subject to the self-employed tax and to certain others. It includes many firms engaged in the securities business as well as other professional men, such as lawyers, accountants, doctors and dentists, and farmers, retailers and businessmen whose enterprises are sole proprietorships or partnerships. If a self-employed individual or partnership is also an employer, he or his firm is required to include in the retirement plan, 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 four 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 custodial 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 specially for this purpose.

(d) They may be used to purchase life insurance, endowment or annuity contracts from an insurance company.

Since there are many special and detailed requirements in the Act, it is recommended that anyone interested in a retirement plan under the Act obtain a copy of the Act. Although the Act becomes effective on Jan. 1, 1963, it is expected that it will be many months before the Internal Revenue Service completes work on Regulations necessary to clarify many points in the Law.

### III

### New Depreciation Rules

The Internal Revenue Service announced new guidelines for depreciation, which may be used in the preparation of any income tax return due on or after July 12, 1962. The new depreciation rules generally reduce the official "useful life" figures for depreciable property used in a trade or business or 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 practices. The new guidelines replace the old Bulletin "F" which assigned useful lives to depreciable items on an item by item basis.

### IV

### General Tax Revision

President Kennedy has announced that there will be submitted to Congress for consideration in 1963 a bill to provide broad tax revision. It is expected that this bill will include a significant reduction in individual and corporate income tax rates accompanied by proposals to broaden the tax base by eliminating some of the present exemptions and provisions providing favored tax treatment. Key Administration officials have already made public statements calling for tax reduction of as much as $10 billion next year as a stimulus to the economy.

In view of the expected deficit for the current fiscal year of more than $7 billion, it is apparent that vigorous efforts will have to be made to raise added revenues in other areas to offset such reduction in rates. The Administration's proposals for obtaining offsetting revenues will be awaited with keen interest. It is, of course, possible that the efforts to repeal the individual credit and exclusion and impose a system of withholding of tax on interest and dividends will be renewed. It is hoped, however, that the Treasury will refrain from advancing this proposal again in order to give the new account numbering system and reporting of dividends and interest paid a fair chance to operate to ascertain whether they will be ate for a sufficient period of time effective in increasing the tax revenue in this area.

In addition, efforts may be made to tighten the present method of taxing capital gains even though it can be demonstrated that this would reduce revenue and further restrict capital mobility. While these areas are of particular interest to the securities industry, it is apparent that any efforts to reduce existing favorable tax treatment in any areas will be met with vigorous opposition from those affected. For this reason, certain Washington officials have also suggested that the proposed tax reductions be granted in stages with the proposals for tax reform to take effect sometime after the first round of tax reduction.

It is quite apparent that 1963 will be a most active year in the tax field and your 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**
Hugh W. Long and Co., Inc.
Elizabeth, N. J.

**Emmons Bryant**
Blair & Co. Inc.
New York, N. Y.

**John G. Butler**
Prescott & Co.
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**Jack T. Stephens**
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**Richard J. Stern**
Stern Brothers & Co.
Kansas City, Mo.

**Frederick W. Straus**
Straus, Blosser & McDowell
Chicago, Ill.

# 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 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.

Kenneth E. Hill

Since 1956, utilization of capacity in the oil industry has declined substantially. A major build-up of capacity occurred 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 I**
**Gasoline Prices**
**Domestic Refinery Utilization**

| Year— | Millions of Barrels Capacity | Runs | Capacity Percent |
|---|---|---|---|
| 1961 | 3,654 | 2,987 | 81 |
| 1960 | 3,614 | 2,952 | 81 |
| 1959 | 3,584 | 2,918 | 81 |
| 1958 | 3,434 | 2,789 | 81 |
| 1957 | 3,330 | 2,890 | 87 |
| 1956 | 3,151 | 2,905 | 92 |

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-one-half years:

**TABLE II**
**Gasoline Prices**

| | Cents per Gallon *Wholesale | †Retail |
|---|---|---|
| 1962 (through Aug.) | 12.12 | 20.16 |
| 1961 | 12.41 | 20.53 |
| 1960 | 12.59 | 20.99 |
| 1959 | 12.61 | 21.18 |
| 1958 | 12.83 | 21.47 |
| 1957 | 13.35 | 22.11 |
| 1956 | 12.72 | 21.57 |

* SOURCE: National Petroleum News
† SOURCE: Platt's Oilgram Price Service (Excludes sales taxes).

Considering the substantial overcapacity and the generally weak prices, earnings from domestic oil operations have been remarkably well maintained. After a sharp drop in 1958, the general trend of domestic earnings has been upward. And earnings from domestic operations in 1961, as measured by data for the 33 oil companies compiled by The Chase Manhattan Bank, reached a new peak and were 5% ahead of the 1957 level. However, all of the gain in domestic earnings was accounted for by the five large international oils, which showed a gain of 25% during the period. Earnings of the companies operating primarily in the United States are still below the 1957 level.

The relatively favorable showing of domestic earnings despite the extremely adverse conditions existing in the industry can be explained in large part by economies which have been effected in recent years. The domestic industry today is operating with considerably fewer employees than it did six years ago despite the fact that there has been a gain in total volume of operations. It is believed that there are further savings in operating costs still to be realized from this policy. The scope of the operating economies is indicated by Table III.

Management generally has been conscious of the overcapacity situation in the industry and the need to exercise restraint in adding to productive facilities. As a result, the annual capital program of the industry has been curtailed, and there also has been a shift in capital expenditures from those which merely add to capacity to projects where the prime objectives are to improve quality and increase operating efficiency. New investment in the domestic industry reached a peak of $6.4 billion in 1957, dropped approximately 20% in 1958, and has remained at this level since.

Expenditures for new production have been reduced more. From a peak of over 58,000 wells in 1956, drilling has been cut back to a level of about 46,000 wells in 1961, and the trend should continue downward. Additions to refinery capacity have been cut to a minimum, while in marketing, expenditures are concentrated on building up more efficient organization rather than merely adding to the number of outlets. Current industry plans do not call for any major addition to refinery capacity, and an important increase in capital expenditures is not likely until growth in demand begins to exert major pressure on the industry's producing facilities.

**TABLE III**

| Company— | Number of Employees 1957 | 1961 | Decrease Percent | Total Revenues Per Employee ($000) 1957 | 1961 | Increase Percent |
|---|---|---|---|---|---|---|
| Atlantic Refining | 16,790 | 12,741 | 24 | 33.7 | 43.7 | 30 |
| Gulf Oil | 61,100 | 45,400 | 26 | 51.4 | 71.7 | 39 |
| Shell Oil | 40,465 | 35,586 | 12 | 43.6 | 52.9 | 21 |
| Sinclair Oil | 25,191 | 21,526 | 15 | 49.7 | 56.1 | 13 |
| Socony Mobil | 77,500 | 63,700 | 18 | 43.1 | 59.7 | 39 |
| Standard Oil (Ind.) | 49,678 | 41,304 | 17 | 40.9 | 50.0 | 22 |

**TABLE IV**
**Source and Disposition of Funds**
(Millions of Dollars)

| | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|
| Net income | 862 | 832 | 635 | 768 | 810 | 806 |
| Deprec., deplet. and amortiz. | 1,022 | 1,165 | 1,111 | 1,126 | 1,196 | 1,172 |
| Cash income | 1,884 | 1,997 | 1,746 | 1,894 | 2,006 | 1,978 |
| Less: Capital expenditures | 1,827 | 1,974 | 1,472 | 1,522 | 1,609 | 1,693 |
| | 57 | 23 | 274 | 372 | 397 | 285 |
| Less: Dividends | 370 | 383 | 376 | 380 | 393 | 395 |
| | —313 | —360 | —102 | —8 | 4 | —110 |

### Domestic Integrated Companies

Table IV is an approximation of the combined source and disposition of funds for the fourteen larger domestic integrated companies, excluding the five international oil companies. It should be realized that nearly all of the fourteen companies have small foreign interests.

The table shows that cash flow for the domestic industry has been increasing over the past six years, while reported earnings have decreased slightly. The principal reason for this anomaly is that the noncash charges for depreciation, depletion and amortization have increased steadily. Furthermore, as pointed out above, capital expenditures have been reduced. This combination of larger cash income and lower capital expenditures has resulted in a decreasing reliance on outside financing. Thus, it has been possible for the domestic companies to increase their dividends despite lower reported earnings, which has increased the percentage payout.

Despite continued weak product prices throughout much of 1962, the domestic industry is expected to show a modest gain in reported net income and cash flow. No major change is anticipated in capital expenditures, and dividend payments should once again be slightly higher.

As long as overcapacity exists in the industry and cash flow continues to improve, there does not appear any likelihood of major outside financing requirements for the domestic oil companies. The modest needs of the industry for outside capital are likely to be met through term bank loans and an occasional issue of debentures. The only important area of financing requirements lies in the continuing trend of the larger companies in the industry to purchase independent crude oil producing companies. Requirements in this area will probably continue to be substantial because additional sales of properties by independent producers are anticipated, financed principally by oil payment loans. But oil payment loans are off-the-balance-sheet, out-of-production financing and, therefore, will not effect company debt ratios.

Longer term 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

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# 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.*

Herbert R. Anderson

Mutual fund sales and redemption figures are receiving more than usual attention these days. Somehow or other, despite massive evidence of the stability of fund shareholders 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 by the 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 achieved in 1959.

Redemptions for the first nine months of this year totaled $838 million which, at an annualized rate, would indicate a somewhat lower figure for the full year than in the peak redemption year of 1961.

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 and stability of the business as well as its growing importance.

### Significant Ratios

There is included with this report a table showing the relationship of the dollar volume of sales of mutual fund shares to the aggregate value of stock transactions on the New York Stock Exchange for the period 1941 through Sept. 30, 1962, in the thought that the aggregate dollar volume of New York Stock Exchange transactions is a significant measure of financial activity in equity securities.

It will be noted from the table that there has been a quite persistent increase in the ratio of mutual fund sales to Exchange volume. First taking a broader span, the ratio has more than doubled in the last 10 years of this period as compared with the first 10 years, i.e., from 2% to 4.3%. For the overall period of almost 22 years, the ratio has moved from nine-tenths of 1% in 1941 to a new high of 6.1% for the first nine months of 1962.

Turning to the redemption side of the picture, it would seem to be obvious that as the total assets invested in mutual funds continue to grow, an increase in the dollar amount redeemed is no more than normal. While, therefore, the dollar amount of net sales or, as it may be at some future date, net redemptions, is a statistic, we submit that the only meaningful measure of redemptions is as a percentage of the total assets of the funds from which the redemptions are made.

Accordingly, we have included another table covering the same span from 1941 through Sept. 30, 1962, showing the ratio of annual redemptions to the average net assets of member companies of the Investment Company Institute. While figures are shown for each year, you will find that in the first 10 years of the period redemptions averaged 9% of net assets annually whereas in the most recent 10-year span, the average annual ratio is 5.6% with, it might be added, a projected annual rate for the current year slightly below that figure.

Another interesting point disclosed by these figures is that, with one exception, in each of these 22 years in which the dollar volume of stocks traded on the New York Stock Exchange declined, the ratio of mutual fund sales to this dollar volume increased. 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 declined, the ratio of 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 or, more properly, the lack of significance of "net sales" which may help bring this matter into perspective is provided by the experience of mutual savings banks during the past 7¾ years. People do need money for one or another purpose and thereby do make withdrawals. Thus, despite the complete confidence of their depositors in the soundness of these institutions and a net gain 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 confidence that the dollar amount invested in mutual funds will continue to increase in absolute terms and in relation to overall financial activity. It also realizes, however, that there are many quite normal reasons for shareholders' withdrawal of their investment in mutual fund shares and it is hoped that these comments may suggest a more realistic measure of these various movements in order that the well-established acceptance of mutual funds and the stability of their shareholders may be better understood.

### "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 (regulated investment companies issuing redeemable shares) are an acceptable investment for accounts properly qualified under that Act.

### Wharton Study

In commenting on the Wharton Study, it is important to note, as Chairman Cary has carefully pointed out, that this is a report to the Commission, not of the Commission. However, as the Chairman also has suggested, both the industry and the Commission should carefully study the report, and indeed all aspects of the business, toward the end that investment companies shall be of the greatest possible usefulness under the highest possible standards. 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 thereby be more easily resolved.

### The Philosophical

What we characterize in a kindly vein as philosophical are the questions and comments relative to the basic organizational structure, and the arrangements relative thereto, through which mutual funds have achieved their present size and standing. While there are many variations, typically this has involved a separate vehicle in corporate or trust form through which the public investment has been made, with the entrepreneur — adviser, underwriter 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 account, 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

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| | Dollar Value of Stock Traded on N.Y.S.E. (billions) | Mutual Fund* Sales+ (millions) | % of N.Y.S.E. Value Traded | |
|---|---|---|---|---|
| 1941 | $ 6,216 | $ 53 | .9%) | |
| 1942 | 4,308 | 73 | 1.7 ) | |
| 1943 | 9,024 | 116 | 1.3 ) | |
| 1944 | 9,792 | 169 | 1.7 ) | |
| 1945 | 16,224 | 292 | 1.8 ) | 2.0% |
| 1946 | 18,720 | 370 | 2.0 ) | Avg. |
| 1947 | 11,532 | 267 | 2.3 ) | |
| 1948 | 12,888 | 274 | 2.1 ) | |
| 1949 | 10,716 | 386 | 3.6 ) | |
| 1950 | 21,780 | 519 | 2.4 ) | |
| 1951 | 21,252 | 675 | 3.2 | |
| 1952 | 17,328 | 783 | 4.5 | |
| 1953 | 16,656 | 672 | 4.0 ) | |
| 1954 | 28,080 | 863 | 3.1 ) | |
| 1955 | 37,872 | 1,207 | 3.2 ) | |
| 1956 | 35,016 | 1,347 | 3.8 ) | |
| 1957 | 32,064 | 1,391 | 4.3 ) | 4.3% |
| 1958 | 38,268 | 1,620 | 4.2 ) | Avg. |
| 1959 | 51,864 | 2,280 | 4.4 ) | |
| 1960 | 45,216 | 2,097 | 4.6 ) | |
| 1961 | 52,899 | 2,951 | 5.6 ) | |
| 1962 (9 mos.) | 35,926 | 2,188 | 6.1 ) | |

| | Mutual Fund* Redemptions (millions) | Mutual Fund* Average Net Assets (millions) | % Redemptions of Average Net Assets | |
|---|---|---|---|---|
| 1941 | $ 45 | $ 425 | 10.6%) | |
| 1942 | 25 | 444 | 5.6 ) | |
| 1943 | 51 | 570 | 8.9 ) | |
| 1944 | 71 | 768 | 9.2 ) | |
| 1945 | 110 | 1,033 | 10.6 ) | 9.0% |
| 1946 | 144 | 1,298 | 11.1 ) | Avg. |
| 1947 | 89 | 1,360 | 6.5 ) | |
| 1948 | 127 | 1,457 | 8.7 ) | |
| 1949 | 108 | 1,740 | 6.2 ) | |
| 1950 | 281 | 2,252 | 12.5 ) | |
| 1951 | 322 | 2,830 | 11.4 | |
| 1952 | 196 | 3,531 | 5.6 | |
| 1953 | 239 | 4,039 | 5.9 ) | |
| 1954 | 400 | 5,128 | 7.8 ) | |
| 1955 | 443 | 6,973 | 6.4 ) | |
| 1956 | 433 | 8,442 | 5.1 ) | |
| 1957 | 406 | 8,880 | 4.6 ) | 5.6% |
| 1958 | 511 | 10,978 | 4.7 ) | Avg. |
| 1959 | 786 | 14,530 | 5.4 ) | |
| 1960 | 842 | 16,422 | 5.1 ) | |
| 1961 | 1,160 | 19,907 | 5.8 ) | |
| 1962 (9 mos.) | 838 | 20,938 | 5.3x) | |

* Member companies of Investment Company Institute
\+ Net receipts at asset value
x Annual rate

# Report of IBA Insurance Securities Committee

*Shelby Cullom Davis, Senior Partner of Shelby Cullom Davis & Co., New York City, presented to 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 noteworthy was that the marking time developed into a route, due to the general market panic in May and June, followed by a strong recovery which has continued to the present.


Shelby Cullom Davis

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 underwent only minor decline. 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 prevailed as the cult of 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.

### Deflation and Insurance

Of course if the stock market panic meant the end of the inflation and perhaps a little deflation as Per Jacobssen, 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 rising claim costs in fire and casualty. Inflation—and the rising stock market—inhibited many sales of life insurance and life premiums accounted for only 3.8% of disposable national income instead of 4.0% in speculative 1929.

So gradually the idea dawned on investors that the end of inflation would help insurance stocks. Rates might no longer lag behind claim costs which might stabilize or conceivably decline with an oversupply of materials 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 its profit squeeze of the past 6 years. Auto insurance, the nightmare of underwriters 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 risks to the Bureau Companies' books. Continuous policies and direct billing, being introduced with reduced commissions, were helping. And companies were generally tightening up their operations as inevitably occurs during periods of profit squeeze. Operating results for nine months have been encouraging with most 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 fire-casualty figures have warranted 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 McLennan public offering in the spring 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 usually placid stockholders becoming restive. This is now happening. Norwich Union and Scottish Union in October announced their withdrawal from the United States after 88 years because of an inability to 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, by no means a small company and itself the product of the affiliation in 1956 of American Auto of St. Louis and American 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 10%.

Among the property stocks hardest hit during the year were Ohio Casualty down 37%. Gulf of Dallas down 28%, Continental Casualty 27%, National Fire 25% and Government Employers Insurance 24%.

Life sales have yet to score an impressive increase over last year and to this extent they are disappointing. Life insurance as a savings medium should increase just as after the 1929 panic. But interest earnings are higher, mortality continues favorable and expenses are declining in some instances. Individual companies however are exhibiting good sales 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%, Southland up 2%, Life of Virginia up 1% and Life & Casualty and Liberty Life, unchanged.

Among the poorest acting life stocks were United Services, which dropped 48%, National Old Line 44%, Government Employees Life 35%, Continental Assurance 33% and Pacific National 31%.

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 provided the fire-casualty insurance industry with an operational pattern of relatively poor insurance results more than overbalanced by good investment profits, 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 may prove to have been 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 been immune to the recent sharp reaction in equity prices generally, their longer term performance has been measurably better than have been comparable movements of the Dow-Jones Industrial Averages and Standard & Poor's 500-Stock Index, as indicated in Table I. While the decline in fire-casualty stock prices between the 1961 year end and Sept. 30, 1962, has been in line with general market trends, their shares have acted

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TABLE I
**RELATIVE MARKET PERFORMANCE**

| Year End— | A. M. Best Co. Index of Fire-Cas. Stock Prices | % Chg. From Prior Yr. End | Dow-Jones Industrials | % Change From Prior Yr. End | Standard & Poor's 500-Stock Index | % Chg. From Prior Yr. End |
|---|---|---|---|---|---|---|
| 1954 | 30.3 | --- | 404.4 | --- | 36.0 | --- |
| 1955 | 31.1 | 2.6% | 488.4 | 20.8% | 45.5 | 26.4% |
| 1956 | 26.6 | —14.5 | 496.4 | 1.6 | 46.7 | 2.6 |
| 1957 | 25.7 | — 3.4 | 435.7 | —12.2 | 40.0 | —14.3 |
| 1958 | 36.7 | 42.8 | 583.7 | 34.0 | 55.2 | 38.0 |
| 1959 | 37.9 | 3.3 | 679.4 | 16.4 | 59.9 | 8.5 |
| 1960 | 42.5 | 12.1 | 615.9 | — 9.4 | 58.1 | — 3.0 |
| 1961 | 57.9 | 36.2 | 731.1 | 18.7 | 71.6 | 23.2 |
| Sept. 30, 1962 | 44.7 | —22.8 | 579.0 | —20.8 | 56.3 | —21.4 |
| **Change to Sept. 30, 1962 from Year End** | | | | | | |
| 1954 | | 47.5% | | 43.2% | | 56.4% |
| 1955 | | 43.7 | | 18.6 | | 23.7 |
| 1956 | | 68.0 | | 16.6 | | 20.6 |
| 1957 | | 73.9 | | 32.9 | | 40.8 |
| 1958 | | 21.8 | | — 0.8 | | 2.0 |
| 1959 | | 17.9 | | —14.8 | | — 6.0 |
| 1960 | | 5.2 | | — 6.0 | | — 3.1 |

# Report of the IBA Canadian Committee

*Dudley Dawson, Executive Vice-President of Greenshields Inc., Montreal, Canada, as Chairman of the Canadian Committee, submitted the following Report to the Convention.*

The report on economic developments and financial conditions in Canada for the years 1961 and 1962 is being submitted to you, together with the usual statistical supplement.*


Dudley Dawson

The Canadian economy began to emerge from a mild recession early last year, at about the same time as the U. S. economy turned upward. By mid-1961 the previous cyclical peak had been regained, with the volume of industrial production showing a 4½% rise during this period.

Business activity continued to expand through the remainder of 1961 and the first three quarters of the current year. In August, (the latest month for which data are available) the seasonally adjusted index of industrial production stood at 188.2, 13½% above the recession low. While all the major sectors (i e., mining, manufacturing and utilities) contributed to this gain, the expansion was most pronounced in durable manufacturing, particularly primary iron and steel and automobiles. The rise in industrial output was accompanied by a marked increase in employment and a broadly parallel decline in the unemployment rate. As of September, the number of people without jobs and seeking work was equivalent, on a seasonally adjusted basis, to 5.6% of the labor force, as compared to close to 8% at the end of 1960.

### Sources of Serength

The strength in demand for goods and services, reflected in the 10% advance in Gross National Expenditure, from $35.6 billion in the first quarter of 1961 to $39.4 billion in the second quarter of 1962, came from a variety of sources. Commodity exports, mainly to the United States, rose sharply in the early part of 1961, levelled off in the fall and then resumed their upward trend in the spring of 1962. Apart from a significant increase in volume, the rise in the value of exports was due to the appreciation of foreign currencies in terms of the Canadian dollar, the effect of which was offset, however, to some extent by a decline in world prices of raw materials. Among the export commodities showing the largest gains during this period were: oil, natural gas, iron ore and lumber.

Another positive element in the 1961-1962 business recovery has been the upturn in fixed capital investment. Expenditures on new construction rose markedly last year, stimulated by a firm housing market, important industrial expansion projects and a comprehensive social capital program (e. g., schools, universities, hospitals and roads). During the first half of 1962, however, private construction outlays levelled off at an annual rate of $4.3 billion. Expenditures on new machinery and equipment, while moving up steadily from mid-1961 on, had not regained their pre-recession level one year later. This recent lack of vigor in business investment, which may be attributed in a large degree to the existence of surplus capacity in many industries, has been the principal factor in restraining the current expansion.

### Inventories Static

A broadly similar trend has been evident in inventory movements. Except for a brief rise in the third quarter of last year, the level of business inventories has remained virtually unchanged in the 1961-1962 recovery. This tendency towards reduced cyclical swings in stocks reflects the absence of inflationary expectations, the ample supply of labor and materials, as well as improved methods of inventory control.

In contrast to the apparently short-lived stimulus provided by the business sector, the three levels of government have continued to exert an expansionary influence on the economy over the last year and a half. Government expenditures on goods and services advanced, in fact, by over $1 billion, or 15%, during this period.

Consumers have also played a significant role in the 1961-1962 expansion, as evidenced by the rise in spending which broadly parallelled the rise in personal disposable income. The domestic automobile industry has been one of the prime beneficiaries of the revival in consumer demand, although the increase in expenditures has been spread over a broad range of goods and services.

Meanwhile, the trend of merchandise imports has also been upward. While part of the cyclical expansion in demand (especially as far as raw materials, components, machinery and equipment are concerned) is normally met from foreign sources of supply, the rise in imports through 1961-1962 has been somewhat more restrained. This is particularly true, if allowance is made for the increase in the value of imports which may be attributed to the decline in the exchange value of the Canadian dollar.

*Continued on page 41*

*Reproduced in part herein.—Ed. The Statistical Supplement consisted of tables devoted to the following subjects:

(1) Monthly Economic Indicators: Industrial Production, Employment, Unemployment, Labor Income.

(2) Monthly Economic Indicators: Retail Trade, Merchandise Exports, Merchandise Imports.

(3) Monthly Economic Indicators: Wholesale Prices, Consumer Price Index, Prices of Industrial Common Stocks.

(4) Gross National Expenditure, by Quarters.

(5) Gross National Product, by Quarters.

(6) Canadian Balance of International Payments.

(7) Capital Expenditures (Construction, Machinery and Equipment).

(8) Net Issues of Securities.

(9) Money Supply and Chartered Bank Statistics.

(10) Miscellaneous Financial Statistics: Interest Rates, Exchange Rate.

*Source:* Dominion Bureau of Statistics, Bank of Canada.

**Selected Monthly Economic Indicators**
(Seasonally Adjusted)

| | Industrial Production Index (1949=100) | Employment (Thousands) | Unemployment (% of Labour Force) | Labour Income (Million Dollars) |
|---|---|---|---|---|
| 1961 | | | | |
| January | 165.6 | 5,991 | 7.7 | 1,527 |
| February | 166.7 | 5,966 | 7.8 | 1,535 |
| March | 166.0 | 5,969 | 7.7 | 1,541 |
| April | 169.2 | 6,033 | 7.6 | 1,548 |
| May | 169.4 | 6,065 | 7.6 | 1,558 |
| June | 173.3 | 6,041 | 7.5 | 1,578 |
| July | 173.4 | 6,055 | 7.4 | 1,584 |
| August | 176.4 | 6,051 | 6.9 | 1,588 |
| September | 178.1 | 6,055 | 6.8 | 1,593 |
| October | 177.9 | 6,094 | 6.6 | 1,602 |
| November | 180.1 | 6,130 | 6.1 | 1,608 |
| December | 180.5 | 6,152 | 6.1 | 1,622 |
| 1962 | | | | |
| January | 179.8 | 6,138 | 6.0 | 1,631 |
| February | 182.5 | 6,146 | 6.2 | 1,640 |
| March | 184.3 | 6,203 | 5.9 | 1,654 |
| April | 184.1 | 6,213 | 5.8 | 1,661 |
| May | 186.0 | 6,235 | 5.6 | 1,672 |
| June | 186.6 | 6,274 | 6.0 | 1,671 |
| July | 186.7 | 6,243 | 6.4 | 1,679 |
| August | 188.2 | 6,255 | 5.9 | 1,682 |
| September | | | 5.6 | |
| October | | | | |

| | Wholesale Prices (Index, 1935-39=100) | Consumer Price Index (1949=100) | Prices of Industrial Common Stocks (Index, 1956=100) |
|---|---|---|---|
| 1961 | | | |
| January | 231.7 | 129.2 | 112.7 |
| February | 232.1 | 128.9 | 117.1 |
| March | 231.3 | 129.1 | 122.5 |
| April | 230.9 | 129.1 | 127.1 |
| May | 231.2 | 129.0 | 133.1 |
| June | 231.4 | 129.0 | 130.7 |
| July | 234.5 | 129.0 | 134.4 |
| August | 234.5 | 129.1 | 138.5 |
| September | 235.3 | 129.1 | 138.3 |
| October | 235.3 | 129.2 | 132.8 |
| November | 235.3 | 129.7 | 135.2 |
| December | 236.5 | 129.8 | 137.0 |
| 1962 | | | |
| January | 237.0 | 129.7 | 136.2 |
| February | 237.2 | 129.8 | 137.0 |
| March | 237.1 | 129.7 | 138.6 |
| April | 237.4 | 130.3 | 136.7 |
| May | 239.1 | 130.1 | 130.5 |
| June | 240.3 | 130.5 | 115.4 |
| July | 241.3 | 131.0 | 113.8 |
| August | 242.5 | 131.4 | 120.7 |
| September | 241.8 | 131.0 | |
| October | 241.6 | 131.5 | |

# Report of IBA Aviation Securities Committee

*Richard W. Millar, Partner, William R. Staats & Co., Los Angeles, as Chairman of the Aviation Securities Committee, delivered the following Report to the Convention.*

Your Committee submits herewith a review of significant trends in what is known now as the Aerospace Industry, a look into its future; and comments on the present position and problems of the Air Transport Industry, together with a discussion of certain factors which may influence this industry in the years ahead.

### 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 communications, ground support equipment, automatic test equipment, precision instruments, and many 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.

Richard W. Millar

Even under the narrower definition, the term "aerospace" has come 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 $964 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.

By any standards and under any foreseeable circumstances, our space effort alone will call for outlays of prodigious sums with far-reaching economic consequences of such an allocation of so large a part of our resources.

### The Military Aircraft Market

The market for the military airplane as we have known it has of course been yielding to competition from missiles. At the same time there are stirrings in other directions which may mean new and sizable markets for airborne vehicles of various types.

There is, first of all, a good deal to be said for the view of the airmen that we will always need a force of manned aircraft for missions requiring flexibility and the exercise of human judgment. Then there is the expanding role of the airplane as a missile launcher. If mobility is desirable 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 very considerable range. There is also recognition that the effectiveness of a fighter is measured not only by its own performance but by the speed and deadliness of the missiles it carries.

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-insurgency and other specialized land and sea operations will require new types of aircraft. The Army, particularly, has been stressing its need for airborne craft intended to expand the capabilities of the infantry. This includes long range logistics 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 tight places 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 impassable ground, thus providing infantry units with the desirable quality of rapid mobility. Aircraft of this type will be judged not by how fast or how high they can fly but how well they can perform operations formerly carried out on foot or by vehicles traveling on the ground.

These developments represent market potentials which should not be underestimated.

### Total Aerospace Market

Following are the total government expenditures for each of 10 fiscal years ended June 30 (1963 estimated) for military aircraft and missiles and NASA space projects:

Companies in the aerospace industry have on the whole done an extraordinary job of changing over from a business characterized by large production runs to one increasingly dominated by research, development and limited production quantities. They have displayed considerable far-sightedness annd ingenuity in adapting to an environment of rapid technological change and in providing the management techniques to harness the technological upsurge.

There is a very real concern as to whether so large and increasingly important a segment of industry is able to operate in the best traditions of free enterprise, or whether the dominance of the government, as the industry's principal customer, tends to stifle this freedom.

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 regard defense industry as another extension of the government. It is understandable that many conscientious officers and officials, faced with the responsibility of administering large defense contracts and the ever-present duty to hold costs down, should tend to extend their concern 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 go unchecked, could ultimately end in 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.

Continued on page 73

# 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 our original objectives and briefly look at the progress we have made.

Ralph F. Leach

I would like to quote from our 1960 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 forestalling potentially hostile 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 to 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 much less concentrated than 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 pretext 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. S. D. 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 the figures within the next two weeks. One has been unwilling to supply data and one is still in an uncertain stage. Of the total of 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 rate will exceed 90%.

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 Industry leaders and a particularly strong assist from the group chairman to produce the indicated 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 Spring. This first 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 new security issues, over-the-counter market activity in outstanding issues, and trading on organized exchanges for each of the major types of securities in our capital market. This information will be broken down according to the size of investment banking concerns and their geographic location. This will present a picture of the investment banking business in six different 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 activity for various groups of firms and will permit an individual firm to compare itself against a 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 various 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 the Wharton School on 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.

*Respectfully submitted,*

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**
Kidder, Peabody & 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:*

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

Marsom B. Pratt

It is a privilege to have served on the Subcommittee under Cushman McGee. He was an able, dedicated spokesman on the problem to 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 this type of government subsidy to point out that the spread of the practice might well place in jeopardy both the private enterprise concept and the balances 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 objective—maximum 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**
Estabrook & Co., Boston, Mass.

# 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.

# Report of the IBA Canadian Committee

*Continued from page 38*

The various factors of production have shared unevenly in the rising flow of income during the current cycle. Corporation profits before taxes and before dividends paid to non-residents showed sizable gains in the early part of the recovery, but have remained virtually unchanged at $3.8 billion since the fourth quarter of 1961. Labor and farm income, on the other hand, have registered consistent rapid advances throughout this period.

### 7% Rise in GNP

Canada's Gross National Product for the whole of 1962 is currently estimated at $39½ billion, 7% above last year's level. One of the contributing factors is the higher value of the 1962 Western grain crop which, compared to last year's below average crop, represents an addition to GNP in the range of $½ billion. Of the estimated 7% increase, close to 2% may be accounted for by higher prices. Excluding the effect of the 1962 harvest and of the indicated price movements, 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 towards achieving a higher rate of economic growth.

### Financial Conditions

The year 1961 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 $1,150 million, 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 rate differentials between Canada and abroad in order to discourage excessive borrowing in foreign financial markets. 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 4¼% in terms of Canadian funds, as against a discount of 1¾% 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.

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 Halted

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

*Continued on page 42*

**Net Issues of Securities**
(Millions of Dollars)

| | Govt of Canada (incl. Treas. Bills) | Provincial Bonds | Municipal Bonds | Corporate and Other Bonds | Finance Co. Paper | Corporate Stocks | Total Net New Issues | Of which payable in for. currencies |
|---|---|---|---|---|---|---|---|---|
| **1960** | | | | | | | | |
| I | 176 | 68 | 115 | 173 | 52 | 45 | 629 | 113 |
| II | -136 | 239 | 125 | 144 | 1 | 112 | 483 | 67 |
| III | - 64 | 155 | 56 | 45 | -44 | 30 | 178 | -7 |
| IV | 637 | 15 | 91 | -42 | 1 | 34 | 735 | -70 |
| **1961** | | | | | | | | |
| I | 7 | 249 | 42 | 14 | 53 | 72 | 438 | -47 |
| II | 8 | 137 | 47 | 153 | -9 | 163 | 500 | 47 |
| III | 235 | 356 | 2 | 125 | -84 | 45 | 679 | 71 |
| IV | 639 | 190 | 117 | 51 | -27 | -31 | 938 | -13 |
| **1962** | | | | | | | | |
| I | -38 | 131 | 27 | 23 | 16 | 31 | 191 | -64 |
| II | -251 | 145 | 81 | 201 | 27 | 63 | 267 | 121 |

**Money Supply and Chartered Bank Statistics**
(Millions of Dollars)

| | Money Supply Currency and Chart. Bank Deposits (Av. of Wed.) | Average Cash Reserve Ratio (Percent) | Average Liquid Asset Ratio (Percent) | General Loans (average of Wednesdays) |
|---|---|---|---|---|
| **1960** | | | | |
| January | 13,113 | 8.3 | 17.4 | 4,710 |
| February | 13,000 | 8.2 | 17.4 | 4.663 |
| March | 13,012 | 8.2 | 17.0 | 4,691 |
| April | 13,110 | 8.1 | 16.8 | 4,742 |
| May | 13,140 | 8.2 | 17.2 | 4,830 |
| June | 13,255 | 8.1 | 17.6 | 4,909 |
| July | 13,269 | 8.1 | 16.9 | 5,021 |
| August | 13,195 | 8.3 | 16.8 | 5,033 |
| September | 13,280 | 8.2 | 17.7 | 5,029 |
| October | 13,594 | 8.2 | 18.3 | 5,032 |
| November | 13,717 | 8.1 | 17.3 | 5,044 |
| December | 13,830 | 8.2 | 16.8 | 5,066 |
| **1961** | | | | |
| January | 13,722 | 8.2 | 17.4 | 5,001 |
| February | 13,722 | 8.1 | 18.2 | 4,997 |
| March | 13,827 | 8.1 | 18.2 | 5,038 |
| April | 13,797 | 8.1 | 17.3 | 5,106 |
| May | 13,833 | 8.1 | 17.7 | 5,195 |
| June | 13,938 | 8.1 | 18.3 | 5,341 |
| July | 14,104 | 8.1 | 18.3 | 5,452 |
| August | 14,404 | 8.1 | 18.9 | 5,564 |
| September | 14,432 | 8.1 | 18.8 | 5,539 |
| October | 14,488 | 8.2 | 18.8 | 5,582 |
| November | 14,702 | 8.1 | 19.0 | 5,642 |
| December | 15,035 | 8.1 | 18.7 | 5,656 |
| **1962** | | | | |
| January | 14,973 | 8.1 | 17.9 | 5,687 |
| February | 14,907 | 8.1 | 18.0 | 5,748 |
| March | 15,062 | 8.1 | 18.0 | 5,856 |
| April | 15,229 | 8.1 | 17.1 | 6,013 |
| May | 15,499 | 8.1 | 17.1 | 6,170 |
| June | 15,509 | 8.2 | 16.1 | 6,410 |
| July | 15,397 | 8.2 | 15.5 | 6,650 |
| August | 15,076 | 8.1 | 15.6 | 6,692 |
| September | 14,968 | 8.1 | 16.1 | 6,741 |

**Gross National Product, by Quarters**
(Billions of Dollars. Seasonally adjusted at Annual Rates)

| | 1960 | | | | | 1961 | | | | | 1962 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | Year | I | II | III | IV | Year | I | II |
| Labour Income | 18.0 | 18.0 | 18.2 | 18.3 | 18.1 | 18.4 | 18.7 | 19.1 | 19.3 | 18.9 | 19.7 | 20.0 |
| Farm Income | 1.2 | 1.1 | 1.1 | 1.2 | 1.2 | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 | 1.2 | 1.3 |
| Corporate Profits | 3.5 | 3.2 | 3.2 | 3.2 | 3.3 | 3.0 | 3.4 | 3.6 | 3.8 | 3.4 | 3.8 | 3.9 |
| Deduct : Dividends Paid Abroad | -0.5 | -0.5 | -0.5 | -0.4 | -0.5 | -0.7 | -0.5 | -0.5 | -0.5 | -0.6 | -0.6 | -0.7 |
| Other Income * | 5.0 | 5.1 | 4.9 | 5.3 | 5.1 | 5.0 | 5.2 | 5.3 | 5.3 | 5.3 | 5.5 | 5.4 |
| Net National Income | 27.2 | 26.9 | 26.9 | 27.6 | 27.2 | 26.6 | 27.7 | 28.5 | 28.8 | 27.9 | 29.6 | 29.9 |
| Ind. Taxes less Subsidies | 4.5 | 4.5 | 4.4 | 4.5 | 4.4 | 4.6 | 4.6 | 4.5 | 4.9 | 4.6 | 5.0 | 5.1 |
| Capital Consumption All. | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.4 | 4.4 | 4.3 | 4.5 | 4.6 |
| Gross National Product | 36.0 | 35.6 | 35.7 | 36.4 | 35.9 | 35.6 | 36.5 | 37.4 | 37.9 | 36.8 | 38.8 | 39.4 |

* Incl. Military Pay and Allowances, Rent, Interest and Miscellaneous Investment Income, Net Income of Non-Farm Unincorporated Business and Inventory Valuation Adjustment.

# 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 exchange situation, the bank's liquid asset ratio declined during this period from 18.75% to 17.13%. The reversal 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 agreed 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 4.90% to 5.50% and the yield on 91-day Treasury Bills from 3.50% to 5.50%. The improvement in Canada's exchange position in subsequent months was accompanied 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 new security issues in the first half of the year was considerably below the corresponding period of 1961. Debt 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. A 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 $250 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
Montreal, Canada

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

**Garrett H. Taylor, Vice-Chairman**
Wood, Gundy & Co., Inc.
New York, N. Y.

**George C. 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, Gouinlock & Co., Ltd.
Toronto, Canada

**Andrew G. Curry**
A. E. Ames & Co. Inc.
New York, N. Y.

**Edward H. Gunn**
Midland Securities Corp. Ltd.
Toronto, Canada

**Arnold B. Massey**
Mills, Spence & Co. Ltd.
Toronto, Canada

**Eric S. Morse**
W. C. Pitfield & Co., Ltd.
Montreal, Canada

**George P. Rutherford**
The Dominion Securities Corp.
New York, N. Y.

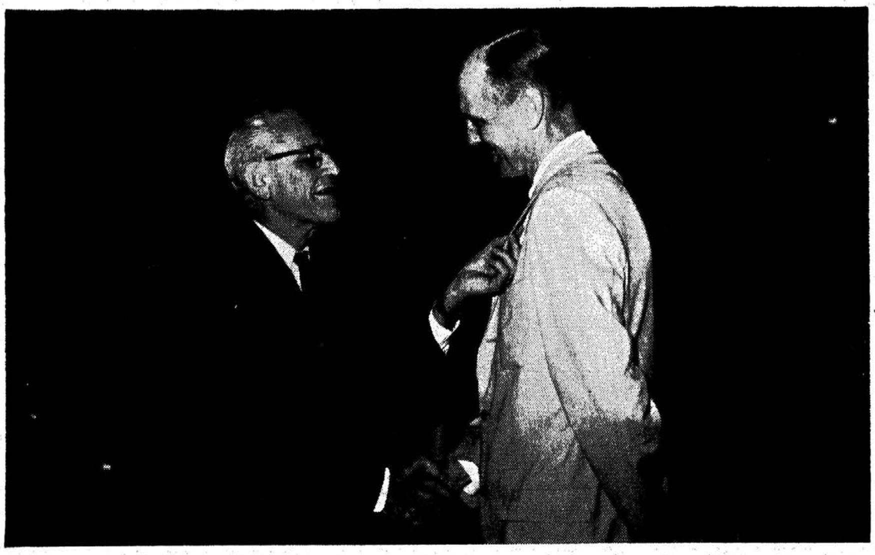
**Miscellaneous Financial Statistics**

| | Day-to-Day Loan Rate (Closing Rate, last Wednesday of Month) | Treasury Bill Yield (Av. Tender Rate on 91 Day Bills, last Thursday of Month) | Govt. of Canada 4¼% Sept. 1, 1972 (Closing Market Yield Last Wednesday of Month) | Exchange Rate USDollar in Can. ¢ (Spot Closing Rate for Month) |
|---|---|---|---|---|
| **1960** | | | | |
| January | 3 | 4.60 | 5.91 | 95.25 |
| February | 4 1/4 | 4.61 | 5.62 | 95.06 |
| March | 3 | 3.01 | 5.50 | 95.78 |
| April | 3 1/2 | 3.26 | 5.35 | 96.50 |
| May | 2 1/2 | 3.01 | 5.24 | 98.75 |
| June | 3 | 3.07 | 5.15 | 98.03 |
| July | 3 1/4 | 2.92 | 5.24 | 97.47 |
| August | 1 3/4 | 2.01 | 4.82 | 97.16 |
| September | 1 | 1.70 | 4.76 | 97.72 |
| October | 3 | 3.03 | 5.06 | 97.59 |
| November | 3 1/2 | 3.95 | 5.27 | 97.81 |
| December | 2 3/4 | 3.25 | 5.22 | 99.66 |
| **1961** | | | | |
| January | 2 1/2 | 3.04 | 5.17 | 99.03 |
| February | 2 3/4 | 3.11 | 5.07 | 98.75 |
| March | 2 3/4 | 3.21 | 5.15 | 98.91 |
| April | 3 1/4 | 3.28 | 5.12 | 98.87 |
| May | 2 3/4 | 3.14 | 5.08 | 98.69 |
| June | 2 3/8 | 2.57 | 4.81 | 103.50 |
| July | 2 5/8 | 2.55 | 4.86 | 103.09 |
| August | 1 3/4 | 2.26 | 4.83 | 103.12 |
| September | 2 3/8 | 2.59 | 4.88 | 103.00 |
| October | 2 1/4 | 2.50 | 4.82 | 103.37 |
| November | 2 1/4 | 2.50 | 4.69 | 104.28 |
| December | 3 | 2.99 | 4.71 | 104.34 |
| **1962** | | | | |
| January | 2 1/2 | 3.07 | 4.77 | 104.69 |
| February | 2 3/4 | 3.21 | 4.75 | 105.03 |
| March | 3 | 3.12 | 4.67 | 105.00 |
| April | 3 | 3.07 | 4.61 | 105.00 |
| May | 2 3/4 | 3.52 | 4.83 | 109.00 |
| June | 4 1/4 | 5.45 | 5.33 | 108.19 |
| July | 5 | 5.47 | 5.41 | 107.81 |
| August | 4 3/4 | 4.95 | 5.38 | 107.72 |
| September | 5 1/8 | 4.99 | 5.35 | 107.66 |

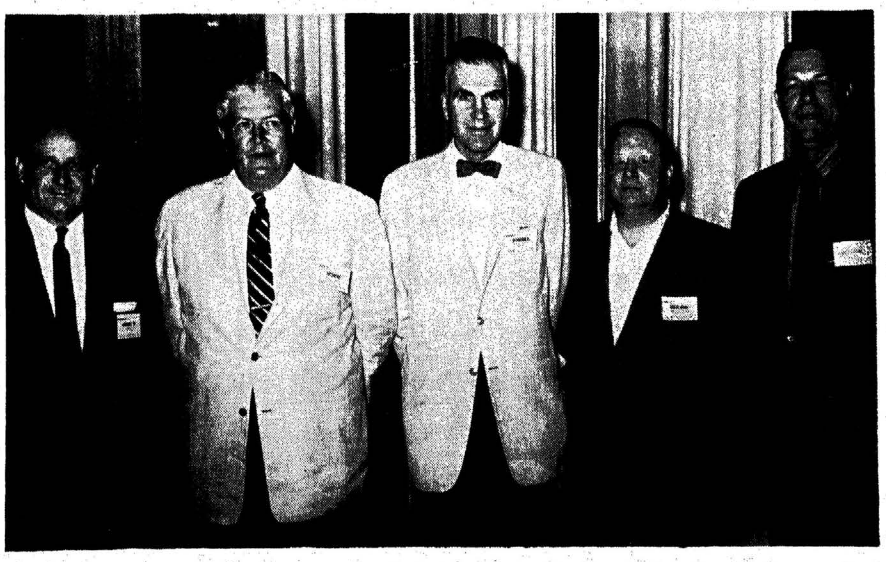
**Canadian Balance of International Payments**
(Millions of Dollars)

| | 1960 | | | 1961 | | | 1962 |
|---|---|---|---|---|---|---|---|
| | 1st Half | 2nd Half | Year | 1st Half | 2nd Half | Year | 1st Half |
| **Current Account** | | | | | | | |
| Merchandise Exports | 2,602 | 2,790 | 5,392 | 2,713 | 3,176 | 5,889 | 3,016 |
| Merchandise Imports | 2,832 | 2,708 | 5,540 | 2,738 | 2,978 | 5,716 | 3,065 |
| Trade Balance | -230 | 82 | -148 | - 25 | 198 | 173 | - 49 |
| Travel Expenditures (net) | -160 | - 47 | -207 | -160 | - | -160 | - 160 |
| Interest & Div. (net) | -233 | -247 | -480 | -283 | -278 | -561 | - 304 |
| Other Receipts/Payments (net) | -180 | -228 | -408 | -185 | -249 | -434 | -217 |
| Current Account Balance | -803 | -440 | -1,243 | -653 | -329 | -982 | -730 |
| **Capital Account** | | | | | | | |
| Direct Investment (net) | 300 | 260 | 560 | 185 | 125 | 310 | 90 |
| Cdn. Security Issues (net) | 227 | -33 | 194 | 99 | 101 | 200 | 82 |
| Trade in Outstanding Canadian Securities | 71 | -19 | 52 | 110 | -7 | 103 | -52 |
| Other Private Cap. Movements | 105 | 264 | 369 | 405 | 156 | 561 | -357 |
| Loans & Subscriptions by Govt. of Canada (net) | 7 | 22 | 29 | 10 | 27 | 37 | 10 |
| Inter. Fin. Assistance | - | - | - | - | - | - | 707 |
| Change in Exch. Reserves* | 93 | -54 | 39 | -156 | -73 | - 229 | 250 |
| Net Capital Movement | 803 | 440 | 1,243 | 653 | 329 | 982 | 730 |

* Minus sign indicates increase.



Curtis H. Bingham, *Bingham, Walter & Hurry, Inc.*, Los Angeles, Retiring President, pinning badge of office on President Elect; Amyas Ames, *Kidder, Peabody & Co.*, New York



Governors Elect: Frederick C. Braun, Jr., *F. S. Moseley & Co.*, New York; Alan K. Browne, *Bank of America, N. T. & S. A.*, San Francisco; Bayard Dominick, *Dominick & Dominick*, New York; Tom Hilborne, *Liberty National Bank & Trust Company*, Oklahoma City; B. Franklin Houston, *Dallas Union Securities Co., Inc.*, Dallas

# 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.

Carolinas 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.

Three New England utilities (The Connecticut Light and Power Company, The Hartford Electric Light Company, and The United Illuminating Company) have formed a group known as NECAP (Nutmeg Electric Companies Atomic Project). NECAP plans to build a 400,000 kilowatt plant in Connecticut.

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*

Mr. & Mrs. Amyas Ames, *Kidder, Peabody & Co.*, New York, newly elected President; Mrs. & Mr. Curtis H. Bingham, *Bingham, Walter & Hurry, Inc.*, Los Angeles, Retiring President

Boice Miller, Miami; Edmund G. Anderson, Boston; Ted Hodge, Miami, and Sam Ross, Miami, all with *B. J. Van Ingen & Co., Inc.*

Mr. & Mrs. William D. Byrne, *Phelps, Fenn & Co.*, New York; Allen M. Terell, *Girard Trust Corn Exchange Bank*, Philadelphia

# Report of IBA Nuclear Industry Committee

*Continued from page 43*

we indicated that the economic nuclear breakthrough was apparent by 1965. Developments this year reaffirm this view.

### The Uranium Industry

The determination of the uranium needs after 1966 is a question which is, of course, uppermost in the minds of those who are engaged in this industry. There has been no decision yet on the Government's procurement needs at the expiration of the present buying program. Because of the uncertainties of both civilian and military estimates, it is impossible to reach a decision at this time. [See Addendum: Ed.]

Taking a long-term view of the question, it is beyond doubt that the only thing that will absorb the future uranium production is the peacetime use of atomic energy in the production of electricity. In other words, the greatest promise of atomic energy lies in the production of electric energy for civilian purposes.

Procurement of uranium from domestic sources is continuing at the approximate annual level of 18,000 tons of uranium oxide $U_3O_8$ 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 long last come to terms 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, Stanrock Uranium, Faraday Uranium, Macassa Mines, Gunnar Mining and Eldorado. The allocation to the individual mines is based on the delivery rates 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 AEC 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 AEC 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

Salvador Rodriguez, San Juan, Puerto Rico, and David Larson, New York, both of *Government Development Bank for Puerto Rico*

Walter Morse, *Lehman Brothers*, New York; David H. Callaway, *First of Michigan Corporation*, New York; Gus Harrington, *Harrington & Co.*, Jackson, Miss.; Henry Earle, *First of Michigan Corporation*, Detroit; Arthur S. Friend, *Folger, Nolan, Fleming & Co., Inc.*, Washington, D. C.

David T. Miralia, *Kuhn, Loeb & Co.*, New York; Alan K. Browne, *Bank of America, N. T. & S. A.*, San Francisco

these rather complex negotiations before the end of this year.

**Foreign Plants**

In Europe, the European Company for the Chemical Processing of Irradiated Fuels (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 350 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 American, two British, and one French—are 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 on. 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 breeded 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 succesfully 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 too was the pessimism which has prevailed since 1958.

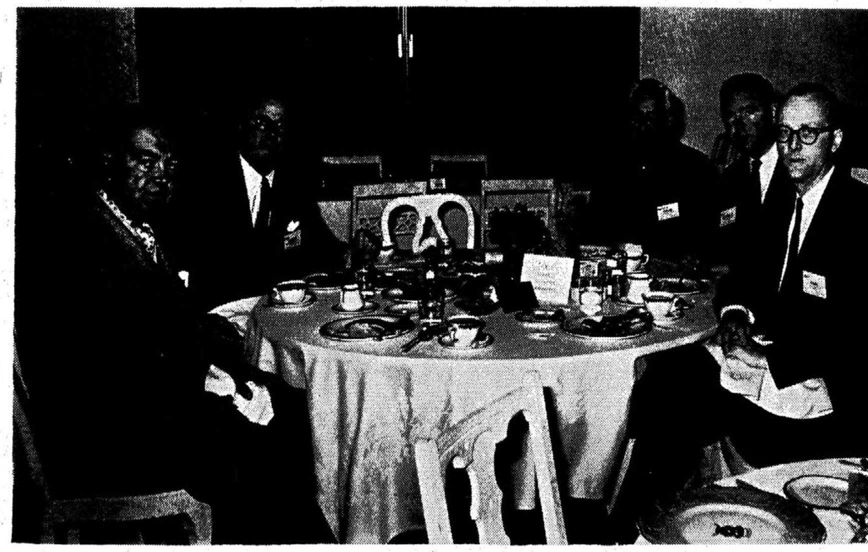
This year has produced reassuring reassessments of nuclear power economics both in this country and in Europe. We can now clearly see the dawn of the competitive nuclear age.

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 production 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

*Continued on page 46*

State Legislation Committee—Robert A. Podesta, *Cruttenden, Podesta & Miller*, Chicago, Chairman



Federal Taxation Committee—John R. Haire, *Hugh W. Long & Co. Inc.*, Elizabeth, N. J., Chairman

# 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 16,000 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 from the California Public Utility Commission. The company will now apply to the AEC for a construction permit.

*Respectfully submitted,*
NUCLEAR INDUSTRY COMMITTEE

**Paul F. Genachte, Chairman**
The Chase Manhattan Bank
New York, N. Y.

**Milton F. Lewis**
A. G. Becker & Co. Inc.
New York, N. Y.

**Wheelock Whitney, Jr.**
J. M. Dain & Co., Inc.
Minneapolis, Minn.

# 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 Appdendix 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 860,000 GM stockholders in the United States of record as of Feb. 28, 1962).

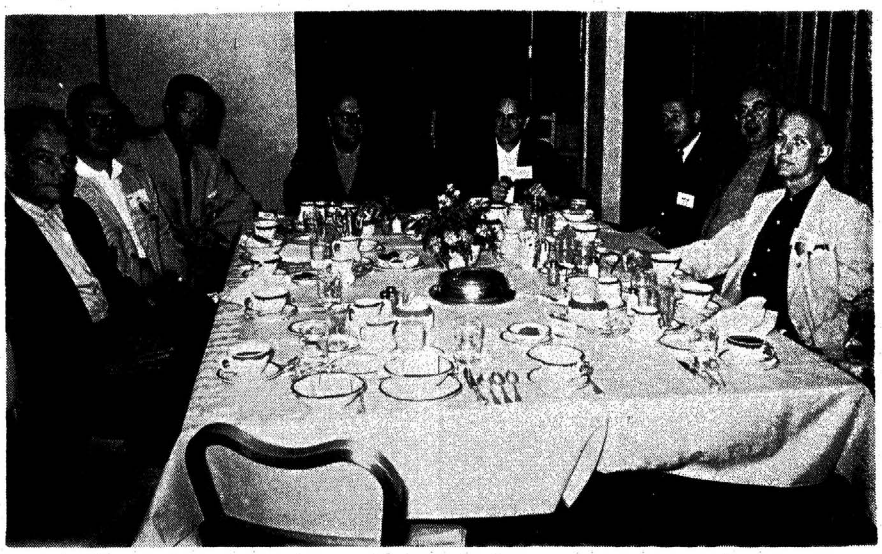
### V

### 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

Syndicate Committee—Robert A. Powers, *Smith, Barney & Co.,* New York City, Chairman



Subcommittee on Municipal Business Practices—Alan N. Weeden, *Weeden & Co.,* New York, Chairman

the appropriate committees of those organizations.

*Respectfully submitted,*

STATE LEGISLATIVE COMMITTEE

**Robert A. Podesta, Chairman**
Cruttenden, Podesta & Miller
Chicago, Ill.

**A. Lowrie Applegate**
Hulme, Applegate & Humphrey, Inc.
Pittsburgh, Pa.

**William B. Boone**
Dean Witter & Co.
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**John Brick**
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**Robert Z. Bronn**
Kalman & Co., Inc.
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**W. W. Keen Butcher**
Butcher & Sherrerd
Philadelphia, Pa.

**William H. Claflin, III**
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Boston, Mass.

**Walter I. Cole**
Beecroft, Cole & Co.
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**Edward J. Costigan**
Edward D. Jones & Co.
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**John C. Crawford**
Bosworth, Sullivan & Co., Inc.
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**Robert E. Daniel**
Pacific Northwest Co.
Seattle, Wash.

**Benjamin F. Edwards, III**
A. G. Edwards & Sons
St. Louis, Mo.

**Francis C. Farwell**
William Blair & Co.
Chicago, Ill.

**John F. Fogarty**
Stern Brothers & Co.
Kansas City, Mo.

**W. Ronald Gill**
G. H. Walker & Co.
Providence, R. I.

**Dean P. Guerin**
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Dallas, Tex.

**John C. Hagan, III**
Mason-Hagan, Inc.
Richmond, Va.

**Gus G. Halliburton**
Equitable Securities Corp.
Nashville, Tenn.

**F. Barton Harvey, Jr.**
Alex. Brown & Sons
Baltimore, Md.

**Robert C. Hill**
Hill Richards & Co., Inc.
Los Angeles, Calif.

**Henning Hilliard**
J. J. B. Hilliard & Son
Louisville, Ky.

**Ralph Hornblower, Jr.**
Hornblower & Weeks
New York, N. Y.

**William S. Hughes**
Wagenseller & Durst, Inc.
Los Angeles, Calif.

**Evert M. Hunt**
First Nebraska Securities, Inc.
Lincoln, Neb.

**Kenneth C. Joas**
Smith, Barney & Co.
Minneapolis, Minn.

**Marshall H. Johnson**
McDaniel Lewis & Co.
Greensboro, N. C.

**Roy W. Leriche**
First of Iowa Corp.
Des Moines, Iowa

**Thomas Lynch, III**
Moore, Leonard & Lynch
Pittsburgh, Pa.

**John E. McClelland**
J. H. Hilsman & Co., Inc.
Atlanta, Ga.

**Harry A. McDonald, Jr.**
Manley, Bennett, McDonald & Co.
Detroit, Mich.

**Ray Moore**
Bache & Co.
Seattle, Wash.

**Frank W. North**
Barret, Fitch, North & Co. Inc.
Kansas City, Mo.

**Charles C. Pierce**
Rauscher, Pierce & Co., Inc.
Dallas, Tex.

**Frank L. Reissner**
Indianapolis Bond and Share Corp.
Indianapolis, Ind.

**Donald G. Rundle**
Saunders, Stiver & Co.
Cleveland, Ohio

**J. B. Sanford**
Hattier & Sanford
New Orleans, La.

**George G. Scully**
The Ohio Co.
Columbus, Ohio

**G. Edward Slezak**
The Milwaukee Co.
Milwaukee, Wis.

**James E. Snyder**
A. C. Allyn & Co.
Chicago, Ill.

**Jack T. Stephens**
Stephens, Inc.
Little Rock, Ark.

**Milton S. Trost**
Stein Bros. & Boyce
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 certified to do business in Colorado, was amended by adding a provision that the subsection expired on March 1, 1962.

Section 20 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.

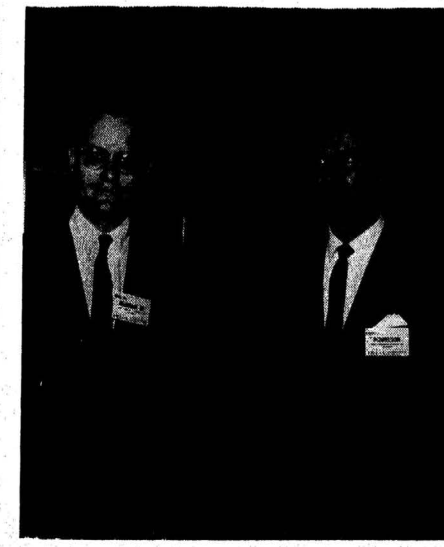
The new act includes requirements that any broker-dealer registered in the state shall have and maintain a net capital of not less than $15,000 and that no such broker-dealer (other than one who deals exclusively in certain exempt securities) shall permit his aggregate indebtedness to all other persons to exceed 2,000% 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 Commit-

*Continued on page 48*

Edde K. Hays, *Dean Witter & Co.*, Chicago; Edward K. Hardy, Jr., *The Illonois Company, Incorporated*, Chicago

Mr. & Mrs. B. P. Lester, Jr., *Lester, Ryons & Co.*, Los Angeles; Mr. & Mrs. G. Thomas Yeager III, *Baker, Watts & Co.*, Baltimore; Robert A. Girmscheid, *Investment Bankers Association of America*, Washington, D. C.



Ferg M. Alleman, Jr., *Leedy, Wheeler & Alleman, Inc.*, Orlando, Fla.; Ralph J. Powelson, *Leedy, Wheeler & Alleman, Inc.*, Orlando

# Report of IBA State Legislation Committee

*Continued from page 47*

tee of six members to give the Commissioner the benefit of its 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."

**MICHIGAN**

Section 8 of the Michigan Securities Act, which heretofore did 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 mortgages insured pursuant to the National Housing Act or by the administrator under the provisions of the Federal Service Mens Readjustment 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 surety 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 nor 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 $350,000.
$ 300 for offerings in excess of $350,000 up to $500,000.
$ 400 for offerings in excess of $500,000 up to $750,000.
$ 600 for offerings in excess of $750,000 up to $1 million.
$ 750 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*

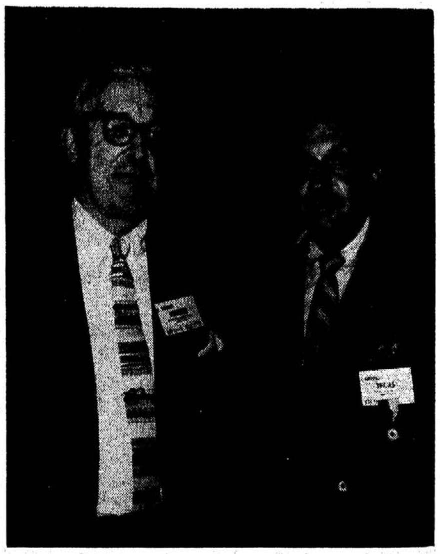
(A) **Federal Income Tax**

Public Law 87-403, approved Feb. 2, 1962, amended the Internal Revenue Code to add a new Section 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 distribution, the distribution will be treated as a return of capital and its full fair market value will reduce the basis of the stock with respect to which it is made. (Under prior Federal tax law the fair market value of the distributed GM stock would have been taxed to the Du Pont shareholders as ordinary income.) If the fair market 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 extent of the excess and is taxable. The following example of the application of this provision was given in the report of the Senate Finance Committee, using assumed values for Du Pont and GM stock:

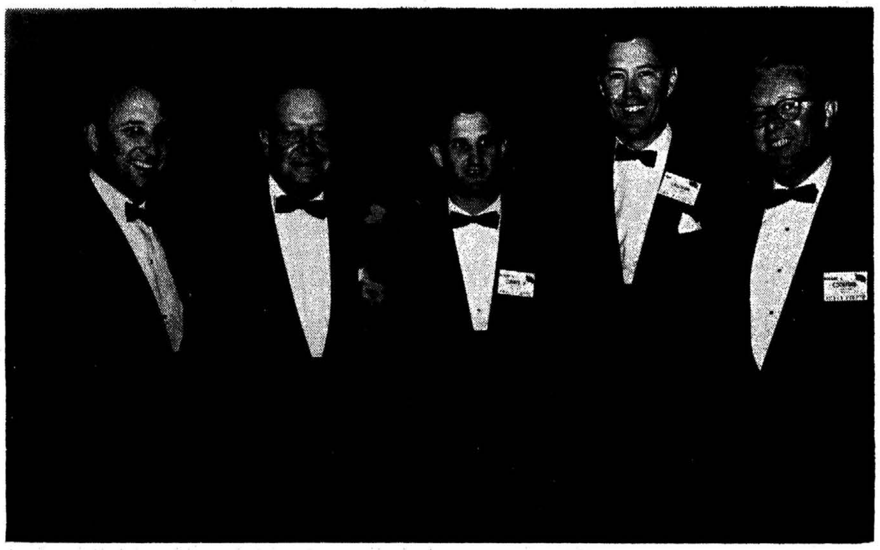
"An individual owns a single share of the stock of Du Pont which has a basis to him of $100. In a distribution pursuant to the terms of an antitrust order he receives from that corporation 1⅓ shares of the General Motors stock. Because of the distribution his basis for the Du Pont stock ($100) is reduced by the fair market value of the 1⅓ shares of General Motors stock received ($60), 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 shareholder because of the distribution."

(B) **State Individual Income Tax**

The following conclusions, regarding state income tax on distribution 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-



H. Stanley Krusen, *Shearson, Hammill & Co.*, New York; J. Emerson Thors, *Kuhn, Loeb & Co.*, New York



Ray F. Myers, *Continental Illinois National Bank & Trust Company*, Chicago; Hugh D. Carter, Jr., *Courts & Co.*, Atlanta; Richard W. Courts II, *Courts & Co.*, New York; James F. Gallivan, *Alester G. Furman Co.*, Greenville, S. C.; Norman A. Cooledge, *Courts & Co.*, Atlanta

Milton E. Allison, *M. E. Allison & Co.*, San Antonio, Texas; James S. Abrams, *Allen & Company*, New York

clusions 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 dividend 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.

# Report of IBA Insurance Securities Committee

*Continued from page 37*

better than the market in four of the past seven years. As noted, the longer term percentage gain in market prices of fire-casualty stocks to Sept. 30, 1962, has been better than for the market as a whole in all years since 1954.

### Insurance Operations

As noted in Table II, underwriting operations of the major stock companies for the 12 months through June 30, 1962, turned slightly into the black for the first time since 1960. While premium rates generally appear to have been at a level to have provided at least a small margin of profit for the companies since 1959, both 1960 and 1961 were years in which the industry was hard hit by major catastrophes which were important factors in the relatively poor showing of the companies during those periods. In 1960, Hurricane "Donna" cost the industry $91 million; 1961's major Hurricane was "Carla" costing $85 million. In addition, a $24 million loss was attributable to major fire damage in the Los Angeles area during 1961.

Although 1962 has not been devoid 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 4-6% profit margins of the past are still only a wistful memory in the minds of many insurance company executives. As indicated herein many basic prob-

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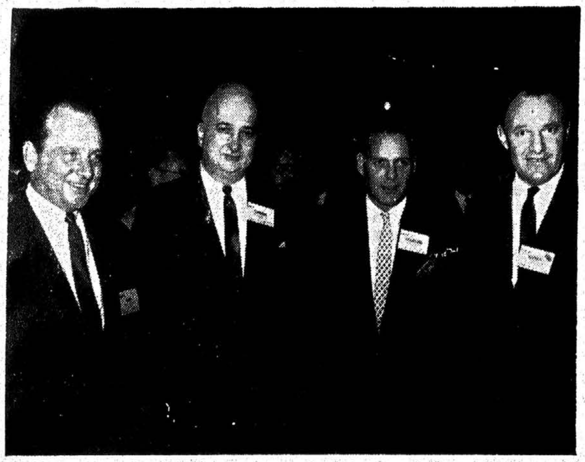
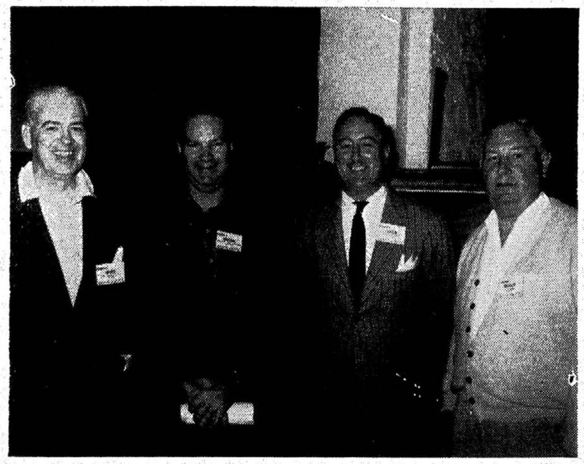
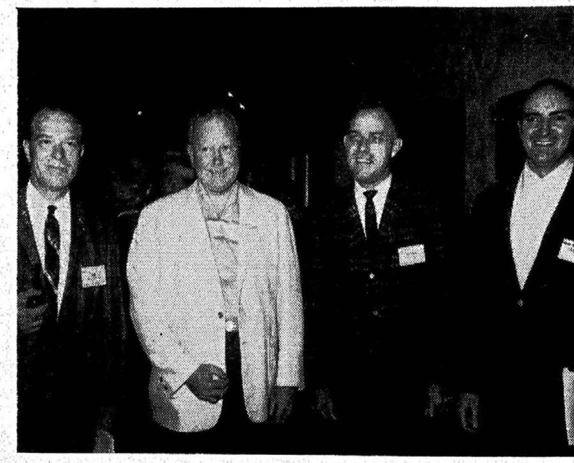


John W. Bunn, *Stifel, Nicolaus & Company Incorporated*, St. Louis; Ara A. Cambere, *Hayden, Stone & Co. Incorporated*, Chicago; Harold R. Holmyard, *Hayden, Stone & Co. Incorporated*, New York; John W. Turner, *Eppler, Guerin & Turner, Inc.*, Dallas



Kenneth C. Ebbitt, *Shelby Cullom Davis & Co.*, New York; Walter W. Niebling, *Merrill Lynch, Pierce, Fenner & Smith Incorporated*; New York; Richard D. Gibson, *Boettcher and Company*, Denver; S. Whitney Bradley, *Eaton & Howard, Incorporated*, Boston



Paul E. Uhl, *United California Bank*, Los Angeles; W. Wayne Glover, *United California Bank*, Los Angeles; Edward L. Brown, *Marine Trust Company*, New York; "Bob" Faath, Jr., *A. C. Allyn & Co.*, New York

# 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% of net premium volume in 1956 to 36.9% 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.

Net premium volume has continued to grow at a good pace. The gain in premiums written for the 12 months to June 30, 1962, was 6.8% over the prior annual period, and should be in the same area for the year to Dec. 31, 1962. The compound annual gain in premiums written during the last five years has been 6.3% and since 1953 has been 5.8%.

### Investment Results

Net investment income continued its healthy long-term growth trend during the first half of 1962, rising somewhat more than 7% over the comparable period of 1961. We estimate that growth in this account for all of 1962 will be approximately in the same range. Such growth as compounded at an annual rate of 7.6% in the last five years and 8.5% in the last decade.

TABLE II
**UNDERWRITING EXPERIENCE**
**Fifty Major Stock Fire-Casualty Insurance Companies**

| Twelve Months to: | Loss Ratio† | Expense Ratio‡ | Underwriting Prof. Margin§ | Net Premiums Written (in billions) |
|---|---|---|---|---|
| Dec. 31, 1962 | --- | --- | -- | *$6.5 |
| June 30, 1962 | 62.7% | 36.9% | 0.4% | 6.3 |
| Dec. 31, 1961 | 63.1 | 37.1 | —0.2 | 6.1 |
| June 30, 1961 | 63.6 | 37.3 | —0.9 | 5.9 |
| Dec. 31, 1960 | 62.0 | 37.3 | 0.7 | 5.8 |
| June 30, 1960 | 60.0 | 37.5 | 2.5 | 5.7 |
| Dec. 31, 1959 | 60.7 | 38.0 | 1.3 | 5.5 |
| June 30, 1959 | 61.2 | 38.6 | 0.2 | 5.3 |
| Dec. 31, 1958 | 62.1 | 39.0 | —1.1 | 5.1 |
| June 30, 1958 | 64.1 | 39.1 | —3.2 | 4.9 |
| Dec. 31, 1957 | 64.6 | 39.3 | —3.9 | 4.8 |
| Dec. 31, 1956 | 62.7 | 39.5 | —2.2 | 4.5 |
| Dec. 31, 1955 | 57.1 | 39.4 | 3.5 | 4.2 |
| Dec. 31, 1954 | 56.6 | 39.1 | 4.3 | 4.0 |
| Dec. 31, 1953 | 55.8 | 38.5 | 5.7 | 3.9 |

† 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 ratios.
* Estimated.

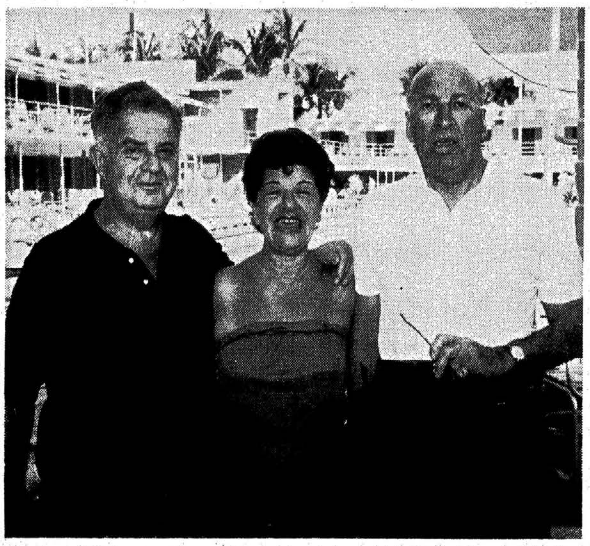
While the analyst includes only the actual income (interest, dividends, rents, etc.) derived from a company's investments in the computation of earnings, both realized and unrealized profits or losses from a company's investment portfolio have great weight in balance sheet study and computation of net 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 type of common shares owned and on the percentage of common stock held versus other investments. For a group of 50 major companies, 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 23%, 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 500-Stock 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 passing time. Although there are exceptions to the rule, it would appear that the larger companies have been more successful than 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. Competitive developments, e.g. direct billing, deviated rates, merit award plans, etc., are most effectively put into operation by the machine oriented company. As a result, smaller fire-casualty



Mr. & Mrs. Harry A. Michels, *Allen & Company*, New York; William E. Pollock, *Wm. E. Pollock & Co., Inc.*, Beverly Hills, Calif.

V. Theodore Low, *Bear, Stearns & Co.*, New York; William D. Kerr, *Wertheim & Co.*, New York; Jack Harris, *Bache & Co.*, Chicago

John Wasserman, *Asiel & Co.*, New York; Mrs. & Mr. Phillip Hettleman, *Hettleman & Co.*, New York

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 General 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 all 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 economists 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 prefectly 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 $360 million. These same companies will probably write about $6.5 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 to 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

*Continued on page 52*

Investment Companies Committee—Herbert R. Anderson, *Distributors Group, Inc.*, New York, Chairman

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

# 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 seems 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 these 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.

**William W. Amos**
The First Boston Corp.
New York, N. Y.

**William J. Anderson, Jr.**
Equitable Securities Corp.
Nashville, Tenn.

**Bowen Blair**
William Blair & Co.
Chicago, Ill.

**Robert H. Chaut**
Kidder, Peabody & Co.
New York, N. Y.

**F. W. Elliott Farr**
Girard Trust Corn Exchange Bank
Philadelphia, Pa.

**Robert R. Gilbert, Jr.**
Sanders & Co.
Dallas, Tex.

**William F. Gliss**
John C. Legg & Co.
New York, N. Y.

**Walter C. Gorey**
Walter C. Gorey Co.
San Francisco, Calif.

**Vinton Johnson**
Century Shares Trust
Boston, Mass.

**Graham Jones**
Cooley & Co.
Hartford, Conn.

# Report of IBA Investment Companies Committee

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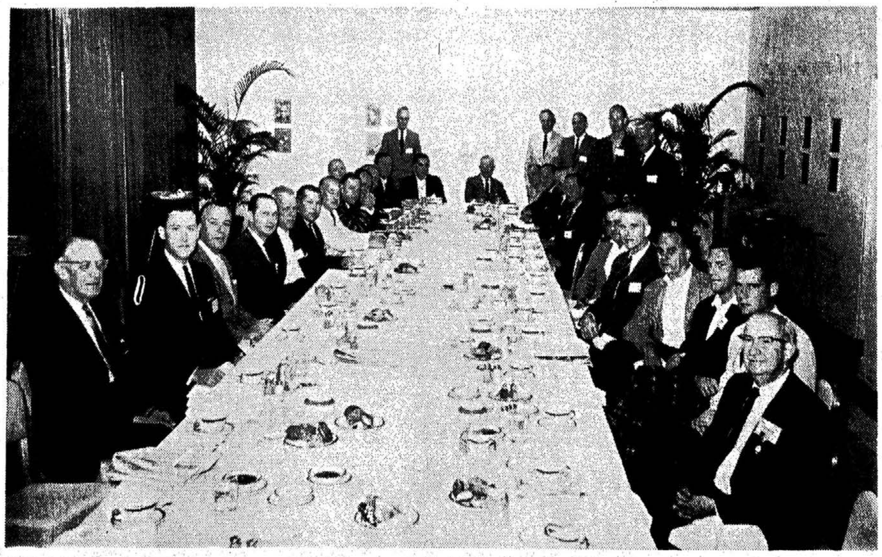
reasons, as that through which investment management generally is offered in any form—except for the legal fact that the individuals whose accounts are combined in a mutual fund through the efforts of the entrepreneur end up as shareholders of a corporation or in an equivalent position in a trust.

The essence of any business enterprise is that the entrepreneur shall devise or package a product or service which be 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 numbering about 3¼ 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

Mr. & Mrs. John B. Richter, *Butcher & Sherrerd*, Philadelphia



Group Chairmen's Committee—William L. Hurley, *Baker, Simonds & Co., Inc.*, Detroit, Chairman

Mr. & Mrs. Monroe V. Poole, *Geo. B. Gibbons & Co., Inc.*, New York

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 useful 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 standard of capital results is an inappropriate measure of management performannce — and even suggest that had the period been one of market decline instead of market advance, management "excellence" would have resulted in a quite 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 so it has been arranged that copies of that report will be available at this time as a supplement to this present re-

*Continued on page 54*

Mr. & Mrs. Gerald P. Peters, *Peters, Writer & Christensen, Inc.*, Denver

Membership Committee—Murray Ward, *E. F. Hutton & Co. Inc.*, Los Angeles, Chairman

Mr. & Mrs. George W. Elkins, Jr., *Elkins, Morris, Stokes & Co.*, Philadelphia

# Report of IBA Investment Companies Committee

*Continued from page 53*

port. An addendum includes the 1962 lows.

Beyond that, we would suggest that even if it is true that the average results of individual investors approximate that of all mutual funds, which we doubt by reason of the importance of the timing of purchases and sales, this is of very little comfort to the person whose contribution to the average result was a substantial loss. No one would argue that better results are not possible in individual issues than in a broadly diversified account—the ultimate in brilliance is to own just that one stock which performs best in each period. Some investors are interested in seeking extraordinary results, regardless of risk, or perhaps in ignorance of it. The appeal of the mutual fund is the greater assurance it provides of sound results within its policy and objective, and we believe it is this greater assurance on which the further substantial growth of mutual funds will be continued.

*Respectfully submitted,*

INVESTMENT COMPANIES COMMITTEE

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

**Edward S. Amazeen**
Lehman Brothers-One William Department
New York, N. Y.

**Hunter Breckenridge**
McCourtney-Breckenridge & Co.
St. Louis, Mo.

**Robert E. Clark**
Calvin Bullock, Ltd.
New York, N. Y.

**Robert L. Cody**
North American Securities Co.
San Francisco, Calif.

**Howard B. Dean**
Harris, Upham & Co.
New York, N. Y.

**Henry Earle**
First of Michigan Corp.
Detroit, Mich.

**Charles F. Eaton, Jr.**
Eaton & Howard, Inc.
Boston, Mass.

**Ernest E. Keusch**
W. E. Hutton & Co.
New York, N. Y.

**Hugh W. Long**
Hugh W. Long and Co., Inc.
Elizabeth, N. J.

**Philip F. McLellan**
Massachusetts Life Fund Distributors, Inc.
Boston, Mass.

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

**Walter L. Morgan**
Wellington Co., Inc.
Philadelphia, Pa.

**Robert L. Osgood**
Vance, Sanders & Co., Inc.
Boston, Mass.

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

**Albert C. Purkiss**
Walston & Co., Inc.
New York, N. Y.

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

**Charles M. Werly**
Putnam Fund Distributors, Inc.
Boston, Mass.

**Carlton P. Wilson**
Robert W. Baird & Co., Inc.
Milwaukee, Wis.

## *Spring, 1962 Report of the Investment Companies Committee (dated May 9, 1962)*

Final figures for 1961 show that mutual funds received 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 $922 million, 28% higher than the year earlier quarter—incidentally, under different market conditions. Total assets of the 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 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 insofar as mutual funds are concerned 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 39.8% above its "triple-top" of the 1955-57 period, a fact somewhat generally accepted as evidence that this was what common stocks had done.

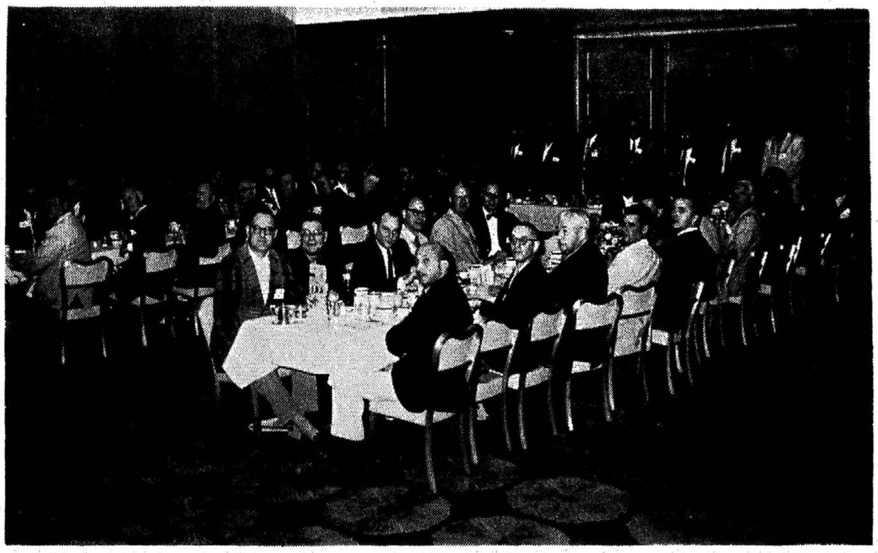
### Dow Jones "Multiplier"

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 39.8%— but 10.9%.

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 shareholders 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

Joseph W. Sener, Jr., *John C. Legg & Company*, Baltimore, Md.; Mrs. Scott Davis, Chicago



Anniversary Committee Meeting—Walter A. Schmidt, *Schmidt, Roberts & Parke*, Philadelphia, Chairman, Tuesday Meeting

Jerome C. L. Tripp, *Tripp & Co., Inc.*, New York; Mrs. Dallas Clay, Hollywood Beach, Fla.

works out to a dollar gain—not of 39.8%—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 shareholders. Suppose one had decided to buy—and hold—an equal dollar amount in each? Well, he would have done better had this been his choice, 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 30 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 30 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 $51 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 $15.3 billion *less*, a dollar *decline* of 29.8%.

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 26, 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 double this figure, at 16%. Incidentally, as with the index itself, remember that all of these hypothetical investments are without deduction for the costs faced by any investor in brokerage commissions and other charges.

### No Disparagement Intended

These comments are not designed to disparage the proper use of this well-known index. They are simply an effort to bring about a better understanding of the movement of stock prices—*per se*, but more particularly as they may reflect the actual experience of many people with ownership of common stocks (which we believe is a more realistic measure of the usefulness of mutual funds); also to suggest that however useful such indices may be otherwise, their use as standards of performance is neither practical nor realistic.

Actually, the condition disclosed 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, and owned by someone, were selling *below* their individual 1955-57 highs at the 1961 year-end. Bear in mind that this 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*

Addenda to the Spring, 1962 Report

Investment Companies Committee
Investment Bankers Association of America

The following figures carry forward the discussion in the above report to include the date (June 25) of the 1962 low close of the Dow-Jones Industrial Average. The period from the 1955-57 highs to the 1962 low close is of special interest because the Average was so nearly unchanged at these two points.

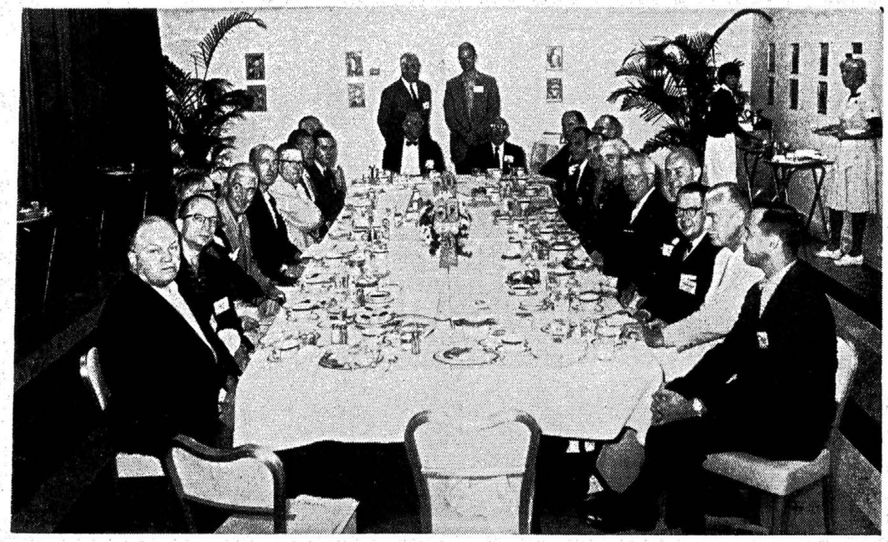
DOW-JONES INDUSTRIALS

| | (1) '55-'57 High | (2) 1961 High | (3) Close 6/25/62 | Percent Change 1 to 2 | 2 to 3 | 1 to 3 |
|---|---|---|---|---|---|---|
| Allied Chem | 64 3/4 | 66 1/4 | 36 | +2.3% | -45.7% | -44.4% |
| Aluminum | 133 1/2 | 81 1/2 | 45 3/4 | -39.0 | -43.9 | -65.7 |
| Amer. Can | 49 1/8 | 49 | 40 3/8 | -0.3 | -17.6 | -17.8 |
| A T & T | 62 3/8 | 139 7/8 | 101 1/4 | +124.2 | -27.6 | +62.3 |
| Am. Tob. | 21 1/8 | 55 3/4 | 30 5/8 | +163.9 | -45.1 | +45.0 |
| Anaconda | 87 3/4 | 65 | 38 3/8 | -25.9 | -41.0 | -56.3 |
| Beth Steel | 50 5/8 | 49 3/8 | 31 3/4 | -2.5 | -35.7 | -37.3 |
| Chrysler | 101 1/2 | 57 5/8 | 41 1/8 | -43.2 | -28.6 | -59.5 |
| Du Pont | 249 3/4 | 254 1/2 | 168 3/4 | +1.9 | -33.7 | -32.4 |
| Eastman K. | 57 1/2 | 119 3/4 | 88 | +108.3 | -26.5 | +53.0 |
| Gen. Elec. | 72 3/8 | 80 3/4 | 56 | +11.6 | -30.7 | -22.6 |
| Gen. Foods | 25 3/8 | 107 3/4 | 60 5/8 | +324.5 | -43.7 | +138.9 |
| Gen. Motors | 54 | 58 | 45 3/4 | +7.4 | -21.1 | -15.3 |
| Goodyear | 29 7/8 | 47 3/8 | 30 1/4 | +58.6 | -36.2 | +1.2 |
| Int. Harv. | 41 5/8 | 55 1/4 | 45 1/4 | +32.7 | -18.1 | +8.7 |
| Int. Nickel | 57 5/8 | 87 | 53 3/4 | +51.0 | -38.2 | -6.7 |
| Int. Paper | 42 3/4 | 38 1/4 | 25 7/8 | -10.5 | -32.3 | -39.5 |
| Johns Man. | 58 3/4 | 74 7/8 | 42 3/4 | +27.4 | -42.9 | -27.2 |
| Owens-Ill. | 81 | 104 | 67 | +28.4 | -35.6 | -17.3 |
| Proc. & Gam. | 28 1/2 | 101 1/2 | 59 1/2 | +256.1 | -41.4 | +108.8 |
| Sears Roebuck | 40 7/8 | 94 3/4 | 60 7/8 | +131.8 | -35.7 | +48.9 |
| Std. Oil Cal. | 59 7/8 | 57 | 52 | -4.8 | -8.8 | -13.2 |
| Std. Oil N. J. | 68 1/2 | 52 | 48 1/2 | -24.1 | -6.7 | -29.2 |
| Swift | 52 1/8 | 49 1/2 | 33 1/2 | -5.0 | -32.3 | -35.7 |
| Texaco | 36 | 59 5/8 | 45 3/8 | +65.6 | -23.9 | +26.1 |
| Un. Carbide | 133 3/8 | 144 | 84 3/4 | +8.0 | -41.1 | -36.5 |
| Untd. Aircft. | 80 3/8 | 56 1/8 | 39 1/2 | -30.2 | -29.6 | -50.9 |
| U. S. Steel | 73 3/8 | 91 1/4 | 42 1/4 | +24.4 | -53.7 | -42.4 |
| West. El. | 41 5/8 | 50 | 25 3/8 | +20.1 | -49.2 | -39.0 |
| Woolworth | 52 7/8 | 93 5/8 | 63 | +77.1 | -32.7 | +19.1 |
| D. J. Avge | 524.37 | 741.30 | 536.27 | +41.4 | -27.7 | +2.3 |
| 1 sh. each | $2,009 | $2,441 | $1,604 | +21.5(a) | -34.3 | -20.2(b) |

(a) 10 stocks declined, 1 share of each by 23.5%
(b) 1 share of each of the 20 stocks that declined showed an overall loss of 36.8%

November , 1962

Robert H. Craft, *Paribas Corporation*, New York; Lewis F. Lyne, *Mercantile National Bank*, Dallas



Education Committee—Robert Mason, *Merrill Lynch, Pierce, Fenner & Smith Incorporated*, Chicago, Chairman

John M. Bleakie, *W. E. Hutton & Co.*, Boston; W. Wendell Reuss, *W. E. Hutton & Co.*, New York

# 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 incidental 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 simile 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*

customers. This is a threat which could affect the future financing of the utility industry. At present, hearings are being held before the Director of Finance of the State of Alabama, whose approval is required before the REA generating plant can be constructed. Alabama Power Co., presently serving the area, is vigorously opposing this unnecessary project.

In advertisements and in testimony, Alabama Power Co. has pointed out that the proposed plant would not bring electricity to anyone to whom it is not now available; that the cooperative, which pays no Federal or state income tax, would borrow from the Federal Government at 2% funds which cost the government 4%, and, finally that the proposed plant would supply power which Alabama Power Co. is able and willing to furnish now and in the future at one of the lowest rates in the nation.

Should this loan be approved, the tremendous burden to be imposed on the taxpayers would consist of both unreimbursed interest cost to the Federal Government and also tax losses to the state and local governments and to the Federal Government. Evidence presented before the Director of Finance by Alabama Power Co. showed the compounded interest and tax loss to be $45,504,805 during the life of the proposed loan.

In Mississippi hearings are also in progress before the Mississippi Public Service Commission to determine whether an equally unjustified and unnecessary REA generating plant should be constructed in southeast Mississippi in the territory of Mississippi Power Co.

Other 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 refunded 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 $200,000,000. This leaves $900,000,000 in rates still under suspension. We feel that a substantial portion of the $900,000,000 will be translated into refunds which will affect the earnings and equity of the pipe line companies. We still feel that this industry

Mr. & Mrs. Norville Aubuchon, *Harris Trust & Savings Bank,* Chicago

Public Utility Securities Committee—Milton F. Lewis, *A. G. Becker & Co. Incorporated,* New York, Chairman

Mr. & Mrs. Earl G. Fridley, *Fridley & Frederking,* Houston

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 until 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 lines 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 never been 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 air condition are 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 developers of 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 their fuel needs, including electricity. This is a medium-sized shopping center, with approximately 80,000 square feet under cover. If the owners had gone the conventional route, their annual utility bill would have been in the neighborhood of $26,000, 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 going to Southern Union and the balance to the city water department. I emphasize that there will be no external supply of 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 modern look to their shopping center by eliminating unsightly cooling towers. Southern Union gains a 500% 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 readied for production near Mansfield, Ohio. This plant will use natural gas to supply all its requirements —lighting, heating, cooling, and power — for all machines and equipment.

Two major gas appliance manufacturers have reported record-breaking sales volume for the first half of 1962.

Sales volume of Norge appliances in the first six months rose 12% above the 1961 period, recording the best first half since 1955, the company's record year; and Whirlpool Corp. had the biggest first half in the history of the company. Judson S. Sayre, President of Norge, stated that home-laundry 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 $11.8 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 95.8 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 275,100 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 84,000 miles of line.

*Continued on page 58*

*APPENDIX*

Gas Industry Projected Gross Plant and Construction Expenditures by Function—1961-1971

(Millions)

| | | Construction Expenditures | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Gross Plant | Total | Production and Local Storage | Trans-mission | Under-ground Storage | Distribution | General |
| 1961 | $23,000 | $1,662 | $172 | $654 | $55 | $687 | $94 |
| *1962 | 24,504 | 1,671 | 195 | 607 | 73 | 693 | 103 |
| *1963 | 26,144 | 1,822 | 239 | 645 | 87 | 732 | 119 |
| *1964 | 27,886 | 1,935 | 319 | 610 | 69 | 802 | 135 |
| *1965 | 29,707 | 2,023 | 309 | 678 | 72 | 854 | 110 |
| 1966 | 31,813 | 2,340 | 342 | 806 | 94 | 965 | 133 |
| 1967 | 33,974 | 2,401 | 343 | 801 | 99 | 1,022 | 136 |
| 1968 | 36,270 | 2,551 | 381 | 835 | 103 | 1.088 | 144 |
| 1969 | 38,669 | 2,666 | 392 | 860 | 108 | 1,155 | 151 |
| 1970 | 41,132 | 2,737 | 403 | 875 | 112 | 1,192 | 155 |
| 1971 | 43,715 | 2,870 | 462 | 905 | 117 | 1,224 | 162 |

* Represents forecasts based on estimates submitted by individual gas companies.

SOURCE: American Gas Association.

Mr. & Mrs. Charles L. Kaufman, Jr., *Kaufman Bros. Co.*, Norfolk, Va.

Fiftieth Anniversary Committee—Walter A. Schmidt, *Schmidt, Roberts & Parke*, Philadelphia, Chairman, Monday Meeting

Harry B. Snyder, *Yarnall, Biddle & Co.*, Philadelphia; Jerry B. Vaden, *Lord, Abbett & Co.*, Atlanta

# Report of the IBA Public Utilities Committee

*Continued from page 57*

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. This is the latest in an annual series of long-term projections of gas industry operating statistics.

Construction expenditures by the gas industry will reach an annual rate of $2.8 billion by 1971, almost 73% above the 1961 rate of $1.6 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 $23 billion, the sixth largest in the nation.

Expenditures for gas distribution facilities will increase to $1.2 billion annually by 1971, the figures indicate. In 1961, the industry spent $687 million for this purpose.

Spending for gas transmission 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 168.6% above the 1961 figure of $172 million; general, $162 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 Testar, 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 amazement 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 REA, 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,*

PUBLIC UTILITY SECURITIES COMMITTEE

**Milton F. Lewis, Chairman**
A. G. Becker & Co. Inc.
New York, N. Y.

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New York, N. Y.

**Clarence W. Bartow**
Drexel & Co.
New York, N. Y.

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Cleveland, Ohio

**Ira Daly**
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**C. Pharr Duson**
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**W. Ronald Gill**
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Providence, R. I.

**Roger T. Gilmartin**
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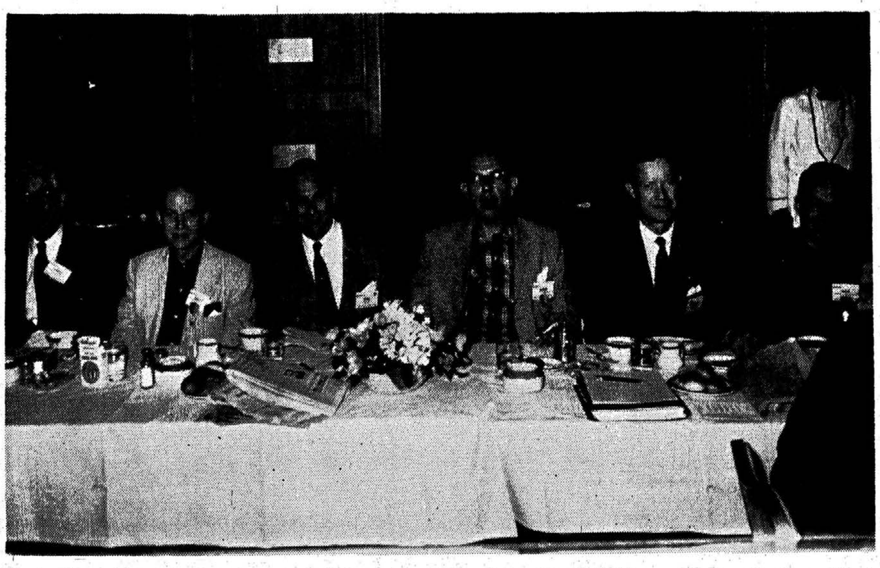
New York, N. Y.

**Willard R. Hendrix**
Equitable Securities Corp.
Nashville, Tenn.

**Richard W. Jones**
Mitchum, Jones & Templeton Inc.
Los Angeles, Calif.

**George L. Perin**
The First Boston Corp.
New York, N. Y.

**J. Raymond Smith**
Weeden & Co., Inc.
New York, N. Y.



Municipal Securities Committee—Head Table

Municipal Securities Committee—George B. Wendt, *First National Bank of Chicago*, Chairman

# 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 3⅝%, or in redevelopment areas at 3⅜%. In the current fiscal year beginning July 1, 1962, the loan rates were raised under the statutory formula by ⅛ of 1% to 3¾% or the 3⅝% 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 3⅞% for 30-year maturity bonds, the interest rate being reduced ⅛ of 1% for each full five years shorter maturity, but not less than 3⅝% (¼ of 1% lower in redevelopment areas); but in the current fiscal year the reasonable rate was raised ⅛ of 1% so that it is 4% for 30-year maturity bonds with the indicated reduction of ⅛ of 1% for each full five years shorter maturity (also ¼ 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

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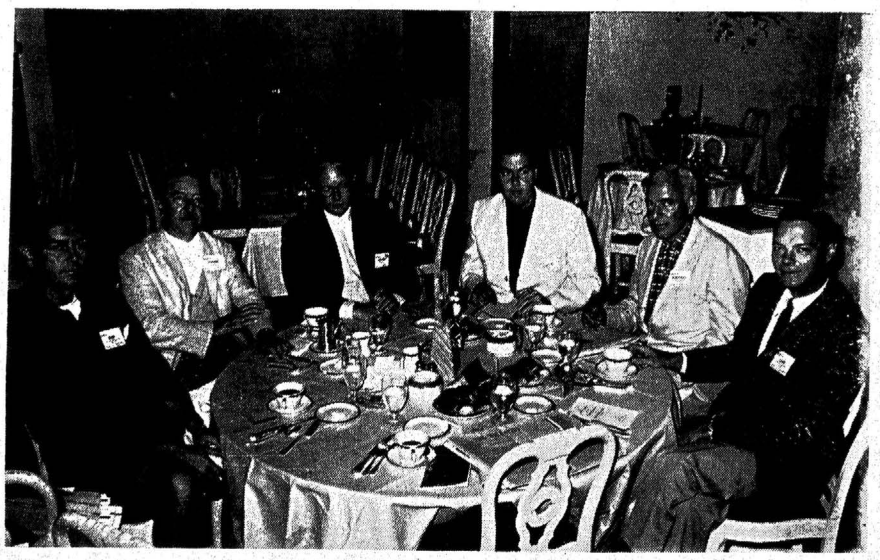
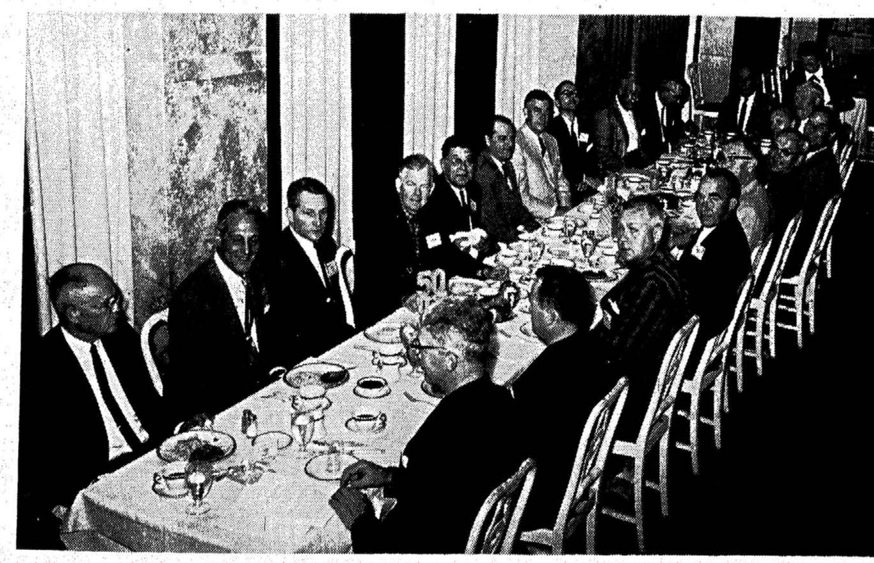


Subcommittee on Industrial Aid Financing—Mason B. Starring, *A. C. Allyn & Co.*, New York, Chairman



Subcommittee on Municipal Industrial Aid Financing

# 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*

### I
### 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. 6. 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 $826 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 $793 million rapid transit system be financed by $530 million of 4½% taxable revenue bonds guaranteed by the Federal Government, $63 million of Treasury loans at 4%, $180 million by Federal, District and local grants which would be repaid after retiring existing debt and $20 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 $50.9 million Gross Revenue Bonds to underwriters through negotiation at a net interest cost of 3.1551%. 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

Mr. & Mrs. Arthur Wiesenberger, *Arthur Wiesenberger & Co.*, New York

Federal Securities Acts Committee—Albert Pratt, *Paine, Webber, Jackson & Curtis*, Boston, Chairman

Mr. & Mrs. Dean E. Wildman, *John A. Kemper & Co., Indianapolis*, Ind.

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 local school bonds;

(c) Payments of principal of and interest on obligations transferred to the Authority from the Literary Fund;

(d) Proceeds of sale of any such obligation; and

(e) Any moneys transferred to the Authority from the Literary 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.

A companion bill adopted in Virginia provides that there shall be set aside and transferred to the Virginia Public School Authority for public school purposes on July 1, 1962, and semi-annually thereafter, the principal of the Literary Fund in excess of the total of (a) $10 million and (b) any other moneys theretofore 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 1960 a new amendment was adopted to take effect July 1, 1962.

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 limitation on the amount of the Loan Fund and authorizes the state to borrow on its full faith and credit such amounts as shall be required for the purpose of making loans to school districts.

(c) Any school district may borrow from the state the amount which it would otherwise be required to levy in excess of 13 mills to meet annual principal and interest payments on qualified bonds (and the legislature is authorized to reduce the 13 mill ceiling to compensate for upward adjustments in valuation).

(d) It is mandatory that if for any reason any school district will be or is unable to pay the principal and interest on its qualified bonds when due, then the state shall loan to such district an amount sufficient to enable to pay the principal and interest on its qualified bonds when due, then the state shall loan to such district an amount sufficient to enable the school district to make payment irrespective of the amount of the tax levied for qualified bonds.

(e) "Qualification" is a means of establishing at 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

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*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 402 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*

### I
### 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 votes 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 it lacked jurisdiction and that no claim was stated upon which relief could be granted. 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 apportionment will comply with or violate the Constitution. However, it does establish the right to litigate the propriety of apportionment in state legislatures and numerous cases have already 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 Proceeds 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 construction 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 entered an order requiring 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 Monongah, West Virginia, 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 and it 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 with 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 are understandable and commendable, but it has no right or power to punish a recalcitrant utility by telling it 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 affirmatively appear 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 as to posting and publication.

The Supreme Court of Michigan in the case of *International Salt 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 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."

### IV
### Municipal Taxation of Buildings Leased to Manufacturing Firm

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 Teterboro 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,*

MUNICIPAL SECURITIES COMMITTEE

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Chicago, Ill.

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Sterne, Agee & Leach
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**Marsom B. Pratt**
Estabrook & Co.
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Prescott & Co.
Cleveland, Ohio

# Report of IBA Industrial Securities Committee

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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 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 figure out a problem that an analog computer could solve in a split second.

Applications and markets for analog computers exist in research and scientific investigation, chemical and petroleum plant simulation, military systems simulation, and military and industrial computational research laboratories. 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 events in the development of Western business. Computer development has emerged from two main trends in the growth of our country. One is the explosion of scientific and engineering knowledge, and the realization 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 businesswise and industrially, so that it has produced an enormous growth in the information to be handled. This has provided the impetus behind the great development of automatic handling of information, expressed in computing and data processing systems.

### Economic Justification

Three primary factors are leading to structural changes in businesses 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 economy itself.

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 vitally 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 29%, and salaries have been increasing at an average rate of 3% a year. On an annual basis, wages for clerical personnel alone are in the area of $392 billion. Company after company can cite huge clerical savings through the use of data processing machines.

McDonnell Aircraft, in completely automating its purchasing cycle, estimates it will save $100-$200,000 annually, mostly accounted for by clerical savings, with a machine renting for $6,400 a month. Sylvania Electric estimates that it will save approximately $400-$500,000 annually in such areas as clerical and inventory reductions through the use of machines renting for an estimated $325,000 a year. Nationwide 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 projected saving in excess of $1.0 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 5-30% 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 system goes into full operation. In addition to clerical and inventory savings, a faster flow of vital information and the elimination of paper work delays and duplication 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 contributions 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 operations 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 management information systems.

### Selecting a Computer

A recently completed independent survey of computer users indicated the following factors as influencing the choice of a computer: (1) a computer which offered the greatest anticipatory pay-off in clerical savings; (2) reputation of the manufacturer; (3) maintenance factor; (4) comparison of costs; (5) purchase prestige; (6) product support; (7) compatibility with existing systems, and (8) error-checking characteristics. The same report stated that 90% of the users reported they had realized the savings estimated in the original computer 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 efficient systems engineering, ineffective computer utilization has been the result. Systems application or engineering has not only been the key to successful computer utilization, but has also been the reason for success or mediocrity on the part of computer manufacturers.

## Areas of Computer Applications

The degree to which computer technology has become more specific and complex is illustrated in the fact that today there are over 500 areas in which computers are finding an application. 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 functions computers are performing in different areas. A number of these areas will be investigated in more detail, in order to determine the significance of computer application to this area or industry, and to discuss the importance of these markets in light of computer usage trends.

### Commercial Banking

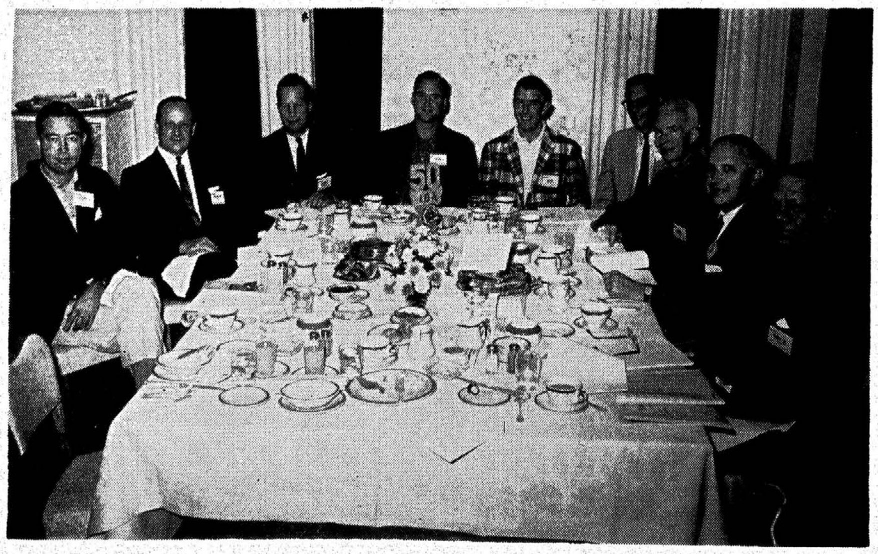
Data processing firms have a business potential of some 5,400 commercial banks out of the 14,000 in this country. These are the banks with over $75 billion in total deposits. The banks which have installed computers have found that they not only have better reports and tighter audit and control procedures, but are now able to offer new customer services and improve their competitive position. The major breakthrough in the banking industry with EDP did not come until 1959, when the final specifications for printing of checks coated with Magnetic Ink Character Recognition (MICR) numerals were approved by the ABA. An estimated 68.3% of all checks cleared through Federal Reserve Banks now contain magnetic ink symbols, compared to 36.1% a year ago. The volume of checks processed 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 magetic symbols, and will be processed by computers.

EDP will have its greatest impact on the demand deposit sector of bank employment. About 20% of all bank workers doing work related to demand deposit bookkeeping will be seriously affected by the advent of automation. One major bank indicated that computers have led to an 80% decline in the number of bookkeepers in demand deposit activity over a four-year period, despite a 10% rise in demand deposit accounts.

One of the newest developments in the banking industry is the use of on-line computers. On-line, or real-time systems process transactions 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 Savings, Union Dime, and Society for Saving (Hartford)—have installed on-line systems. The benefits from these systems have been a

*Continued on page 66*

Mr. & Mrs. J. Howard Carlson, *Carl M. Loeb, Rhoades & Co.*, New York



Industrial Securities Committee—Blancke Noyes, *Hemphill, Noyes & Co.*, New York, Chairman

Mr. & Mrs. Donald C. Patterson, *Chemical Bank New York Trust Company*, New York

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90% reduction in back office teller work, and a 30% reduction in transaction processing time. The Howard Savings Institution expects to save over $100,000 with its system over the next five years.

The smaller banks which cannot afford computers are joining together in a cooperative movement. For example, six upstate New York banks are cooperating in three new computer centers equipped with $3.8 million worth of computing equipment. This movement could assume major proportions among smaller banks in the near future.

The value of total computer installations in banks through 1962 is estimated at $176 million. It is estimated that shipments to this industry will total $80-90 million a year between 1963-1965, so that a total cumulative market in the area of $450 million is possible by 1965. Computer companies which will share this field include IBM, GE, NCR and Burroughs.

**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 wires 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 20 or 30 years, we could have an international informaton 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 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, pupil-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 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 22, Minnesota

Autonetics
North American Aviation Co.
3584 Wilshire Blvd.
Los Angeles 5, California

*Bendix Corporation
5630 Arbor Vitae Street
Los Angeles 45, California

*Burroughs Corporation
6071 Second Avenue
Detroit 32, Michigan

Clary Corporation
408 Junipero Street
San Gabriel, California

*Computer Control Corporation
2251 Barry Avenue
Los Angeles 64, California

*Control Data Corporation
501 Park Avenue
Minneapolis, Minnesota

*Digital Equipment Corporation
Main Street
Maynard, Massachusetts

El-Tronics
13040 S. Cerise Avenue
Hawthorne, California

*General Electric Corporation
13430 N. Black Canyon Highway
Phoenix, Arizona

*General Precision, Inc.
101 West Alameda Avenue
Burbank, California

*IBM Corporation
590 Madison Avenue
New York, New York

*Minneapolis-Honeywell Regulator Co.
60 Walnut Street
Wellesley Hills 81, Massachusetts

*Monroe Calculating Machine Company
555 Mitchell Street
Orange, New Jersey

*National Cash Register Company
Dayton 9, Ohio

Packard Bell Company
1905 Armacost Avenue
Los Angeles 25, California

*Philco Corporation
3900 Welsh Road
Willow Grove, Pennsylvania

*Radio Corporation of America
Camden, New Jersey

Ramo-Wooldridge Corporation
8433 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.

Special Committee for Public Education on Municipal Securities—Fred D. Stone, Jr., *Marine Trust Company of Western New York*, New York City, Chairman

Research Committee—Ralph F. Leach, *Morgan Guaranty Trust Company*, New York, Chairman

puter through a response panel, and the computer judges the answers, indicates whether the student is right or wrong and selects simpler material if the student commits an error. If this type of research is applied to school systems in general, then education is in for a major renovation.

**Government**

The Government is the largest single user of computers with a total of 1006 installations as of June 1962 excluding special military computers. Operating costs in 1961 (rental, amortization, personnel, etc.) were approximately $597 million, and probably in excess of $1.5 billion with the inclusion of military operational applications. Today there are over 45,000 employees in positions related to management or operation of computers in the Federal Government. The Bureau of the Budget has 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 135 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 a very effective means of catching up with 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.

**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

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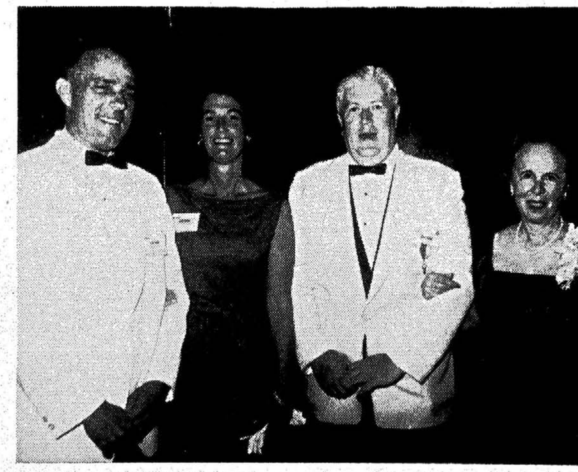
Mr. & Mrs. William G. Simpson, *Simpson, Emery & Co., Inc.,* Pittsburgh; Mr. & Mrs. Felix N. Porter, *First National Bank & Trust Company,* Oklahoma City

Robert W. Barker, *Irving Trust Company,* New York; Mrs. & Mr. William W. Pevear, *Irving Trust Company,* New York; Albert McGann, *Albert McGann Securities Co., Inc.,* South Bend, Ind.



Mr. & Mrs. Edward L. Brown, *Marine Trust Company,* New York; Mr. & Mrs. Alan K. Browne, *Bank of America, N. T. & S. A.,* San Francisco

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life companies with scientific reports.

Nationwide Insurance 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 304 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 formulas 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 back 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**

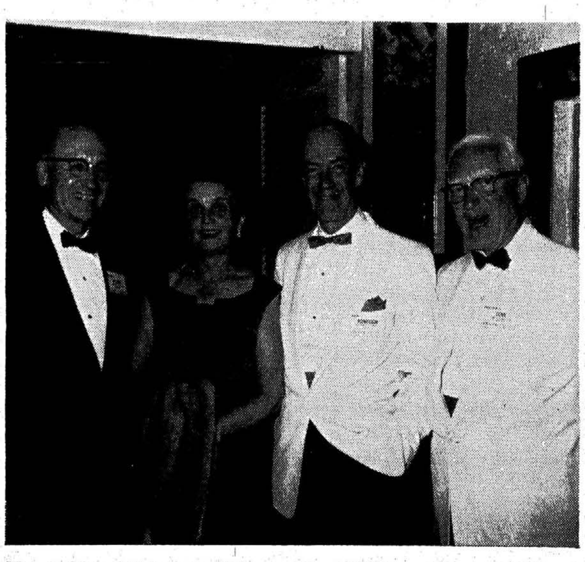
The use of computers for process control applications in factory automation appears to be on a level where general-purpose computers were in 1952. With increasing computer speeds and advanced programming methods, the control computer is taking over as a dynamic optimizer, readjusting plant operations 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.

**Production Control**

Manufacturing companies are using computers for off-line production control in such applications as shop scheduling, assembly line balancing, scheduling labor utilization, and numerically controlling machine tools. Advanced management sciencies, such as operations research, will find increasing use with computers to optimize decision-making on inventory policy, long-range market strategies, plant and warehouse locations, and capital investment programs. Simulation techniques will reveal unprofitable or inadequate courses of action in advance, thus avoiding costly errors in judgment. Competitive pressures are forcing industry to take advantage of these techniques, which should provide a sizable market for computers. This area could account for a $2-$3 billion cumulative market through 1970.

**Retailing**

The potential for computing equipment in the retailing industry is considered very large, but will not attain fruition until three elements are more fully de-



Mr. & Mrs. William J. Allison, *Allison-Williams Company*, Minneapolis; Ralph J. Powelson, *Leedy, Wheeler & Alleman, Inc.*, Orlando; Malcolm E. Love, *Barr Brothers & Co.*, New York

Mr. & Mrs. Albert T. Armitage, *Coffin & Burr*, Boston; Mrs. & Mr. Edward S. Amazeen, *Lehman Brothers-One William Department*, New York

Paris Scott Russell, *Glore, Forgan & Co.*, New York; William G. Carrington, Jr., *Ira Haupt & Co.*, New York; Edward J. Meyers, *Baxter & Company*, New York

veloped—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 extension of computers into merchandise 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 30-40%, 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 $1.5-2.0 billion in 1970. 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 untapped 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 1952 were years of experiment by universities, government departments and small businesses. At that time, major business machine, electric and electronic 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 1950 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 potential for computers was 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 meant to compete with Univac, 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 sales strategy was not to deliver a machine until the customer had been completely educated and could utilize the equipment fully from the date of installation. This sales strategy payed 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-1956 it had $100 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 Bizmac in 1956 for $4 million. This was the industry's biggest single installation to that 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 an 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 average selling price per system. The latter method will be used in this study, and machine sizes will be classified as follows: extra large, $5 billion and up; large $1-5 billion; medium, $500,000-$1,000,000; small, $50,000-$500,000; and desk-size, under $50,000. This is an arbitrary classification, and could possibly place a computer or two in a wrong category if the average price is not a representative figure. Using this classification, it is apparent from Exhibits 4 and 7 that IBM is particularly strong in the large and medium size fields. IBM has 85.5% of the large-scale market, with 193 installations of the 7090 series and 340 installations of the 7070 series, accounting for installation values of $579 million and $360 million, respectively. Minneapolis-Honeywell has 5.5% of the total value of the large computer market, primarily due to its 800 computer. Control

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Data has 5.3% of this market, with 41 installations of its 1604. IBM has dominated the medium-scale field, due to the success of its 1401. The company has installed 94.3% of the computers in this area, with an estimated value of $1.2 billion. No other computer manufacturer has as much as 5% of this market. RCA has 4.5% of the market, based on 78 installations of its 501, valued at $62.4 million. GE occupies third place with a market share of 2.9%, on 50 installations of its 210 machine, valued at $40 million. Burroughs' share of this market is 2.2%, which is the result of 55 installations of its vacuum tube B-220 computer. The ability to retain this position will depend on the marketing success of the solid-state B-5000, which currently has an excellent backlog of orders.

Sperry Rand emerges as the leader in the small-scale market, with 524 installations valued at $133.7 million. This accounts for 39.1% of this market. IBM is second with 16.7% of the market, based on 600 installations valued at $57 million. RCA (10.6%), Bendix (7.3%), and Control Data (8.5%), also have significant shares of this market. The classification of IBM's 632 computer as a desk-size machine, gives this company 81.8% of the desk-size market. Among the non-major companies, Packard Bell and Monroe have a respectable share of this market with a 7.2% and 5.4% participation, respectively.

In the extra-large category, there are only two companies with installations today, namely IBM and Sperry Rand. Long production time, and specialized engineering and programming requirements have kept many manufacturers out of this area. However, even the top two producers are not going to stay in this field with their present machines. IBM has two installations of its STRETCH, and Sperry Rand has two installations of its LARC. Both companies have indicated that these machines will no longer be produced. This could leave the whole extra-large field open to Control Data, which will deliver its first 6600 super computer in 1964.

**Computer Backlog**

At present, the computer industry has a backlog of 8,496 computers with an estimated installation value of $3.0 billion. As indicated in Exhibits 4 and 6 IBM has 6,176 orders for machines valued at $2.36 billion. IBM's backlog accounts for 72.8% of the total backlog number and 77.9% of the backlog dollar value. Sperry Rand (13.0%), National Cash (4.2%), and Burroughs (3.0%) have greater potential percentages of the market in terms of the number of machines on backlog, rather than the dollar value of these machines, indicating a trend toward lower-priced computers. RCA, Control Data, Minneapolis-Honeywell and Philco backlog figures indicate a trend to the higher-priced machines. As a measure of growth, the total backlog of machines today is greater than the total number of machines installed between 1951 and 1960.

**Potential Market**

The previous section on computer applications shed some light on the future prospects of the industry. The problem with forecasting in the computer industry is that market estimates by experts in the field have always been on the low side. Looking ahead to 1966, it has been estimated that sales of business-scientific computers could be 75% ahead of 1961, with industrial computers 200% ahead, and process control equipment 400% ahead. In terms of dollar value, shipments are expected to reach $2.2 billion for business and scientific computers, and $2.0 billion for special military computers. The usual method of projecting the future market potential of the computer industry has been to analyze the government, business, scientific and military fields, or to estimate industry and area applications. One other method which might receive a little more attention is the market for computers which results from cost savings in such areas as clerical personnel and inventory.

For example, the clerical force in the U. S. could reach 12.25 million by 1970, assuming a 25% increase in 10 years. With salaries increasing at an average rate of 3% a year, the average wage could reach $99.35 a week. Under these assumptions, the annual clerical bill could reach $632.8 billion. If it is assumed that companies employing personnel equivalent to 5% of these total clerical costs could take advantage of cost savings through computers, then clerical personnel earning $31.5 billion would be exposed to replacement by computers. As cited previously, it is not uncommon for computers to save 10-25% in clerical costs, so that a potential computer market in this area alone is on the order of $3.1-$7.8 billion by 1970.

The situation with inventory presents somewhat the same picture. During the past decade, manufacturers' inventories increased from $44.4 billion to $55.2 billion, or 25%. If a similar increase can be assumed by 1970, then these inventories could reach $69 billion. Assuming firms carrying one-tenth of this inventory are in a position to employ computers, and if savings under this assumption are 10-20% in each case, then savings of $690 million to $1.4 billion are possible. In other words, savings from clerical and inventory costs could channel as much as $3.8-9.2 billion into computers by 1970.

A. **Military Market:** One area which cannot be overlooked is the military market, which is growing faster than the electronic data processing market as a whole. Electronics industry sources indicate that as much as one-sixth of all defense electronics expenditures go for some type of computer. An estimated $8.0 billion will be spent for military electronics in 1962, with $1.3 billion spent on data processing equipment. If expenditures for defense electronics continue at the present rate, they could reach $15.0 billion in 1970, creating a $2.5 billion military computer market.

B. **Foreign Market:** The future potential of the computer industry is further enhanced by foreign market prospects. There are approximately 2,800 computer systems installed and on order in Western Europe, plus 389 installations in Great Britain. By 1970, there will probably be more than 14,000 installations in Western Europe, and 700 installations in Great Britain. West Germany leads in overseas computing installations with 472 systems, Great Britain is second with 389, and France is third with 342. The biggest market for computers in the future will be in these three countries followed by Italy, the Benelux countries, Scandinavia, Austria, and Switzerland. Of the 14,000 estimated installations by 1970, 10,000 or more are estimated to be small systems, 3,000-4,000 medium-size computers, and 150-250 large-scale computers. The total value of this market should be in the neighborhood of $5 billion. Domestic companies are considered to have a decided advantage in this market, since U. S. technology, sales techniques, programming and computer applications for specific jobs are years ahead of the West Europeans.

According to a recently published estimate, the foreign computer market is shared as follows: IBM — 70%; Sperry Rand — 8%; and two foreign companies, BULL (8%), and International Computers & Tabulators (6%), sharing the rest of the market along with other local firms. In France, there is a sales battle between IBM and Compagnie des Machines BULL, which share almost all of the market in France. BULL is an aggressive firm with excellent government connections. The company has signed a marketing agreement to sell RCA's 301, and in return gets full access to all RCA present and future technical developments.

In West Germany, IBM is well in the lead with over 400 installations. Univac and BULL run a distant second, while the major German firms (Siemens, Telefunken, and Zuse), although selling some systems, lack the sales organization needed for market dominance. The Benelux countries have mainly installed IBM and BULL equipment, with some sales going to NCR (through its Elliott Automation affiliate), and Univac. In Italy, most of the 250 computer installations belong to IBM, with BULL and Olivetti sharing the rest of the market. In Great Britain, International Computers & Tabulators (53 installations), and Ferranti (50 installations), are proving excellent competition for IBM (56 installations).

A tight labor supply and rapidly increasing wages will lead European industries to push toward more automation. Automation means computers, and computers are what U. S. manufacturers have and know how to sell.

C. **Digital Computer Market in 1970:** Industry experts are projecting shipments of $3.0 billion in business and scientific computers

**Computer Manufacturers' Market Share by Machine Types***

| Company | No. of Machines | Percent of Total No. | Machine Value | Percent of Total Value |
|---|---|---|---|---|
| Extra Large: | | | | |
| IBM | 2 | 50.0% | $18,000,000 | 47.0% |
| Sperry Rand | 2 | 50.0 | 20,000,000 | 53.0 |
| Total | 4 | 100.0% | $38,000,000 | 100.0% |
| Large: | | | | |
| IBM | 559 | 83.8% | $999,720,000 | 85.5% |
| Sperry Rand | 4 | 0.7 | 6,500,000 | 0.6 |
| Control Data | 41 | 6.1 | 61,500,000 | 5.3 |
| Minn.-Honeywell | 43 | 6.4 | 64,500,000 | 5.5 |
| Philco | 20 | 3.0 | 36,800,000 | 3.1 |
| Total | 667 | 100.0% | $1,169,020,000 | 100.0% |
| Medium: | | | | |
| IBM | 4,185 | 94.3% | $1,190,875,000 | 86.9% |
| RCA | 78 | 1.8 | 62,400,000 | 4.5 |
| Minn.-Honeywell | 24 | 0.5 | 12,000,000 | 0.9 |
| GE | 50 | 1.1 | 40,000,000 | 2.9 |
| National Cash | 30 | 0.7 | 25,500,000 | 1.8 |
| Burroughs | 55 | 1.2 | 30,800,000 | 2.2 |
| Bendix | 14 | 0.4 | 8,162,000 | 0.8 |
| Total | 4,436 | 100.0% | $1,369,737,000 | 100.0% |
| Small: | | | | |
| IBM | 600 | 25.2% | $57,000,000 | 16.7% |
| Sperry Rand | 524 | 22.0 | 133,705,000 | 39.1 |
| RCA | 121 | 5.1 | 36,300,000 | 10.6 |
| Control Data | 205 | 8.6 | 29,035,000 | 8.5 |
| GE | 555 | 2.3 | 13,750,000 | 4.0 |
| National Cash | 285 | 11.9 | 18,750,000 | 5.5 |
| Burroughs | 22 | 0.9 | 6,600,000 | 1.9 |
| Bendix | 358 | 15.0 | 25,060,000 | 7.3 |
| General Precision | 80 | 3.3 | 8,800,000 | 2.6 |
| Adv. Scien. Inst. | 3 | 0.4 | 360,000 | 0.2 |
| Autonetics | 125 | 5.3 | 12,500,000 | 3.6 |
| Total | 2,378 | 100.0% | $341,860,000 | 100.0% |
| Desk-Size: | | | | |
| IBM | 4,950 | 89.4% | $59,400,000 | 81.8% |
| Burroughs | 140 | 2.6 | 2,800,000 | 3.9 |
| Monroe | 251 | 4.5 | 3,950,000 | 5.4 |
| Packard Bell | 130 | 2.3 | 5,200,000 | 7.2 |
| Clary | 64 | 1.2 | 1,280,000 | 1.7 |
| Total | 5,535 | 100.0% | $72,630,000 | 100.0% |

*Excluding vacuum tube computers.

in 1970, and $2.5 billion in special military computers. The prospects for a $4-7 billion market in 1970 does sot appear overly optimistic in view of growth rates exhibited to date. On this basis, it is estimated that the total cumulative market will grow by 350% in the next eight years, or will increase from $4.5 billion to approximately $20 billion. In view of current machine installations, backlogs, areas of concentration, marketing ability, finances, etc., Exhibit 8 is a prognostication of computer company standings in 1970. IBM should still be the acknowledged leader in the industry, but its share of the market will be less than the 78% which it now commands. This will be the result of a number of factors. As the reliability of machines increases, the offering of service, which has been IBM's strongest selling point, becomes less of an asset. In addition, companies like GE, Philco and Minneapolis-Honeywell, which are large computer users, will start supplying their own company with their respective machines.

For example, next to the government, GE has been the largest customer for IBM, employing over 100 computers. Future marketing strategies will become more sophisticated on the part of manufacturers, and since machines will have approximately the same capabilities, the company which can offer the best package and working relationship to a customer should have an advantage over competition. This is one reason why National Cash and Burroughs should do well in their total systems approach.

It is a tossup for the number two spot by 1970, but based on present progress and the potential of its electronics capabilities, RCA appears to have a slight edge over GE. RCA's backlog is rapidly approaching that of Sperry Rand, so that the number two position could be decided in a few years. GE faces a more difficult task, but should make its big move late 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. Electronic Associates accounts for approximately two-thirds to the three-fourths of the total general-purpose analog computer market, with the remaining sales divided among Beckman Instruments, Systron-Donner and Applied Dynamics.

**Projected Market Share Through 1970***

| Company | Estimated Market Share | Cumulative $ Value of Machine Installations ($ Millions) |
|---|---|---|
| IBM | 60-70% | $9,000-14,000 |
| RCA | 8-10 | 1,200- 2,000 |
| General Electric | 7-10 | 1,050- 2,000 |
| Sperry Rand | 7-10 | 1,050- 2,000 |
| Control Data | 4- 6 | 600- 1,200 |
| National Cash | 4- 6 | 600- 1,200 |
| Burroughs | 3- 5 | 450- 1,000 |
| Minneapolis-Honeywell | 3- 5 | 450- 1,000 |
| Philco | 2- 3 | 300- 600 |
| Others | 1- 2 | 150- 400 |
| | | $15,000-20,000 |

*Based on a potential cumulative dollar value of machine installations approximating $15-$20 billion.

### The Future

As remarkable as the progress has been in computer technology over the past decade, industry experts regard computers at 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-miniaturization and tunnel diodes. These components will not only lower costs, but permit operating speeds measured in nanoseconds, or billionths of a second. Looking further to the future, operating speeds some day may be measured in terms of the speed of light. Today's computers perform 200,000 operations a second. MIT has developed a working model for a new generation of machines which will perform over 2,000,000 computations per second. Future computers will be reduced in size to extend their use to smaller organizations, and reduced in prices and rental charges to increase their markets. Advances made in the peripheral equipment area, such as optical scanners, data communication equipment, and data display systems, will open up new multi-million dollar industries.

Extension of computer applications will come with increased emphasis on real-time systems. In the next decade, direct communications with computers from a point of sale will not only result in order filling, data recording, and inventory control, but could also extend further down the line into bank credits and debits. Credit cards could become inputs to computers through data communications equipment. Commercial banks will have inter-connecting systems which will lead to up-to-the-minute information on bank and customer balances, eliminating a great deal of the float in the banking system. Total management information systems will be possible by communications links between industrial control computers and data processing computers, transforming the industrial complex into one continuous loop of synchronized data flow.

Electronic computers will be a great impetus to technological development, as it broadens man's capabilities and intellect. The day of trial-by-error will soon be history, as the analytical approach provided by simulation techniques will channel efforts to decisions providing the greatest payoff and return. Increased automation and productivity will not only lead to increased profits on the part of overall industry, but 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*

as it was in 1623 when our Pilgrim Fathers changed from the communist to the profit-incentive system. Communism and bureaucracy deaden effort today as they did then. The incentive of profit energizes the individual today as it did then. The profit-incentive system is clearly the winner. Would it not be wise for us to spend more thought and effort in protecting and developing the profit-incentive system? Many people derive their ambition and satisfaction from other than economic causes, but it is the hard work generated by the profit-incentive system that has raised our standards, that brings us economic success. We should be disturbed when we hear theorists or men in government attack or try to control profits. If they understood that profits mean employment, that it is the profit-incentive that has made this country what it is and which alone can make it grow further, they would not talk this way. We have work to do. We must gain a wider understanding of the energizing power of competitive profit-incentive.

We, in the Investment Banking Business, are very familiar with the profit motive. In our modern people's capitalism the word "investor" has been extended to include pension plans, insurance funds, savings banks, insurance companies, as well as individuals. But whether a man invests for an employees' pension plan or for himself, the motive is the same. His incentive is to make a profit on his investment. If he cannot make profits, losses will slowly eat into his capital and he or the employees he represents will be the poorer.

### IBA's Function

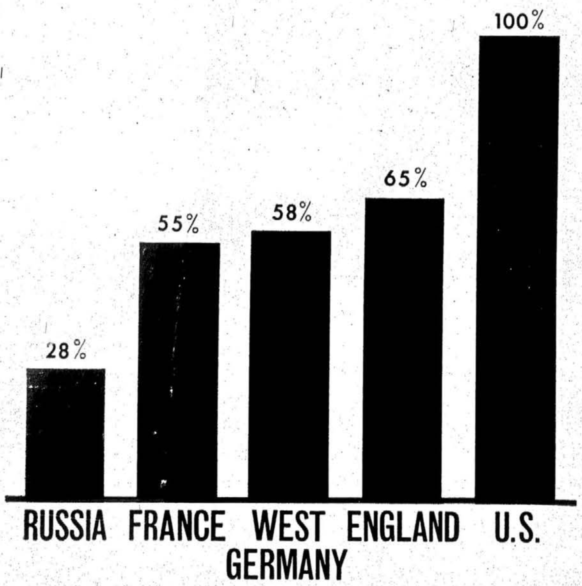
The primary function of the Investment Banking Industry is to channel savings into new enterprise. Here in Chart #2 is shown the work done in the last five years. In 1961, for example, we sold new issues of securities totaling $22,089,000,000. $8,000,000,000 of this was for schools, highways, new municipal and state activities of all kinds. $14,000,000,000 was for corporations—for new plants, new research, new products and, in part, for refunding old securities. 22 billion dollars is too big a figure to talk about or to understand. I would like to analyze two cases, one involving $100,000,000 of new tax exempt securities, one $25,000,000 of foreign securities. In doing so, I am talking about ½ of 1% of the year's work.

The Massachusetts Turnpike Authority had a project to extend the turnpike from the suburbs into downtown Boston, but was unable to raise the funds. Two or three efforts had been made, but the risk and the terms did not satisfy the investors. They could not get the money from state or national sources and the project was dead. A group of investment bankers picked up the problem, arranged some new terms that gave investors the incentive to take the risk of investing. The $100,000,000 was delivered to the Turnpike Authority and the work is now underway. The point of this brief somewhat oversimplified story is in those last four words—"work is now underway." Virtually the entire $100,000,000 will find its way into wages. Men who drive tractors or build tractors, lay concrete or make concrete, will have work. It is estimated that 5,000 men will have direct employment and 6,000 men will have off-the-job employment. Wages, which otherwise might not have been paid, will be

*Continued on page 72*

CHART I

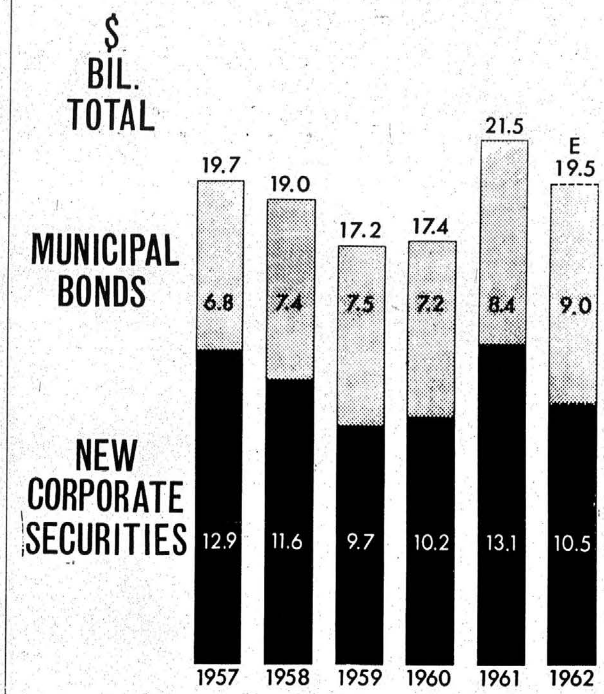
## REAL PER CAPITA STANDARD OF LIVING




Real Per Capita Consumption, including both Private Consumption and Collective Consumption - Milton Gilbert & Associates "Comparative National Products and Price Levels." Morris Bornstein & Associates "Soviet National Accounts For 1955." Both Data Updated by Investments Bankers Association.

CHART II

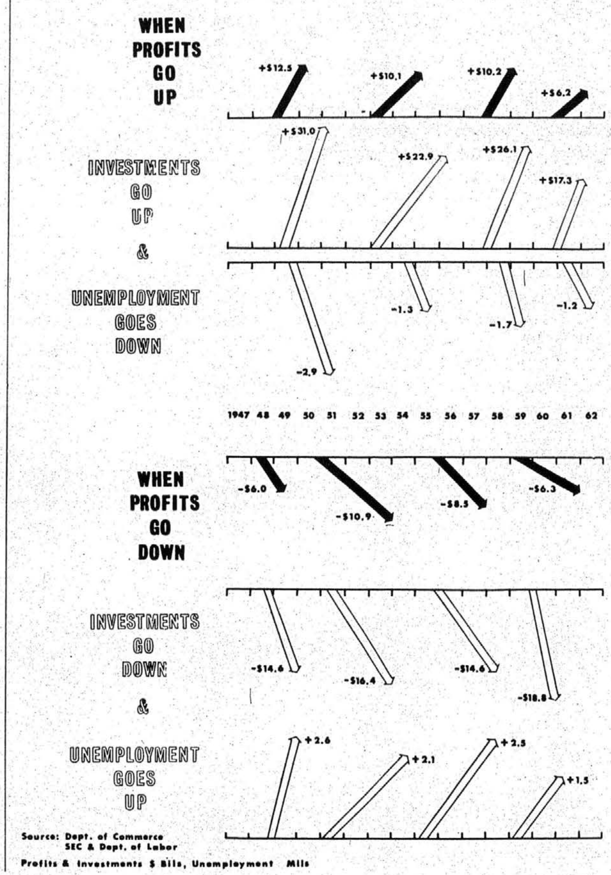
## CORPORATE AND MUNICIPAL SECURITY SALES




SOURCE: I. B. A. and S. E. C.

CHART III

## PROFITS + INVESTMENTS = EMPLOYMENT




*Continued from page 71*

spent for children's clothes and for food.

The other example I would like to cite is that of the Japanese Telephone Company, known as K.D.D. This company wanted to lay a three thousand mile submarine telephone cable from Tokyo to Hawaii which would greatly improve communications between our countries. But American dollar exchange was not available to them. The project did not have a priority claim on capital in Japan and all other possible lenders said "no." An American investment banking firm worked out a plan which gave to American institutional investors a chance to make a profit on their investment and **the work is 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 apiece and one is placed every 30 miles of the cable, so a lot of work is involved—a contribution to the people of Allentown. And, finally, the American Telephone & Telegraph cable laying ship, "The Long Lines," with a crew of 200 American 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 investment—so the relationship between profits—investment and employment is direct and clear.

### Broader Picture

This basic principle of the Free World—that profit attracts investment 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 Commerce keeps a record of Total After Tax Corporate Profits and of Gross Private Domestic Investment and the U. S. Department of Labor keeps a record of Employment and Unemployment. In Chart #3 the records are compared. Four times in the last 15 years, we have had a fairly sharp decrease in profits. These decreases 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 investments as shown by arrows in the middle of the chart and four times we have had a rise in unemployment, as shown by arrows at the foot of the chart. Every time profits after taxes went down, private domestic investment went down, and every time private investment 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 unemployed.

And looking at the other side of the record, four times in the last 15 years profits have gone up; each time new private investment 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 unemployment, is to create a business atmosphere where businessmen will want to expand and hire more people. The only way businesses 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

Governor Bradford was wise enough in 1623 to forsake communism by allowing the incentive of profit to energize his people. We have built a prosperous nation on the 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 communistic country has succeeded in developing standards for their people anywhere near the standards developed by the energy of profit. The lesson is clear. When we hear anyone in government, in labor, in universities, or in business, trying to limit profits, we should realize that this person has failed to understand the record. Let the Communists try to control profits. Profits pay our taxes, support our government, and our schools, but most important they make work for our people, they energize our community. 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. We can be 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 people have come into the business who are not qualified; our over-the-counter markets need better reporting and closer supervision. These problems, and there are others, are very real. Anything that hurts our customers, who are the people of this country, is bad business. We have had a decade of very rapid expansion of our business. That in and of itself is good. But it is time to take a careful look to see what can be done to improve the quality of our business performance.

That is why we welcome the work that is being done by the Securities & Exchange Commission. The so-called Cohen reports 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 country. We work in a gold-fish bowl of steady examination 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 come out of government can be oppressive, deadening to the sound development of our business, and bureaucratic without accomplishing the desired result. The best legislation and the best governmental rules are those which have been subjected to the critical scrutiny of both industry and government, and where important differences have been reconciled.

Therefore, I would like to close with two pledges. The first is to the Securities and Exchange Commission and to Bill Carey: that we in the IBA feeling strongly the importance of doing business on the highest standards will do everything that we can to support high standards, and to back constructive rules and legislation.

The second pledge is to the industry: that we in the IBA, will marshall our keenest minds to scrutinize and suggest practical modification of any proposed rules or legislation to the end that the final product will be, in fact, constructive and in the public interest.

*Acceptance speech of Mr. Ames on assuming office of President of the IBA at Hollywood, Fla., Nov. 29, 1962.

# 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 assume a normal 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 be 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 such 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 contracting 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 fundamental to preserving his right to make a profit.

### Renegotiation

Wider use of the incentive contract would be one step toward allowing defense industry to function in a free environment more nearly comparable to that enjoyed by other American industries. But it will not do this unless the balance of the defense area moves along in the same direction. This is particularly true of renegotiation. The company 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, the National interest is involved. England and France are jointly embarked 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 has been 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 strictly military grounds is made difficult in view of the controversy, over the RS-70. However, there is ample 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 permit, to plan for amortization 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.

### Summary

Sales of the aerospace industry already approach those of the automotive industry and are growing. "Fortune," in its June issue, refers to estimates of NASA and military aerospace spending of upwards of $20 billion a year by 1970, or around twice the total annual operating revenues of all U. S. railroads.

Understandably, satellites, space craft and missiles have captured the public interest with the result that the extent of current and future demand for manned aircraft to meet many strategic, tactical or logistic requirements is not, perhaps, widely known or 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.

All 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 and varied research facilities, will surely flow many benefits both dramatic and prosaic in nature which will affect markedly the lives of this and succeeding generations.

It is hoped that the creative forces of the free enterprise system will continue to operate to 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 in-

*Continued on page 74*

| Fiscal Years Ended 6/30 | Department of Defense: Aircraft Procurement | Department of Defense: Missile Procurement | Department of Defense: Research, Development Test and Evaluation | National Aeronautics and Space Administration: Research, Development and Construction Expenditures | Total |
|---|---|---|---|---|---|
| | (Millions of Dollars) | | | | |
| 1963 Est. | $5,568 | $3,899 | $6,650 | $2,500 | $18,617 |
| 1962 | 6,325 | 3,602 | 6,234 | 1,257 | 17,418 |
| 1961 | 5,898 | 2,972 | 6,131 | 744 | 15,745 |
| 1960 | 6,272 | 3,027 | 4,710 | 401 | 14,410 |
| 1959 | 7,730 | 3,337 | 2,866 | 145 | 14,078 |
| 1958 | 8,793 | 2,434 | 2,504 | 89 | 13,820 |
| 1957 | 8,647 | 1,855 | 2,406 | 76 | 12,984 |
| 1956 | 7,835 | 1,005 | 2,101 | 71 | 11,012 |
| 1955 | 8,804 | 604 | 2,261 | 74 | 11,743 |
| 1954 | 9,080 | 417 | 2,187 | 90 | 11,774 |
| 1953 | 8,189 | 245 | 2,148 | 79 | 10,661 |

Source: Department of Defense; National Aeronautics and Space Administration.

TABLE I

DOMESTIC TRUNK AIRLINES

Industry Operating Statement

| | Operating Revenues | Operating Expenses | Net Operating Income | Non-Operating Income | Income Before Income Taxes | Income Taxes | Net Income | Rate of Return (1) on Investment |
|---|---|---|---|---|---|---|---|---|
| | (000,000) | | | | | | | |
| **6 Months** | | | | | | | | |
| 1962 | $1,125.5 | $1,101.7 | $ 23.8 | $(25.6) | $ (1.8) | $ 6.8 | $ (8.6) | - |
| 1961 | 979.0 | 976.0 | 3.0 | (16.1) | (13.1) | (2.8) | (10.3) | - |
| **Year** | | | | | | | | |
| 1961 | $2,026.4 | $2,020.2 | $ 6.2 | $(50.9) | $(44.7) | $(9.9) | $(34.8) | 1.3% |
| 1960 | 1,942.6 | 1,907.7 | 34.9 | (16.6) | 18.3 | 18.2 | .1 | 2.8 |
| 1959 | 1,798.6 | 1,693.4 | 105.2 | 9.6 | 114.8 | 53.1 | 61.7 | 7.1 |
| 1958 | 1,513.3 | 1,418.2 | 95.1 | (5.6) | 89.5 | 44.7 | 44.8 | 6.5 |
| 1957 | 1,419.6 | 1,377.5 | 42.1 | 8.0 | 50.1 | 23.1 | 27.0 | 4.8 |
| 1956 | 1,262.8 | 1,162.2 | 100.6 | 14.1 | 114.7 | 56.8 | 57.9 | 9.6 |
| 1955 | 1,132.2 | 1,009.6 | 122.6 | 10.4 | 133.0 | 70.0 | 53.0 | 11.9 |

(1) Net income before interest and after taxes as percent of net worth and long term debt.

Source: Air Transport Facts and Figures.

TABLE II

U. S. INTERNATIONAL TRUNK AIRLINES

Industry Operating Statement

| | Operating Revenues | Operating Expenses | Net Operating Income | Non-Operating Income | Income Before Income Taxes | Income Taxes | Net Income | Rate of Return (1) on Investment |
|---|---|---|---|---|---|---|---|---|
| | (000,000) | | | | | | | |
| **6 Months** | | | | | | | | |
| 1962* | $ 374.1 | $ 354.1 | $ 20.0 | $ (9.9) | $10.1 | $ 4.4 | $ 5.7 | - |
| 1961 | 324.3 | 325.5 | (1.2) | (9.0) | (10.2) | (4.3) | (5.9) | - |
| **Year** | | | | | | | | |
| 1961 | $ 724.6 | $ 685.7 | $ 38.9 | $ (31.8) | $ 7.1 | $ 8.3 | $ (1.2) | 3.2% |
| 1960 | 684.7 | 639.5 | 45.2 | (10.7) | 34.5 | 18.8 | 15.7 | 4.0 |
| 1959 | 592.2 | 573.6 | 18.6 | 5.1 | 23.7 | 10.5 | 13.2 | 3.8 |
| 1958 | 530.9 | 519.6 | 11.3 | 2.1 | 13.4 | 5.8 | 7.6 | 3.2 |
| 1957 | 508.8 | 480.5 | 28.3 | 5.4 | 33.7 | 13.5 | 20.2 | 7.5 |
| 1956 | 471.2 | 436.3 | 34.9 | 3.2 | 38.1 | 18.3 | 19.8 | 7.8 |
| 1955 | 398.4 | 380.5 | 17.9 | 3.7 | 21.6 | 10.1 | 11.5 | 6.2 |

(1) Net income before interest and after taxes as percent of net worth and long term debt.

Source: Air Transport Facts and Figures.

# Report of IBA Aviation Securities Committee

Continued from page 73

terests of both the taxpayer and investor be served.

### The Air Transportation Industry

It would be difficult if not impossible to find an industry which has grown as rapidly as the air transportation industry and provided such meager returns to its owners. That an industry as important to the economy and security of the country can have had such a poor earnings record is primarily the result of the combination of excessive regulation by the Civil Aeronautics Board and overoptimism on the part of many managements.

#### Recent Earnings Record

A glance at Tables I and II shows that operating revenues of the major airlines nearly doubled between 1955 and 1961 but that earnings declined precipitously so that in 1961 losses were incurred in both domestic and international operations. Earnings improved only moderately in the first half of 1962 despite a substantial increase in revenues.

The earnings record of the domestic trunk airline is in sharp contrast to the "fair and reasonable" rates of return on investment determined by the CAB at 10¼% for the "big four" and 11⅛% for the balance of the industry in the Board's 1960 decision in the General Passenger Fare Investigation.

There are several reasons for the very poor earnings performance of these carriers in the last few years:

(1) The Civil Aeronautics Board began in 1955 a policy of certificating multiple competition in major domestic markets. Unfortunately, most of these markets could not efficiently support this additional competition. Internationally, foreign carriers have been allowed rather free access to lucrative U. S. markets resulting in a decline in the percentage of total international traffic carried by U. S. flag carriers.

(2) Traffic growth has lagged behind the increases in capacity resulting from the current jet reequipment program. As a result, industry load factors declined from 1959 through 1961, as shown on Tables III and IV. Load factors in international operations rose slightly in the first half of 1962, while domestic load factors continued to decline. The breakeven load factor in both domestic and international operations has been declining since 1959.

(3) Until 1958 the domestic airlines were unable to secure much-needed general fare increases. Beginning in 1958 a succession of passenger fare increases, aggregating about 25%, were instrumental in keeping the industry from reporting even lower earnings. Higher fares have accelerated the trend away from first class service to lower - priced coach. Nevertheless, the yield rose sharply from 1958 to 1961. Internationally, institution of lower priced economy fares has been offset by surcharges on jet travel so yields have remained relatively stable. Table V shows the trend of revenues on a ton mile basis.

(4) The high costs of introducing new jet aircraft (including crew training, vastly increased depreciation and other costs associated with starting up operations with large fleets of expensive and complicated jet aircraft) combined to moderately increase unit costs in domestic operations until 1961, as shown in Table VI. Unit costs are now declining rapidly as a result of phasing out of service less efficient piston engine transports. Internationally, unit costs have been declining since 1959, partly because of the long average haul in international operations for which the jets are so admirably suited.

(5) Non-operating items (see Table VII), which used to contribute to income, have become an important charge to earnings. Capital gains from sales of equipment are now largely a thing of the past because of the large quantities of obsolete used aircraft on the market. The other principal non-operating item is interest on long term debt, which used to be a minor expense but has now become a heavy burden to most trunk airlines. Most of the new jet fleets were financed largely by means of long term debt.

#### Financial Position

The deterioration of the industry's financial position can be seen from Table VIII. From the end of 1955 to the middle of 1962 working capital of the domestic trunk airlines rose 12%, net fixed assets rose 304%, long term debt rose 629% and net worth rose 41%. The debt equity ratio rose from .39 to 1 to 2.03 to 1.

Table IX shows depreciation and amortization and net income of the domestic trunklines. 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 capacity to be added in 1963 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 is relatively firm both domestically and internationally. Unit costs 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 charges. Net earnings should rise in 1963. 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 beneficially affect earnings of these carriers.

#### Mergers

There has been considerable discussion in the past two 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

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TABLE III

**DOMESTIC TRUNK AIRLINES**

**Traffic, Capacity and Load Factors**

| | Revenue Ton Miles (000,000) | % Increase From Previous Year | Available Ton Miles (000,000) | % Increase From Previous Year | Ton Mile Load Factor | Breakeven Ton Mile Load Factor |
|---|---|---|---|---|---|---|
| 6 Months | | | | | | |
| 1962 | 1,869.5 | 14.5% | 4,016.4 | 20.5% | 46.5% | 45.5% |
| 1961 | 1,632.9 | | 3,333.1 | | 49.0 | 48.8 |
| Year | | | | | | |
| 1961 | 3,435.2 | 3.1% | 7,176.2 | 9.0% | 47.9% | 47.8% |
| 1960 | 3,332.5 | 5.2 | 6,582.8 | 10.6 | 50.6 | 49.7 |
| 1959 | 3,166.8 | 15.1 | 5,949.3 | 14.6 | 53.2 | 50.1 |
| 1958 | 2,750.9 | 1.1 | 5,190.1 | 0.8 | 53.0 | 49.7 |
| 1957 | 2,720.0 | 11.1 | 5,150.4 | 17.2 | 52.8 | 51.2 |
| 1956 | 2,452.4 | 11.2 | 4,393.2 | 13.2 | 55.8 | 51.4 |
| 1955 | 2,189.4 | - | 3,880.1 | - | 56.4 | 50.3 |

Source: Air Transport Facts and Figures.

TABLE IV

**U. S. INTERNATIONAL TRUNK AIRLINES**

**Traffic, Capacity and Load Factors**

| | Revenue Ton Miles (000,000) | % Increase From Previous Year | Available Ton Miles (000,000) | % Increase From Previous Year | Ton Mile Load Factor | Breakeven Ton Mile Load Factor |
|---|---|---|---|---|---|---|
| 6 Months | | | | | | |
| 1962 | 732.0 | 17.8% | 1,315.0 | 14.3% | 55.7% | 52.7% |
| 1961 | 621.3 | | 1,150.6 | | 54.0 | 54.2 |
| Year | | | | | | |
| 1961 | 1,362.4 | 5.6% | 2,468.8 | 15.3% | 55.2% | 52.2% |
| 1960 | 1,290.6 | 11.3 | 2,140.9 | 20.7 | 60.3 | 56.3 |
| 1959 | 1,159.2 | 15.9 | 1,773.4 | 9.8 | 65.4 | 63.4 |
| 1958 | 999.9 | 5.9 | 1,614.5 | 9.4 | 61.9 | 60.6 |
| 1957 | 944.1 | 6.3 | 1,475.5 | 9.3 | 64.0 | 60.4 |
| 1956 | 888.5 | 26.0 | 1,349.8 | 23.7 | 65.8 | 60.9 |
| 1955 | 705.4 | - | 1,091.6 | - | 64.6 | 61.7 |

Source: Air Transport Facts and Figures.

TABLE V

**DOMESTIC AND INTERNATIONAL TRUNK AIRLINES**

**Operating Revenue Per Revenue Ton Mile**

| | Domestic Trunks | International and Territorial |
|---|---|---|
| 6 Months | | |
| 1962 | 60.20¢ | 51.11¢ |
| 1961 | 59.95 | 52.20 |
| Years | | |
| 1961 | 58.99¢ | 53.19¢ |
| 1960 | 58.29 | 53.05 |
| 1959 | 56.80 | 51.09 |
| 1958 | 55.01 | 53.10 |
| 1957 | 52.19 | 53.89 |
| 1956 | 51.49 | 53.03 |
| 1955 | 51.71 | 56.48 |

Source: Air Transport Facts and Figures.

TABLE VI

**DOMESTIC AND INTERNATIONAL AIRLINES**

**Operating Expenses Per Available Ton Mile**

| | Domestic Trunks | International and Territorial |
|---|---|---|
| 6 Months | | |
| 1962 | 27.43¢ | 26.93¢ |
| 1961 | 29.28 | 28.29 |
| Years | | |
| 1961 | 28.15¢ | 27.78¢ |
| 1960 | 28.98 | 29.87 |
| 1959 | 28.46 | 32.35 |
| 1958 | 27.32 | 32.18 |
| 1957 | 26.75 | 32.57 |
| 1956 | 26.45 | 32.32 |
| 1955 | 26.02 | 34.86 |

Source: Air Transport Facts and Figures.

TABLE VII

**DOMESTIC AND INTERNATIONAL AIRLINES**

**Non-Operating Income (Expense)**

| | Domestic Trunks | | | International and Territorial | | |
|---|---|---|---|---|---|---|
| | Interest | Other Items | Total | Interest | Other Items | Total |
| | (000,000) | | | (000,000) | | |
| 6 Months | | | | | | |
| 1962 | $(34.6) | $ 9.0 | $(25.6) | $(12.6) | $ 2.7 | $(9.9) |
| 1961 | (29.6) | 13.5 | (16.1) | (11.8) | 2.8 | (9.0) |
| Years | | | | | | |
| 1961 | $(58.6) | $ 7.7 | $(50.9) | $(24.4) | $(7.4) | $(31.8) |
| 1960 | (44.0) | 27.4 | (16.6) | (16.9) | 6.2 | (10.7) |
| 1959 | (32.4) | 22.8 | 9.6 | (8.8) | 13.9 | 5.1 |
| 1958 | (24.5) | 30.1 | (5.6) | (6.2) | 8.3 | 2.1 |
| 1957 | (16.3) | 24.3 | 8.0 | (5.2) | 10.6 | 5.4 |
| 1956 | (10.2) | 24.3 | 14.1 | (3.5) | 6.7 | 3.2 |
| 1955 | (6.9) | 17.3 | 10.4 | (2.7) | 6.4 | 3.7 |

Source: Air Transport Facts and Figures.

*Continued from page 74*

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,*
AVIATION SECURITIES COMMITTEE

**Richard W. Millar, Chairman**
William R. Staats & Co.
Los Angeles, Calif.

**Richard W. Courts**
Courts & Co.
Atlanta, Ga.

**William A. Forrester, Jr.**
Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, N. Y.

**Walter M. Giblin**
Glore, Forgan & Co.
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**William Barclay Harding**
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**James P. Mitchell**
The Chase Manhattan Bank
New York, N. Y.

**Edward J. Morehouse**
Harriman Ripley & Co., Inc.
New York, N. Y.

**Norman W. Stewart**
F. S. Smithers & Co.
New York, N. Y.

TABLE VIII DOMESTIC TRUNKLINE INDUSTRY BALANCE SHEET

(000)

| | | June 30, 1962 | | December 31, 1955 |
|---|---|---|---|---|
| Current Assets | | $ 750,358 | | $ 436,609 |
| Current Liabilities | | 572,037 | | 277,037 |
| Working Capital | | $ 178,321 | | $ 159,572 |
| Fixed Assets | $3,265,069 | | $1,044,199 | |
| Reserve for Depreciation | 1,323,802 | | 563,911 | |
| Net Fixed Assets | | 1,941,267 | | 480,288 |
| Other Assets | | 227,292 | | 86,441 |
| | | $2,346,880 | | $ 726,301 |
| Less: Non-Current Liabilities and Deferred Credits | | 183,914 | | 23,248 |
| Net Assets | | $2,162,966 | | $ 703,053 |
| Represented by: | | | | |
| Long Term Debt | | $1,449,899 | | $ 198,915 |
| Preferred Stock | | 33,593 | | 29,788 |
| Common Stock & Surplus | | 679,474 | | 474,350 |
| Total Capitalization | | $2,162,966 | | $ 703,053 |

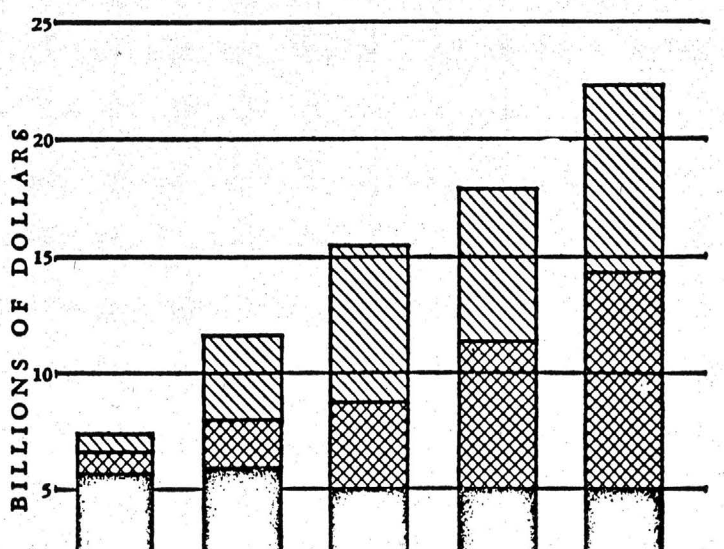
Source: Air Transport Facts and Figures.

TABLE IX DOMESTIC TRUNK AIRLINES

| Year | Depreciation & Amortization | Net Income | Total Cash Earnings* |
|---|---|---|---|
| | (000,000) | | |
| 1961 | $252.5 | $(34.8) | $217.7 |
| 1960 | 217.1 | 0.1 | 217.2 |
| 1959 | 171.7 | 61.7 | 233.4 |
| 1958 | 139.3 | 44.8 | 184.1 |
| 1957 | 147.0 | 27.0 | 174.0 |
| 1956 | 106.3 | 57.9 | 164.2 |
| 1955 | 101.7 | 63.0 | 164.7 |

* Excludes "cash earnings" arising from deferred income taxes.

Source: Air Transport Facts and Figures.




# Report of IBA Oil, Natural Gas Securities Committee

*Continued from page 35*

be gradually reduced to a point where it would be reasonable to expect considerably firmer prices for both crude oil and products. Under these conditions, profit margins would be materially wider, and reported earnings probably would be substantially above current levels. Furthermore, the financing requirements of the industry under these conditions could also be considerably changed. Eventually, with demand continuing to grow, a major expansion program will become necessary. At that time, cash generated within the industry may not be adequate to meet both the increased capital expenditures and a higher level of dividend payments.

### International Oil Industry

Oil is now supplying over 40% of the Free World's energy requirements and long range studies indicate that its proportion of the market will continue to grow for many years in the future. The growth of energy consumption in the Free World as set forth in a recent study by The Chase Manhattan Bank is expected to be on the order of 4% compounded annually during the 1960-1970 decade. By 1970 total energy consumption in the Free World may exceed the equivalent of 65 million barrels of oil daily, an increase of 41% from actual 1961 consumption of 46 million b/d. Table V shows a breakdown of the primary energy market for the years 1961 and 1970. Significant is the continued displacement of coal by oil and gas.

**TABLE V**
**Free World Consumption of Primary Energy**

| | 1961 Actual | 1970 Estimated |
|---|---|---|
| Oil | 44% | 46% |
| Natural Gas | 16 | 20 |
| Coal | 32 | 26 |
| Water Power* | 8 | 8 |
| | 100% | 100% |

*Includes nuclear power.

**Demand**

The growth of oil demand in the Free Foreign World will be quite dynamic in the 1960-1970 decade. All areas of the Free World outside the United States are experiencing a rapid population growth, which should add some 250 million people by 1970. At the same time, all 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 typical, the automobile is sure to crowd the scene where 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 a decade ago. But in the Free Foreign World the ratio has been reduced from 120 persons per car in 1959 to 52 in 1960 and can obviously go much further. In Western Europe the increase in automobiles is even more dramatic—the ratio of persons per car decreasing from 47 in 1950 to 15 in 1960. In view of the expected rapid population growth, the anticipated improved standard of living, and 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 Foreign World.

Various studies indicate that the consumption of energy in the Free Foreign 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 49%. As a result, the consumption of oil in the Free Foreign World is expected 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 2.5-3.0% annually but the volumetric increment 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 Lybia have added to the oversupply recently, it should be remembered that exploration in these two areas began many years ago. Yet today, Algeria is producing some 460,000 barrels daily and Lybia 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

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Mr. & Mrs. J. B. Sanford, Jr., *Hattier & Sanford*, New Orleans; Louis H. Schmidt, *Evans & Co. Incorporated*, New York

Mr. & Mrs. Stewart A. Dunn, *C. J. Devine & Co.*, New York; Robert Rivel, *Chase Manhattan Bank*, New York

# Report of IBA Oil, Natural Gas Securities Committee

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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 250 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 by 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 consuming country 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.

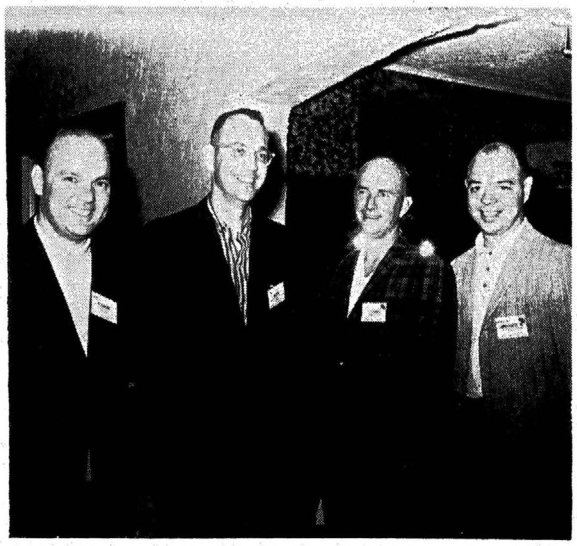
**Getting Oil to Market**

Obviously, the Free World as a whole has more than ample reserves to fulfill current demand. Yet, to move those 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) totalled 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

John G. Parsons, *Fidelity Philadelphia Trust Company*, Philadelphia; G. Robert Brooks, *Schmidt, Roberts & Parke*, Philadelphia; T. Anthony Coculo, *Fidelity Philadelphia Trust Company*, Philadelphia



Edwin J. Kleiman, *Vilas & Hickey*, New York; Frank E. Block, *Citizens & Southern National Bank*, Atlanta; R. Ellis Godshall, *Clement A. Evans & Co. Incorporated*, Atlanta; Beverly W. Landstreet III, *Clark, Landstreet & Kirkpatrick*, Nashville, Tenn.

Jerome C. Hunsaker, Jr., *Colonial Distributors Inc.*, Boston; J. Wells Coggeshall, *Colonial Distributors, Inc.*, St. Petersburg, Fla.; Edwin J. Kleiman, *Vilas & Hickey*, New York; Royden E. Jacobus, *Vilas & Hickey*, New York

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 3% of the then anticipated Free World total demand and leave ample opportunity for the private companies to provide ever-increasing 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 Rusians have often failed to deliver the quantities for which they bartered. 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 825,000 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, so far in 1962, Russian oil exports have not expanded appreciably.

**Financial**

Capital expenditures for petroleum facilities in the Free World approximated $10.4 billion in 1961, slightly below the estimated outlay of $10.5 billion in 1960. Capital expenditures outside the United States amounted to $5.3 billion in 1961, or more than half the Free World total. Gross fixed assets at the end of 1961 amounted to $112 billion, of which some $61 billion, or 54%, was 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 con-

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Mr. & Mrs. Elliott H. Stein, *Scherck, Richter Company*, St. Louis; Joseph F. Lockett, *Townsend, Dabney & Tyson*, Boston; Bert Horning, *Dempsey-Tegeler & Co., Inc.*, St. Louis

E. M. Bancroft, *Stranahan, Harris & Co.*, Toledo; Herbert D. Hunter, *Watling, Lerchen & Co.*, Detroit; Allan Weintraub, *Bear, Stearns & Co.*, New York

# Report of IBA Oil, Natural Gas Securities Committee

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tinue 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 provided 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 1958 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 regulationg 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 base 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

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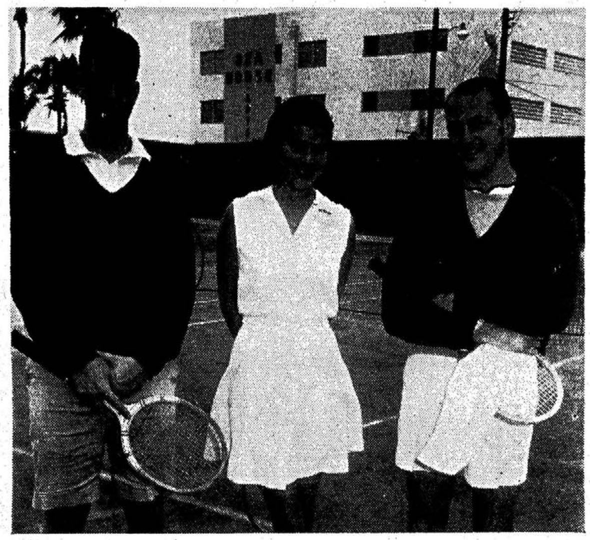

Mr. & Mrs. Fred S. Wonham, *G. H. Walker & Co.*, New York; Graham E. Jones, *Burnham and Company*, New York

Mr. & Mrs. James I. Crampton, *Security First National Bank*, Los Angeles; Carl F. Cooke, *First Boston Corporation*, New York

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 50 major pipeline rate cases, and large refunds have been made to the distributing companies. Most of the rate settlements 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, 1962, involving the consolidated rate proceedings of El Paso Natural Gas Company, the Commission ordered a 6⅛% return on the overall rate base without any additional element of return on producing facilities. El Paso had requested a 6½% return on pipeline property and a 9½% return on producing property. The fact 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%-11% regardless of the degree of leverage in the capital structure. From the third quarter of 1960 to the first quarter of 1962 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*

Richard O. Arneson, *Dittmar & Company, Inc.*, San Antonio; J. R. Burkholder III, *Almstedt Brothers*, Louisville, Ky.; A. Lowrie Applegate, *Hulme, Applegate & Humphrey, Inc.*, Pittsburgh; Gerald D. Wyatt, *A. E. Masten & Company*, Pittsburgh

Ernest O. Dorbritz, *Moore, Leonard & Lynch*, Pittsburgh; Robert M. Clark, *Blunt Ellis & Simmons*, Chicago; Henning Hilliard, *J. J. B. Hilliard & Son*, Louisville; Carl Wilson, *Robert W. Baird & Co. Incorporated*, Milwaukee

W. Yost Fulton, *Fulton, Reid & Co., Inc.*, Cleveland; Alan H. Bede, *Cruttenden, Podesta & Miller*, New York; Joseph W. Powell, *Boston Capital Corporation*, Boston; Robert A. Girmscheid, Jr., *Investment Bankers Association*, Washington, D. C.

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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 prices of 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 800,000 new customers, bringing the total served to 33.8 million. Total revenues increased 6.7% 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 267.7 trillion cubic feet as of Dec. 31, 1961. Net production during the year was 13.5 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 42% in 1962-65, while transmission expenditures are estimated to decline from 43% of the industry total in 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

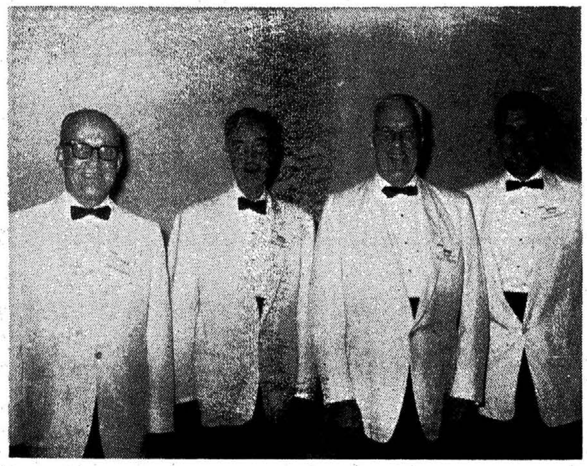
**TABLE VI**

**Gas Utility and Pipeline Construction Expenditures By Type of Facility**

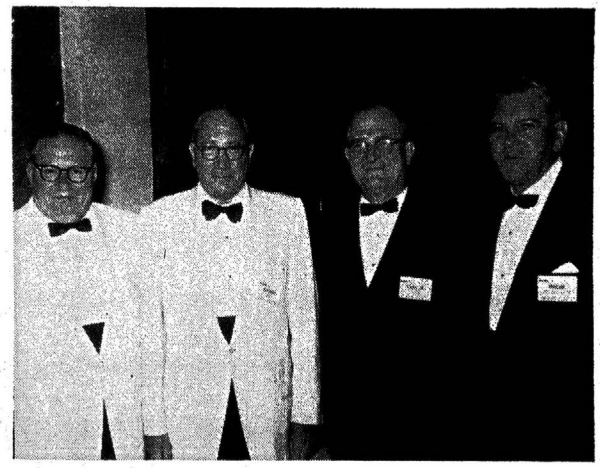
| | 1958-1961 Actual Million $ | 1958-1961 Actual % of Total | 1962-1965 Estimated Million $ | 1962-1965 Estimated % of Total |
|---|---|---|---|---|
| Distribution | 2,567 | 37 | 3,081 | 42 |
| Transmission | 2,911 | 43 | 2,540 | 34 |
| Production and Storage | 774 | 11 | 1,062 | 14 |
| Underground Storage | 266 | 4 | 301 | 4 |
| General | 335 | 5 | 467 | 6 |
| Total Industry | 6,853 | 100 | 7,451 | 100 |

SOURCE: American Gas Association, Gas Facts—1962.

Richard F. Mulligan, *Robert Garrett & Sons*, Baltimore; Allan A. Ryan, *Smith, Barney & Co.*, New York; Frank J. Gurcak, *Thomas & Company*, Pittsburgh; James Ross Todd, *W. L. Lyons & Co.*, Louisville



G. Robert Brooks, *Schmidt, Roberts & Parke*, Philadelphia; Allen M. Terrell, *Girard Trust Corn Exchange Bank*, Philadelphia; Arthur S. Friend, *Folger, Nolan, Fleming & Co.*, Washington, D. C.; Charles J. Martin, *Folger, Nolan, Fleming & Co.*, Washington, D. C.



Thomas E. Feeley, *Goodbody & Co.*, New York City; Richard K. Buechler, *E. F. Hutton & Co., Incorporated*, New York; Mark A. Lucas, Jr., *E. F. Hutton & Co., Incorporated*, Kansas City, Mo.; Thomas P. Phelan, *Pacific Coast Stock Exchange*

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 76% of gas utility issues were debt securities, 9% preferred stock, and 15% common stock.

**Pipeline and Distribution Company Common Stocks**

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 5.43% to its present level of 3.63%. 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, 1962, 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 90,000 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 prospects 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 50,000 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*

John W. Turner, *Eppler, Guerin & Turner, Inc.*, Dallas; Edde K. Hays, *Dean Witter & Co.*, Chicago; Mr. & Mrs. Marsom B. Pratt, *Estabrook & Co.*, Boston

Mr. & Mrs. Albert T. Armitage, *Coffin & Burr*, Boston; Mr. & Mrs. William M. Adams, *Braun, Bosworth & Company Incorporated*, Detroit

Albert E. Gummersbach, *Dempsey-Tegeler & Co., Inc.*, St. Louis; Mrs. & Mr. Richard C. Swagler, *First Alabama Securities Inc.*, Birmingham; Bert Horning, *Dempsey-Tegeler & Co., Inc.*, St. Louis

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over two years ago, and this has fostered major expansion in natural gas output.

In western Alberta and northeastern British Columbia new lines have been completed that are supplying gas to California and Wisconsin. These and larger loads in older lines have been responsible for the increased gas production, as shown in Table IX. It appears that Canadian gas production will reach 3 billion cubic feet per day by 1965, assuming some further increases in exports.

**Natural Gas Liquids**

Accompanying the rise in natural 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 rise to 3.1 billion cubic feet per day at the end of this year and may reach 3.9 billion cubic feet in 1961. Further, it is expected to per day in 1963. Such expansion pushed the capacity for production of liquid hydrocarbons from 58,000 b/d in 1960 to 85,000 b/d in 1961, and it may reach 112,000 b/d by the end of this year. Most of these plants are emphasizing the production of condensate (pentanes plus) for which there is an adequate market and minimizing the output of LPG's and sulphur that are in surplus supply.

**Exploration**

Significant changes by the provincial government of Alberta in certain laws governing allowables, spacing requirements and leasing terms are also having a favorable effect on the Canadian oil industry. Under the new allowable system, the more prolific fields have been awarded a larger share of the market at the expense of marginal discoveries. In addition, 160-acre spacing has been adopted for all new fields which represents significant savings in costs over 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 exploration activity of the industry in Alberta.

For several years there have been no really significant discoveries of new oil in Canada. Reserve growth has been fostered mainly by expansion and waterflooding of existing fields. In 1961 new discoveries added only 23 million barrels to Canadian reserves of crude and liquids, while revisions and extensions were responsible for 744 million barrels.

**Refining**

Significant refinery expansion is under way in the province of Ontario. In order to consume more Canadian crude, about 56,000 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 Imperial and a Texaco affiliate's 9,000 b/d plant at Port Credit. Major impetus will be gained by this program when Shell opens a 31,000 b/d refinery at Toronto in the middle of 1963. At that time, the Trans-Northern Pipeline, which now carries products from Montreal to Toronto, will change its operations. Part of the line will carry products produced from 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 undergoing strains similar to those in the United States. Price wars are plaguing the country, and a return to more normal marketing practices does not appear likely over the near term.

**Financial**

Devaluation has played a significant 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 became 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 companies. The offer of Shell of Canada for Canadian Oil Companies, Ltd. and British American's offers for both Royalite and Superior Propane are examples of this trend. In addition, Calgary & Edmonton, Tidal Petroleum, Canadian Chieftain, Scurry-Rainbow, and Westburne Oil are all involved in negotiations of one sort or another. We would expect this trend to continue for some time.

Another important development is that all larger Canadian companies have matured to the point where they are able to supply their cash requirements from funds generated internally, without dependence upon outside capital. And another trend is that wholly-owned Canadian subsidiaries of United States or foreign corporations are selling a portion of their equity to Canadian investors. These sales are encouraged by the Canadian government with the aim of having their citizens participate in the business expansion and prosperity of the country.

As a result of the enactment of the National Oil Policy, the outlook for Canadian oil stocks appears more promising than it has in the past. Instead of reporting substantial losses due usually to noncash charges and drilling expenses, many of the relatively strong independents are now operating 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 Producing Industry

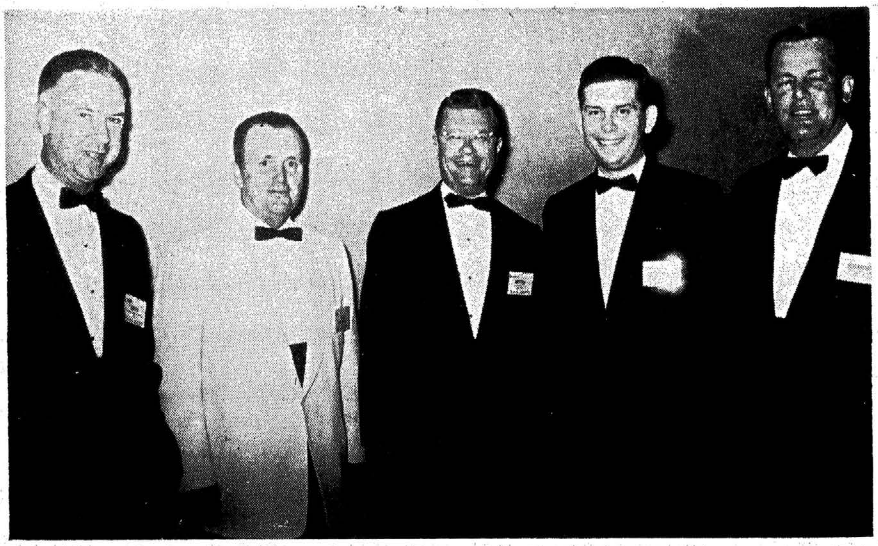
The first body of water over which extensive exploration, development, production and transportation of oil took place was Lake Maracaibo, Venezuela, com-

**TABLE VII**
**Moody's Natural Gas Common Stock Averages 1957 - 1962**

| | Market Price | Dividend Rate | Yield |
|---|---|---|---|
| 10 Transmission Stocks— | | | |
| 1957 | $52.00 | $2.28 | 4.44% |
| 1958 | 54.69 | 2.41 | 4.44 |
| 1959 | 59.06 | 2.45 | 4.17 |
| 1960 | 57.90 | 2.67 | 4.61 |
| 1961 | 64.28 | 2.83 | 4.40 |
| March, 1962 | 67.76 | 2.83 | 4.18 |
| June, 1962 | 56.22 | 2.85 | 5.07 |
| November 2, 1962 | 53.51 | 2.39 | 4.47 |
| 10 Distribution Stocks— | | | |
| 1957 | $27.49 | $1.49 | 5.43% |
| 1958 | 33.20 | 1.53 | 4.65 |
| 1959 | 39.88 | 1.63 | 4.09 |
| 1960 | 42.89 | 1.79 | 4.19 |
| 1961 | 59.36 | 1.91 | 3.22 |
| March, 1962 | 65.64 | 2.01 | 3.06 |
| June, 1962 | 53.38 | 2.01 | 3.77 |
| November 2, 1962 | 55.36 | 2.01 | 3.63 |

SOURCE: Moody's Investors Service, Inc.

William A. Devlin, *Reynolds & Co.*, New York; E. William Darmstatter, *Stifel, Nicolaus & Company, Incorporated*, St. Louis



J. Philip David, *Schneider, Bernet & Hickman, Inc.*, Dallas; Ralph Elam, *Sweney Cartwright & Co.*, Columbus, Ohio; Wilson A. Britten, *Calvin Bullock, Ltd.*, New York; Richard A. Smith, *Filor, Bullard & Smyth*, New York City; Allan B. Bogardus, *Watling, Lerchen & Co.*, New York

Andrew G. Weeks, *Vance, Sanders & Co.*, St. Louis; Thomas H. Shockey, *Hutchinson, Shockey & Co.*, Chicago

mencing in the 1930'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 productiion 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.

**TABLE VIII**

**Total Canada Supply and Demand**

**Crude Oil, Natural Gas Liquids and Products**

| | Thousands of Barrels Per Day | | |
|---|---|---|---|
| | Actual | —Estimated— | |
| | 1961 | 1962 | 1963 |
| Production— | | | |
| Crude Oil | 604 | 672 | 716 |
| Pentanes Plus | 24 | 52 | 69 |
| Total | 628 | 724 | 785 |
| Less Exports | 183 | 232 | 256 |
| For Domestic Markets | 445 | 492 | 529 |
| Crude Imports | 365 | 375 | 369 |
| Total Supply | 810 | 867 | 898 |
| Inventory—Increase or (decrease) | 5 | 4 | 6 |
| Charged to Refineries | 805 | 863 | 892 |
| Less Fuel and Loss | 64 | 68 | 71 |
| Product Yields | 741 | 795 | 821 |
| Product Imports | 81 | 73 | 78 |
| Less Product Exports | 5 | 8 | 8 |
| Total Demand | 817 | 862 | 891 |

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 geologic 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.

**TABLE IX**

**Canadian Gas Production**

| | Billion Cubic Feet —Per Day— | | |
|---|---|---|---|
| | 1960 | 1961 | 1962* |
| Domestic | | | |
| Consumption | 1.3 | 1.5 | 1.6 |
| Exports | 0.3 | 0.5 | 0.8 |
| Total Production | 1.6 | 2.0 | 2.4 |

*Estimated.

There are other factors peculiar to production over water as contrasted to land operations which are favorable economically. Acreage 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 ability to use marine transportation and even marine housing facilities rather than having to build roads, towns, camps, and elaborate land installations, often in

*Continued on page 84*

Mr. & Mrs. John B. Clayton III, *First National Bank*, Dallas; James Stenson, *Continental Illinois National Bank & Trust Company*, New York; Harold E. Waeckerle, *Parker/Eisen/Waeckerle/Adams & Purcell*, Kansas City, Mo.

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Hardin H. Hawes, *Harris Trust & Savings Bank*, Chicago; Ted C. Henderson, *T. C. Henderson & Co.*, Des Moines, Iowa; Clarence F. Blewer, *Blewer, Glynn & Co.*, St. Louis; John Krause, *Reinholdt Gardner*, St. Louis

*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 is believed by competent engineers to contain in excess of 600 million barrels of hydrocarbons, 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 sufficient spread 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 those 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 exploration, production 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 lending 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 an 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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**James F. Jacques**
First Southwest Co.
Dallas, Tex.

**L. Emery Katzenbach, II**
White, Weld & Co.
New York, N. Y.

**Edwin L. Kennedy**
Lehman Brothers
New York, N. Y.

**Sterling McKittrick, Jr.**
Spencer Trask & Co.
New York, N. Y.

**Kenneth E. Meyer**
Dean Witter & Co.
New York, N. Y.

**Joseph R. Neuhaus**
Underwood, Neuhaus & Co. Inc.
Houston, Tex.

**Edward Randall, III**
Rotan, Mosle & Co.
Houston, Tex.

**Myron F. Ratcliffe**
National Boulevard Bank of Chicago
Chicago, Ill.

**Burch Williams**
Reinholdt & Gardner
St. Louis, Mo.





# 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 deepseated, 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 apt to be evasive, but along the line of "almost anything." In today's competitive market, it seems

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Mr. & Mrs. Mark A. Smith, *F. W. Craigie & Co.,* Richmond; Mr. & Mrs. Leonard R. Sullivan, *Fitzpatrick, Sullivan & Co.,* New York

Mr. & Mrs. Paul N. Duggan, *Sutro & Co.,* San Francisco; Mr. & Mrs. Thomas M. Keresey, *Model, Roland & Co.,* New York

Mr. & Mrs. Norman E. Heitner, *Yates, Heitner & Woods*, St. Louis; Royden E. Jacobus, *Vilas & Hickey,* New York

# 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.

*Sense of Organization*

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 join the 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 accurary? Few, indeed; and fewer still have given any real though 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 cases 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 of 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 in a company, and often the SBC 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 several different businesses intimately. 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 — namely, 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 managements can draw conclusions as to the futures for individual small business concerns. Finally, I have tried to communicate my convic-

Robert D. Anderson, *Distributors Group Incorporated*, New York; Edwin L. Beck, *Commercial & Financial Chronicle*, New York

Mr. & Mrs. George S. Writer, *Peters, Writer & Christensen, Inc.*, Denver; Mr. & Mrs. Bill Zentz, *Investment Bankers Association*, Washington, D. C.; John A. Falvey, *Investment Bankers Association*, Washington

Henry J. Kieper, *New York Hanseatic Corporation*, New York; Clarence W. Ostema, *New York Hanseatic Corporation*

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 managements 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 managements 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 assist in finding investment opportunities and 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 being 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

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William G. Gallagher, *Vance, Sanders & Co.*, New York; John A. McCandless, *Vance, Sanders & Co.*, New York

Paris Scott Russell, *Glore, Forgan & Co.*, New York; Albin Strandberg, *Glore, Forgan & Co.*, New York; Mrs. Paris Scott Russell; Frederick C. Braun, Jr., *F. S. Moseley & Co.*, New York; Philip O. Rogers, *John C. Legg & Company*, Baltimore

Harold W. Clark, *Cherokee Securities Company*, Nashville; Donald T. Fletcher, *William Blair & Company*, Chicago

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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, I 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. 29, 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 loss 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 that "fifth 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 2.5% 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 ot experiment with new techniques and new ideas and to 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 atempts 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 strangling philosophy 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. Most of us remain indifferent 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 count 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 great, 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 disintegrate and deteriorate from within.

### Free Men With Vision Will Do the Job Best

We must be careful not to lose at home the very freedoms we struggle abroad to preserve. The whole American system and the whole American way of life are predicated 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 uneconomic 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 opportunity.

Government production and

Mr. & Mrs. Charles E. Cady, *Cady & Company*, Columbus, Miss.

Mr. & Mrs. Ted Miller, *Joseph, Mellen & Miller*, Cleveland; Mr. & Mrs. Middleton Rose, *Laird, Bissell & Meeds*, New York; Robert Westheimer, *Westheimer and Company*, Cincinnati

Mr. & Mrs. Arnold J. Kocurek, *Rauscher, Pierce & Co., Inc.*, San Antonio

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.

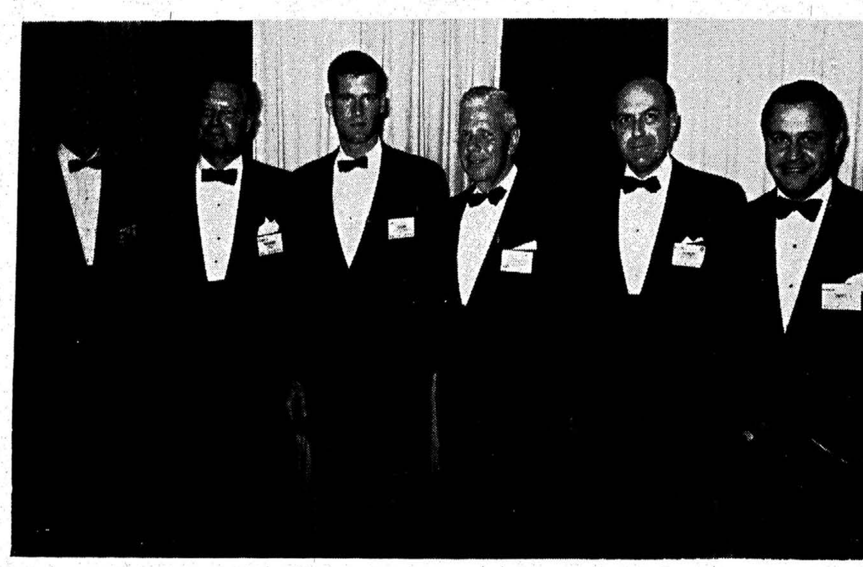
One of the great challenges facing all of us is to see that our economy is not dominated by government — that government helps rather than displaces private enterprise. We can do this only if we are willing to throw our influence on the side of keeping government the servant of all of us—not our master. 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.**

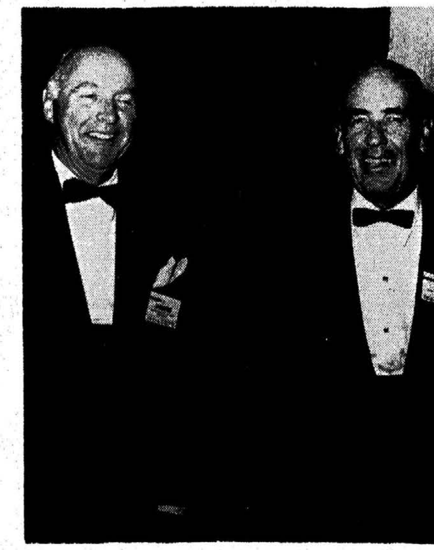
The system is worth preserving

*An address by Mr. Butz at the 51st Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 29, 1962.

Bob Kelley, *Harriman Ripley & Co. Incorporated*, Chicago; Philip W. Carow, Jr., *Harriman Ripley & Co., Incorporated*, New York



Robert A. Nathane, *Merrill Lynch, Pierce, Fenner & Smith Incorporated*, Seattle; Richard B. Walbert, *Blyth & Co., Inc.*, Chicago; John D. Young, *Lee Higginson Corporation*, Boston; Frederick T. Seving, *Butcher & Sherrerd*, Philadelphia; William L. Hurley, *Baker, Simonds & Co., Inc.*, Detroit; Norman Davis, *Walston & Co., Inc.*, Denver



Theodore C. Sheaffer, *Janney, Battles & E. W. Clark*, Philadelphia; Bertram M. Wilde, *Janney, Battles & E. W. Clark*, Philadelphia

# 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. Funston 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 absolution, 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 vestigal 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 forsee 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 as to unconscionable 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 IBA members 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 letters.

### 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

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Arne Fuglestad, *Lee Higginson Corporation,* New York; Mr. & Mrs. Julian K. Roosevelt, *Dick & Merle-Smith,* New York; Lorrin C. Mawdsley, *Van Alstyne, Noel & Co.,* New York; John D. Young, *Lee Higginson Corporation,* Boston

Mr. & Mrs. Alden H. Little, *Secretary Emeritus of Investment Bankers Association*

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 highlighted 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 12-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

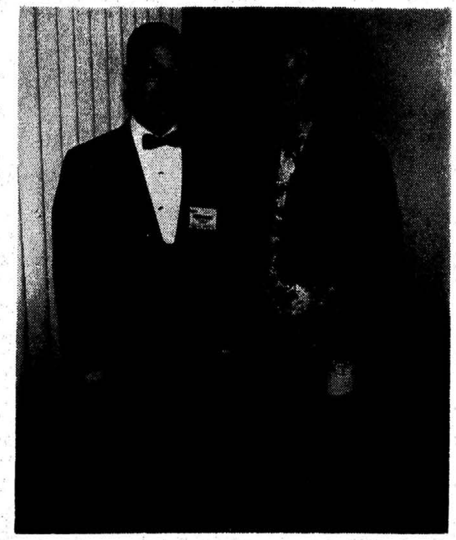
In conclusion, what is self-regulation and what are the prospects for it? It does not exclude participation by the Commission with the industry associations. They need suggestions, and so do we. As my predecessor on the Commission, now Mr. Douglas, said in 1938: ". . . The point where self-determination should cease and direct regulation by government should commence must usually be determined not by arbitrary action but by neatly balanced judgement and discretion on both sides." Our participation should not reduce industry 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.

[1] For text of Mr. Whitney's address, see the May 31, 1962 issue of the "Chronicle," p. 16.—Ed.

*An address by Mr. Cary before the Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 28, 1962.

Joseph T. Fuller, *William A. Fuller & Co.*, Chicago; Edward D. Jones, *Edward D. Jones & Co.*, St. Louis

Mr. & Mrs. P. Fred Fox, *P. F. Fox & Co., Inc.*, New York; Arthur Wiesenberger, *Arthur Wiesenberger & Co.*, New York; Mrs. Gilbert H. Wehmann, New York; William L. Liebman, *Loewi & Co. Incorporated*, Milwaukee, Wis.



Mr. & Mrs. Robert Westheimer, *Westheimer and Company*, Cincinnati

# Report of IBA Governmental Securities Committee

*Continued from page 23*

of that bank. Mr. Rouse's contribution to debt management and credit policies has been outstanding. Mr. Stone, who has been an associate of Mr. Rouse, is well-qualified to meet the high standards set by his predecessor and to carry the heavy responsibilities involved.

Your Committee has again been given opportunities to serve the Treasury on a number of occasions and is continually impressed with the dedicated and competent group who create and carry forward so effectively its constructive policies in debt management.

Respectfully submitted,

GOVERNMENTAL SECURITIES COMMITTEE

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The Philadelphia National Bank
Philadelphia, Pa.

**Robert B. Blyth**
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Cleveland, Ohio

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Salomon Brothers & Hutzler
New York, N. Y.

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



# Report of IBA Railroad Securities Committee

*Continued from page 32*

in 1950—92,000 in 1951 and 165,-000 in 1955.

After interim years of fluctuating amounts of orders in nowhere 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 1959.

In the light of this data, consider 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 16 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 potential replacement of half of the Industry's present 16-year old and older freight cars would cost $10½ billion; were such replacement to be spread out over, say, a 10-year period, annual replacements would require 87,500 cars and annual expenditures would work out at **ONE BILLION DOLLARS** per year!

**Rail's Impoverishment Causes Unemployment**

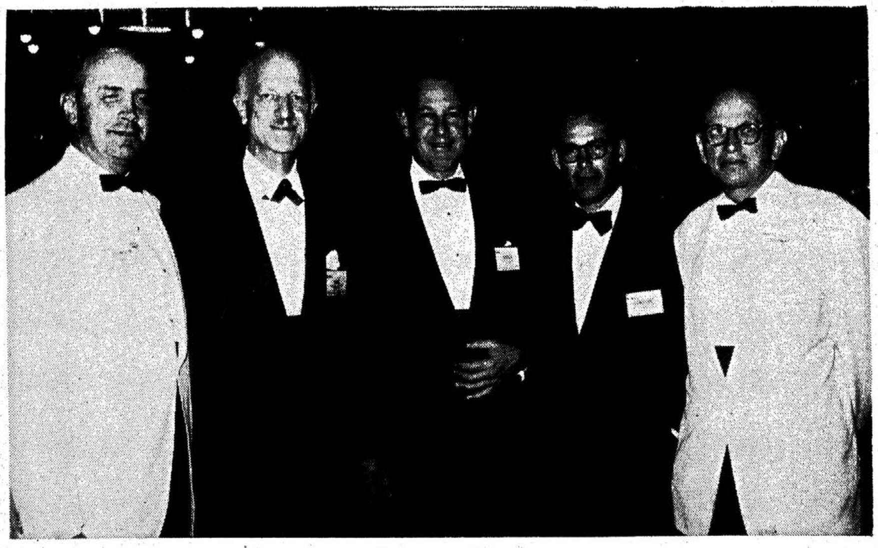
Late last Summer, millions of American citizens viewed President Kennedy on television and heard him state in an address to the Nation that partial income tax relief to individuals and corporations for 1962 was unworkable; that it would have to be deferred until 1963. Accompanying this disappointing news was a constant reference to the "hard core" of unemployed which our economy for sometime now has been unable to absorb—notwithstanding the attainment of new highs in the **employment** total.

In the opinion of this Committee, the financial impoverishment of the railroads has been a material influence on the employee requirements of the Industry, and heavy industry, generally.

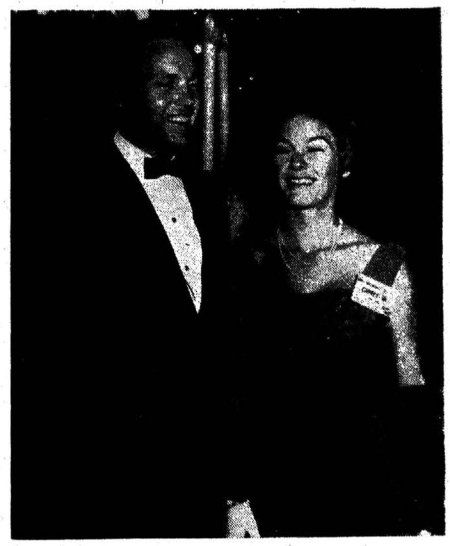
Such impoverishment also has had a most telling effect on Federal Income Taxes paid to the United States Government by the Railroad Industry. For example, in the year 1952, the Railroad Industry accrued $613 million of Federal Income Taxes, whereas for the calendar year 1961, such accruals had shrunk to $242 million.

It should be noted that the reduction in Tax accruals was notwithstanding a rise in the G N P, and the FRB Index of Production,

Mr. & Mrs. Fred W. Hudson, *Ball, Burge & Kraus*, Cleveland



Albert L. Johnson, *First National Bank*, Memphis; John L. Ahbe, *Distributors Group, Inc.*, New York; Ernest E. Keusch, *W. E. Hutton & Co.*, New York; W. Wallace Lanahan, *Stein Bros. & Boyce*, Baltimore; Lawrence B. Illoway, *Penington, Colket & Co.*, Philadelphia



Mr. & Mrs. Brownlee O. Currey, Jr., *Equitable Securities Corporation*, New York

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 contrasted 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 heretofore 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 have 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. True, 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 better than 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. Inasmuch as the public as a whole would benefit from lowered 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 now is action.

If the railroad industry is to recover its strength, and its recuperative 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 lowerest 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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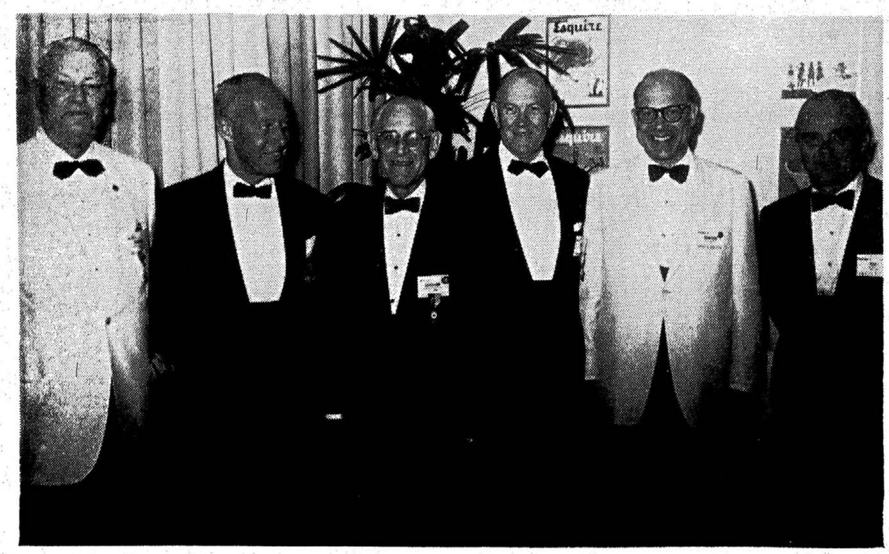

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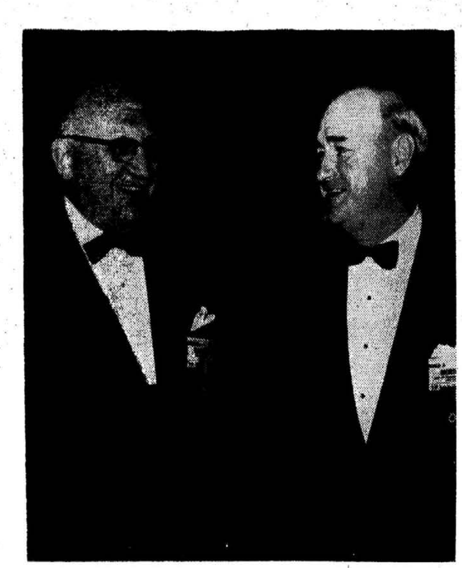


Andrew S. Beaubien, *L. G. Beaubien & Co., Ltd.*, Montreal; Roald A. Morton, *Blue List Publishing Co.*, New York

# 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 Reoffering 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 corporation bonds of such rating. For each rating of state bonds, the months from July 1958 through June 1959 were used. The differentials were: Aaa, 1.32%; 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., 1.24%, 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 find them 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 Housing Authorities' temporary notes, which are exempt, and the yields of finance company paper placed directly of three-to-six month maturity, which are fully taxable. The difference between the two yields in any one calendar month is considered the value of tax-exemption, 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 1.014% obtained; 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 Municipals taxable by the Federal Government.

The estimated $827 million in additional interest payments was distributed among the various classes of bondholders in proportion to the amount of state and local securities owned by them on June 30, 1959, and then further prorated among the 50 states. Using the same methods of calculation that were used for Governments, 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 intergovernmental tax immunity of securities, states and local governments would have had to pay an additional $827 million in interest on their obligations in 1959. The income tax states, under their statutory provisions in effect at that time, could have obtained $81 million (or less than 10%) from taxes on the interest from Federal, state, and local obligations. Since some states apply a tax to business corporations and banks measured by net income rather than directly on net income, interest income from Governments is now fully taxable and permissive taxation of Federal securities will produce no additional yield. Of the $81 million that might have been raised from state income taxes on presently exempt interest income, $59 million, or 73% would have come from individuals, $9 million, or 11% from business corporations, and $13 million, or 16% from banks.

Since so much of the potential income tax revenue from the reciprocal 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 various states, and granting the distribution of Federal, state, and local securities that I used, no state showed a gain. There were, however, four states that could have made up in income taxes more than half of the additional costs of borrowing that would have been brought about by reciprocal taxation of governmental securities. They were Wisconsin (77%), Idaho (74%), Alaska (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 taxpaying bondholders.

There were a dozen states where the income tax revenue from governmental securities would have exceeded the additional borrowing costs of the state government only. In these states there is small state indebtedness, larger local indebtedness, and high income taxes, which contribute to this result.

### Conclusion

Permissive reciprocal taxation of Federal securities is no inducement to the states to give up voluntarily the intergovernmental tax immunity of their securities. The immediate effect of permissive 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 interest rates. It would take two or three decades for the interest payments of states and localities to reach the amounts suggested by the present differential. To estimate additional interest costs of state and local governments and the revenues income tax states would receive from those additional interest payments, it was necessary to assume an instantaneous readjustment to higher taxable interest rates. On this basis, *no* state could recoup in income taxes the additional borrowing costs of issuing taxable securities.

A program of reciprocal state taxation of U. S. Government securities (assuming instantaneous readjustment) would have produced a net deficit to all states and local governments of $750 million in 1959. Although a dozen state governments might gain by this arrangement, 38 state governments and *all* local governments would lose. Such a program would lead to pressure on the states and the Federal Government for more aid to local spending units, particularly jurisdictions financing roads and schools where interest costs are an important factor. It is estimated that the United States Treasury could have realized between $1 and $1¼ billion from the taxation of 1959 interest income from municipal securities were all such securities fully taxable at the time of issue. To channel such funds equitable to the affected local districts is an insurmountably difficult task. It is doubtful that any politically acceptable grant-in-aid scheme could be devised that would enable the Federal Government to retain the bulk of the $400 million difference between Federal taxes on income from state and local securities and the net increased borrowing costs of the states and their local governments.

### 50% Rise in Interest Charges

In the course of fiscal years ending in 1959, all states and local governments paid out interest on their obligations totaling $1,740 million. An additional $827 million in interest would have had to have been paid were municipal bonds not tax-exempt, or almost half again as much interest. This is an average which probably includes some places where interest payments would have doubled or tripled. While additional expenditures of $827 million may not loom large against total state and local expenditures of $59 billion in 1959, it is still an item for which additional revenues must be sought.

Although states and localities should be prepared to pay the going rate of interest on all debt that they incur, there is no political glory to be achieved in raising taxes to pay interest on governmental debt. It is even more of a political trick to convince states and localities to raise their regressive taxes to pay higher interest 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 on municipal bonds is too high, it can reduce that value tremendously by simply reducing the top bracket individual income tax rates of 70%, 80%, and 90% to more reasonable percentages.

*Remarks of Dr. Frank before the meeting of the Municipal Forum at the 51st Annual Convention of the Investment Bankers Association of America, Hollywood Beach, Fla., Nov. 25, 1962.

Frederick W. Straus, *Straus, Blosser & McDowell*, Chicago; Elliot H. Stein, *Scherck, Richter Company*, St. Louis

Mr. & Mrs. George B. Gibbons, Jr., *Geo. B. Gibbons & Co., Inc.*, New York; Mr. & Mrs. Victor Zahner, *Zahner and Company*, Kansas City, Mo.; Mr. & Mrs. George E. Barnett, Jr., *First National City Bank*, New York

Mr. & Mrs. Donald W. Crowell, *Crowell, Weedon & Co.*, Los Angeles

Clarence F. Blewer, *Blewer, Glynn & Co.*, St. Louis; Rollin C. Bush, *First National City Bank*, New York

Mr. & Mrs. Amyas Ames, *Kidder, Peabody & Co.*, New York; Mrs. & Mr. Irving H. Campbell, *Bell, Gouinlock & Co.*, Toronto; Mrs. & Mr. David S. Beatty, *Investment Dealers Association of Canada*. Toronto

Herbert R. Anderson, *Distributors Group, Inc.*, New York; Robert D. Anderson, *Distributors Group, Inc.*, New York

Mr. & Mrs. Merrill D. Freeman, *Salomon Brothers & Hutzler*, New York

Newly Elected Officers: David J. Harris, *Bache & Co.*, Chicago; William T. Kemble, *Estabrook & Co.*, Boston; Amyas Ames, *Kidder, Peabody & Co.*, New York; George J. Otto, *Irving Lundborg & Co.*, San Francisco; Lloyd B. Hatcher, *White, Weld & Co.*, New York

Victor H. Zahner, *Zahner and Company*, Kansas City, Mo.; Garrett H. Taylor, *Wood, Gundy & Co. Inc.*, New York

# 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 meetings I have reported on these developments as they appeared to me at the time.

You will recall that Chairman Cary addressed us at our Convention 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 supervising our representatives who deal with the public. In statements throughout the year, and in personal conversations I have had with him, he has reiterated his belief in cooperative self regulation under governmental supervision.

**Praises SEC**

Looking back over the developments 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.[1] 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 help 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 encouraging 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 employment, 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 missiles about to be pointed at us from the Caribbean. The response of the nation to the action 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 no 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 recommend to the next Congress substantial tax reduction and tax reform.

Early in the year we should have our first experience with the experiment to sell Government bonds on a competitively underwritten basis. This may be a significant development. The Treasury in this manner is seeking to use the distributing power of our members in a new way.

As I have said, next year indeed looms 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 knowing of his great abilities, the selection of the Nominating Committee for your 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 appreciation 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 eagerness 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 extent on the National Committee and Group Chairmen. 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 produced the results desired with dispatch and effectiveness and as a traveling companion, Mary and I found him great.

I would love to eulogize individually all on the staff. Bob Stevenson, who was always a step ahead of me on anything I wanted and of immeasureable help. Gordon Calvert our most able and talented Municipal Director. Erwin Boehlmer, our Educational Director, and Bill Zentz, our Research Director. Bob Girmschid and John Nash for their excellent work. To these gentlemen and to the entire staff, my sincerest thanks.

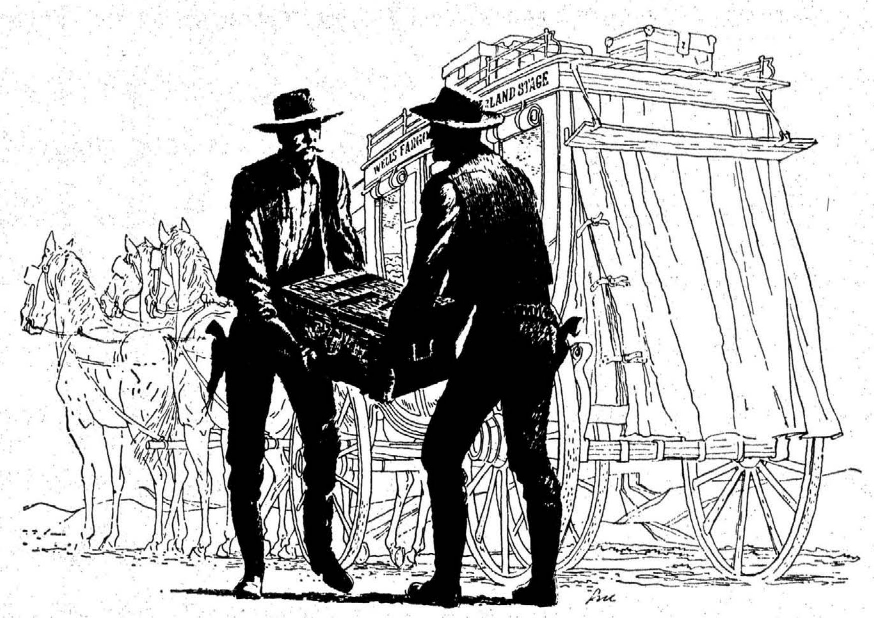
And last, but by no means least, my deep appreciation to Mary, my wife. With her help and understanding, and sharing with me the joy of renewing so many old friendships and making so many new ones, it has all made this past year the happiest and most rewarding one of my life.

***An address by Mr. Bingham at the Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 26, 1962.**

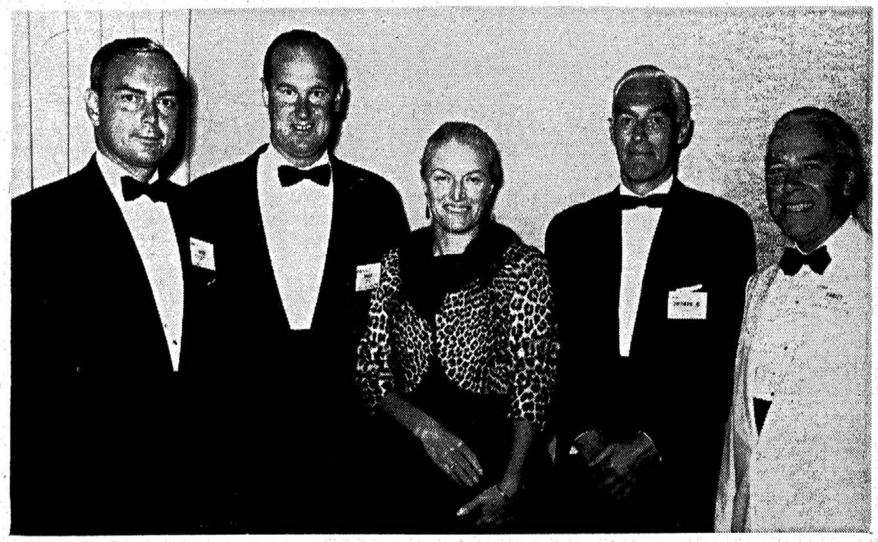
1 Full text of Mr. Cary's address appears elsewhere in this issue.—Ed.





Thomas J. Cahill, *Chase Manhattan Bank*, New York; Philip W. Carow, Jr., *Harriman Ripley & Co. Incorporated*, New York



John E. Beebe, *Chase Manhattan Bank*, New York; Mr. & Mrs. Peter V. N. Philip, *W. H. Morton & Co.*, New York; Edwin J. Dikeman, Jr., *Bankers Trust Company*, New York; George J. Varley, *Chase Manhattan Bank*, New York

Stannard B. Knothe, *Halle & Stieglitz*, New York; Charles M. Miller, *Mullaney, Wells & Co.*, Chicago

# 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 competitor gives 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 quite husky over the years Although it has less than 8% of the chemical industry's sales, it is the largest company in the industry and, however size is measured, it is big. We believe it has grown because it has used its capital and the skills and knowledge of its people to undertake tough assignments in the field of chemical manufacturing where it could make a useful contribution to customers and, thereby, to society.

If, as some critics contend, bigness in business is bad per se, I think they should really try to convince our customers. One of these is the United States Government, which asked us to undertake the difficult and unprecedented tasks of constructing the Hanford and Savannah River plants for the manufacture of atomic materials. I doubt whether it was because the Administration in power on either occasion was overly fond of us; on the other hand, I am convinced it was because they felt our organization was the only one which had the resources in technical and managerial skills to carry out these vast and complicated assignments.

### Anti-Trust Laws Are Needed

We need antitrust laws because businessmen, like any other group in our society, will always include an unscrupulous and dishonest minority who will seek what, in the vernacular, is called a "fast buck" rather than be concerned with the long-run health and prosperity of their businesses. 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 doubtless possible for a business organization to become too large to be efficiently managed. If it should, you can be sure its customers will take action.

As one voice in the dialogue, therefore, I 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. The cost of any government-spending program is certain to be exacted, either through taxes which drain away just that much of the individual purchasing power and resources for investment in the private sector—or through the most cruel tax of all—inflation.

If we turn, then, as I think we must, to the private sector of the economy, there must be greater recognition of fundamentals, and especially the three I have mentioned. What people generally think about profits goes a long way toward determining what the attitude of the government will be on that subject. What people generally think about bigness in business goes a long way to determining what the government thinks—and does—about it. Even in research, public approval or disapproval is of critical importance.

### Winning Public Approval

To win public approval, as I have said, businessmen must be more diligent in presenting the facts about our economy, but this will not be enough. We must make so convincing a case that it will be accepted by thoughtful and reasonable men who exercise leadership in other segments of our society. With their cooperation, our economic ship can sail and not remain at anchor.

There must be action to justify words. Whatever clouds may hover over the immediate economic and political horizons, the Du Pont Company proposes to do its part by moving forward—in full confidence that it will not be alone in the ranks of business and industry.

We are continuing our extensive research program and, most importantly, that portion which is dedicated to basic research.

To bring to the public the benefits of past and current research, we expect our construction expenditures in 1963 will be in the neighborhood of $350 million, an increase of some 40% over the approximately $240 million we are spending for this purpose in 1962.

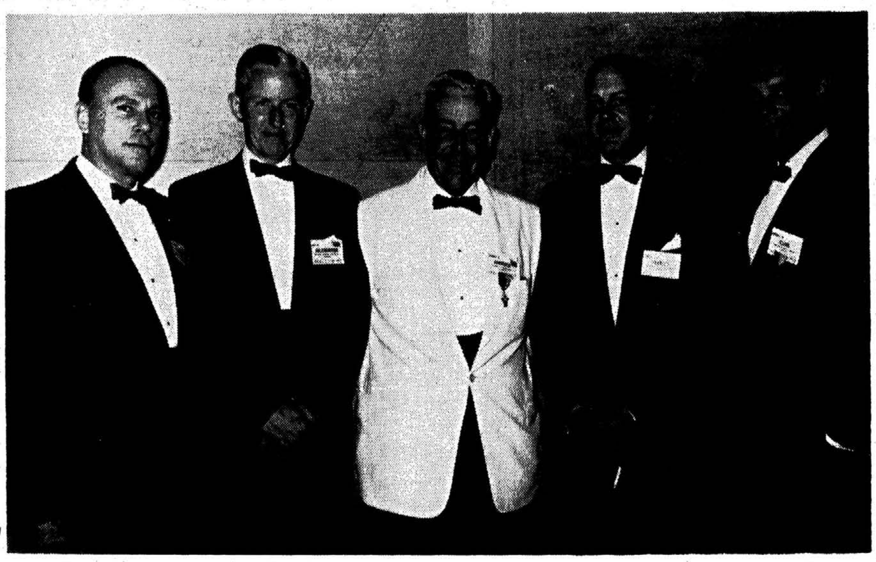
Our authorizations for new projects in the final half of this year will more than double, in dollars, our authorizations in the last six months of 1961.

It is difficult to predict now what 1964 and future years may bring, and I am not suggesting that this heavier construction program for 1963 will represent a new annual level. However, we shall be prepared to go forward in the future with whatever opportunities for profit can be developed.

This confidence in the long-range outlook for the American economy is based on more than hope. The Du Pont Company has existed for 160 years through all manner of national experience: War, peace, boom, depression. During this period, the American people have always risen to the challenge of the times. When they have the facts, and when they understand the situation, they can be depended upon to reach the right and the fair decision and thereby achieve the objectives we hold in common.

*An address by Mr. Copeland before the Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 27, 1962.

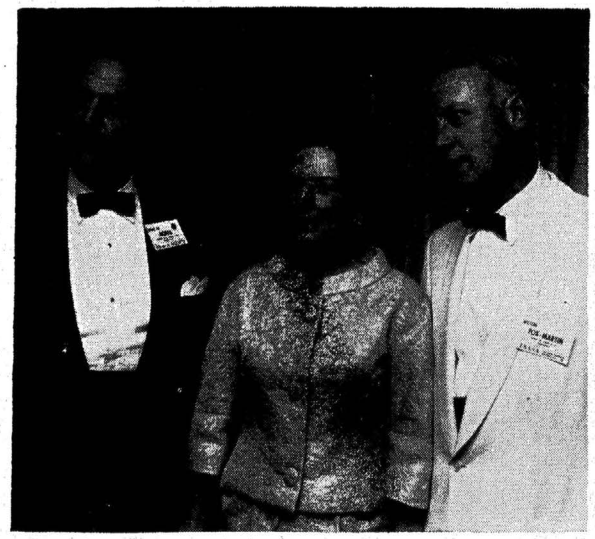
John P. Labouisse, *Howard, Weil, Labouisse, Friedrichs and Company*, New Orleans; Donald B. Brayshaw, *Lord, Abbett & Co.*, Atlanta; Mrs. H. George Carrison, Jacksonville, Fla.; Mr. & Mrs. Joseph P. Minetree, *Howard, Weil, Labouisse, Friedrichs and Company*, New Orleans; Norman A. Cooledge, *Courts & Co.*, Atlanta



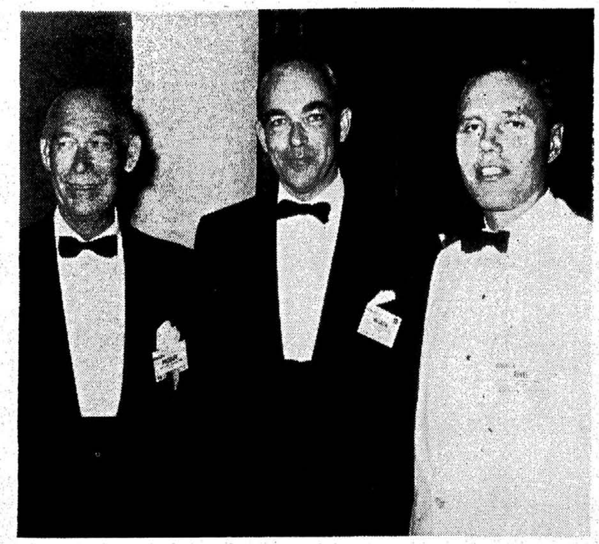
H. George Carrison, *Pierce, Carrison, Wulbern, Inc.*, Jacksonville; Gus G. Halliburton, *Equitable Securities Corporation*, Nashville; Samuel L. Varnedoe, *Varnedoe, Chisholm & Co.*, Savannah; Alexander Yearley IV, *Robinson-Humphrey Company, Inc.*, Atlanta; Harold Clark, *Cherokee Securities Company*, Nashville

Mr. & Mrs. Clarence W. Bartow, *Drexel & Co.*, New York; Edwin J. Dikeman, Jr., *Bankers Trust Company*, New York; Mrs. William T. Kemble, Boston; Mr. & Mrs. William B. Chappell, *First Boston Corporation*, New York; Ted Etherington, *American Stock Exchange*

Mr. & Mrs. Dudley Dawson, *Greenshields Inc*, Montreal; Murray Hanson, *Investment Bankers Association of America*, Washington, D. C.



Mr. & Mrs. Frank W. North, *Barret, Fitch, North & Co., Inc.*, Kansas City, Mo.; Milton Fox-Martin, *Hugh W. Long & Co., Inc.*, Elizabeth, N. J.



Malcolm S. Prosser, *Seattle First National Bank*, Seattle; Edward D. McGrew, *Northern Trust Company*, Chicago; Robert B. Rivel, *The Chase Manhattan Bank*, New York





# In Attendance at Convention

**ABRAMS, JAMES S.**
Allen & Co., New York
**ADAIR, THEODORE F. G.**
F. Eberstadt & Co., New York
**ADAMS, WILLIAM***
Braun, Bosworth & Co., Detroit
**AGEE, RUCKER***
Sterne, Agee & Leach, Birmingham
**AGNEW, JOHN W.***
The First National Bank, Boston
**AHBE, JOHN L.**
Distributors Group, Inc., New York
**ALDRICH, GEORGE D.**
The Parker Corporation, Boston
**ALEXANDER, TED. R.**
Texas Bank & Trust Company, Dallas
**ALEXISSON, GUSTAVE A.***
Walston & Co., Inc., New York
**ALLEMAN, Jr., F. M.**
Leedy, Wheeler & Alleman, Orlando
**ALLEN, HERBERT A.**
Allen & Co., New York
**ALLISON, MILTON E.***
M. E. Allison & Co., San Antonio
**ALLISON, WILLIAM J.***
Allison-Williams Company, Minneapolis
**ALLYN, JOHN W.**
A. C. Allyn & Co., Chicago
**ALTGELT, E. J.***
Harris Trust & Savings Bank, New York
**AMAZEEN, EDWARD S.***
William Street Sales, Inc., New York
**AMES, AMYAS***
Kidder, Peabody & Co., New York
**ANASTASIA, ALBERT A.**
Dow Jones News Service, New York
**ANDERSON, EDMUND G.***
B. J. Van Ingen & Co., Boston
**ANDERSON, GEORGE W.**
Anderson & Strudwick, Richmond
**ANDERSON, HERBERT R.**
Distributors Group, Inc., New York
**ANDERSON, ROBERT D.**
Distributors Group, Inc., New York
**ANGLIN, THOMAS L.**
Mackall & Coe, Washington
**APPLEGATE, A. LOWRIE***
Hulme, Applegate & Humphrey, Pittsburgh
**ARMITAGE, ALBERT T.***
Coffin & Burr, Boston
**ARMSTRONG, FRANKLIN W.**
First National City Bank, New York
**ARNESON, RICHARD O.**
Dittmar & Co., San Antonio
**ARNHOLD, HENRY H.**
Arnhold & S. Bleichroeder, New York
**ARNOLD, H. WILSON***
Arnhold & Derbes, New Orleans
**ARTHURS, ADDISON W.**
Arthurs, Lestrange & Co., Pittsburgh
**ATKINS, J. MURREY***
R. S. Dickson & Co., Charlotte
**AUBUCHON, NORVILLE**
Harris Trust & Savings Bank, Chicago
**AUER, LOUIS**
Shields & Co., New York
**AUGUSTUS, ALBERT A.***
Ball, Burge & Kraus, Cleveland
**BACON, ROBERT M.**
E. F. Hutton & Co., San Francisco
**BAIRD, ANDREW M.**
A. G. Becker & Co., Chicago
**BAKER, PHILIP D.***
White, Weld & Co., New York
**BALDWIN, ROBERT H. B.**
Morgan Stanley & Co., New York
**BANCROFT, E. M.**
Stranahan, Harris & Co., Toledo
**BANKER, HOWARD H.***
C. J. Devine & Co., Cincinnati
**BANNARD, WILLIAM N.***
American Securities Corporation, New York
**BARKER, KEITH R.**
Fulton, Reid & Co., Ft. Wayne
**BARKER, ROBERT W.**
Irving Trust Company, New York
**BARNES, DONALD E.***
C. F. Childs & Co., New York
**BARNETT, Jr., GEORGE E.***
First National City Bank, New York
**BARROW, WM. RUSSELL**
Barrow, Leary & Co., Shreveport
**BARTOW, CLARENCE W.***
Drexel & Co., New York
**BAUMANN, JOHN. F.***
The Milwaukee Company, Milwaukee

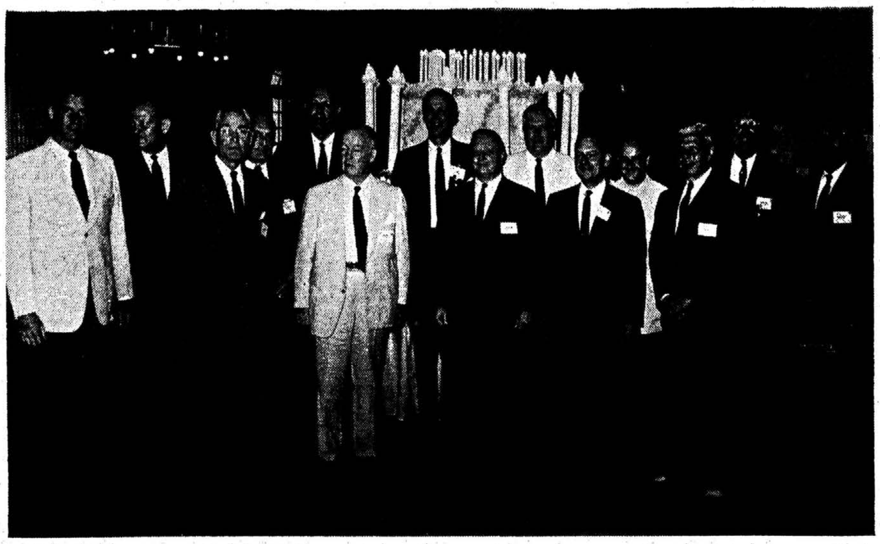
*Denotes Mr. & Mrs.

**BEAHAN, WILLIAM J.***
Lebenthal & Co., New York
**BEATY, RICHARD N.***
Carl M. Loeb, Rhoades & Co., New York
**BEATTY, DAVID S.***
Investment Dealers' Association, Toronto
**BEATTY, FLOYD H.**
A. G. Edwards & Sons, St. Louis
**BEAUBIEN, ANDREW S.**
L. G. Beaubien & Co., Montreal
**BECK, EDWIN L.***
Commercial & Financial Chronicle, New York
**BEDE, ALAN H.**
Cruttenden, Podesta & Miller, New York
**BEEBE, JOHN E.**
The Chase Manhattan Bank, New York
**BEINHORN, Jr., WILLIAM A.**
Russ & Company, San Antonio
**BELL, GEORGE deB.**
Drexel & Co., Philadelphia
**BELL, L. L.***
James Richardson & Sons, Toronto
**BENNETT, CHARLES R.**
United States Investor, New York
**BENNETT, FRANK S.**
Cutter, Bennett & Co., New York
**BENTON, Jr., ROBERT A.***
Manley, Bennett, McDonald & Co., Detroit
**BERGQUIST, P. ALDEN***
The First National Bank, Chicago
**BIANCHETTI, ALFRED J.**
J. A. Hogle & Co., New York
**BIDDLE, PEYTON R.**
The Philadelphia National Bank, Philadelphia
**BINGHAM, CURTIS H.***
Bingham, Walter & Hurry, Los Angeles
**BISHOP, CHARLES S.***
Manufacturers Hanover Trust Company, New York
**BLAIR, ALLAN***
Allan Blair & Co., Chicago
**BLAKE, SIDNEY S.**
Janney, Battles & E. W. Clark, Philadelphia
**BLEAKIE, JOHN M.**
W. E. Hutton & Co., Boston
**BLEWER, CLARENCE F.**
Blewer, Glynn & Co., St. Louis
**BLISS, ELLIOTT**
Halle & Stieglitz, New York
**BLOCK, FRANK E.**
Citizens & Southern National Bank, Atlanta
**BLYTH, ROBERT B.**
The National City Bank, Cleveland
**BODMAN, WARREN H.**
Yarnall, Biddle & Co., Philadelphia
**BOEHMLER, ERWIN W.**
Investment Bankers Association, Washington
**BOESEL, RICHARD E.***
Hayden, Stone & Co., New York
**BOGARDUS, ALLAN B.**
Watling, Lerchen & Co., New York
**BOGARDUS, P. HURLEY**
Morgan Guaranty Trust Company, New York
**BOGERT, Jr., H. LAWRENCE***
Eastman, Dillon, Union Securities & Co., New York
**BOLES, EWING T.***
The Ohio Company, Columbus
**BOOTHMAN, CLAUD O.***
Dumas, Huguenin & Boothman, Dallas
**BORKLAND, Jr., ERNEST W.**
Tucker, Anthony & R. L. Day, New York
**BOWEN, FRANCIS***
Government Development Bank for Puerto Rico, New York
**BOYCE, J. RAYMOND**
Auchincloss, Parker & Redpath, New York
**BOYNTON, ELWOOD D.***
E. D. Boynton & Co., New York
**BOYNTON, THOMAS W.**
Ladenburg, Thalmann & Co., New York
**BRACEY, Jr., CLYDE A.**
Anderson & Strudwick, Richmond
**BRADFORD, Jr., JAMES C.**
J. C. Bradford & Co., Nashville
**BRADLEY, S. WHITNEY**
Eaton & Howard, Boston
**BRASHLER, RICHARD J.***
Barcus, Kindred & Co., Chicago
**BRASTED, DANIELS C.**
Evans & Co., New York
**BRAUN, Jr., FREDERICK C.**
F. S. Moseley & Co., New York

**BRAUNS, ROBERT A. W.**
McDonnell & Co., New York
**BRAYSHAW, DONALD B.**
Lord, Abbett & Co., Atlanta
**BRECKENRIDGE, HUNTER***
McCourtney-Breckenridge & Co., St. Louis
**BRINKER, ROBERT R.**
John Nuveen & Co., Chicago
**BRITTAIN, MILTON C.***
Fahnestock & Co., New York
**BRITTEN, WILSON A.**
Calvin Bullock, Ltd., New York
**BROOKS, G. ROBERT**
Schmidt, Roberts & Parke, Philadelphia
**BROOKS, JOHN H.**
Putnam & Co., Hartford
**BROPHY, FRANK J.**
R. S. Dickson & Co., New York
**BROPHY, JAMES G.**
William Blair & Co., Chicago
**BROWN, CLAYTON F.**
The Northern Trust Company, Chicago
**BROWN, EDWARD L.***
Marine Trust Company, New York
**BROWN, HARRY***
Salomon Brothers & Hutzler, Chicago
**BROWNE, ALAN K.***
Bank of America, San Francisco
**BRYAN, JOHN E.***
The Plain Dealer, Cleveland
**BRYAN, JOHN F.**
Reynolds & Co., New York
**BUECHLER, RICHARD K.**
E. F. Hutton & Co., New York
**BUELTMAN, EDWIN A.**
Blair & Co., New York
**BULLOCK, WILLIAM C.**
Bankers Trust Company, New York
**BUNN, JOHN W.**
Stifel, Nicolaus & Co., St. Louis
**BURDEN, NORMAN E.**
Hayden, Miller & Co., Cleveland
**BURKHOLDER, III, J. R.**
Almstedt Brothers, Louisville
**BURNS, III, JAMES F.**
E. F. Hutton & Co., New York
**BUSH, ROLLIN C.**
First National City Bank, New York
**BUTLER, WILLIAM R.**
New York Herald Tribune, New York
**BUTZ, EARL L.***
Purdue University, Lafayette
**BYRNE, EDMUND C.**
Phelps, Fenn & Co., New York
**BYRNE, WILLIAM D.***
Phelps, Fenn & Co., New York
**CADY, CHARLES E.***
Cady & Co., Columbus, Miss.
**CAHALIN, HAROLD A.***
State Street Bank, Boston
**CAHILL, THOMAS J.**
The Chase Manhattan Bank, New York
**CAHN, Jr., WILLIAM M.**
Schwabacher & Co., New York
**CALLAHAN, THOMAS T.**
Finance Magazine, Chicago
**CALLAWAY, DAVID H.***
First of Michigan Corporation, New York
**CALVERT, GORDON L.**
Investment Bankers Association, Washington
**CAMBERE, ARA A.**
Hayden, Stone & Co., Chicago
**CAMPBELL, IRVING H.***
Bell, Gouinlock & Co., Toronto
**CANNELL, PETER B.***
F. Eberstadt & Co., New York
**CARBERRY, PATRICK**
Wall Street Journal, New York
**CARLETON, WALTER B.**
Fahey, Clark & Co., Cleveland
**CARLSON, J. HOWARD***
Carl M. Loeb, Rhoades & Co., New York
**CAROW, Jr., PHILIP W.**
Harriman Ripley & Co., New York
**CARPENTER, EDWARD E.**
McDougal & Condon, Chicago
**CARR, FRANK C.***
John Nuveen & Co., Chicago
**CARRINGTON, Jr., WILLIAM G.***
Ira Haupt & Co., New York
**CARRISON, H. GEORGE***
Pierce, Carrison, Wulbern, Inc., Jacksonville
**CARTER, Jr., FRANK E.**
Equitable Securities Corporation, New York
**CARTER, Jr., HUGH D.**
Courts & Co., Atlanta
**CARY, WILLIAM L.**
Securities & Exchange Commission, Washington

*Continued on page 105*

Mr. & Mrs. Harvey B. Gram, Jr., *Johnston, Lemon & Co.*, Washington, D. C.



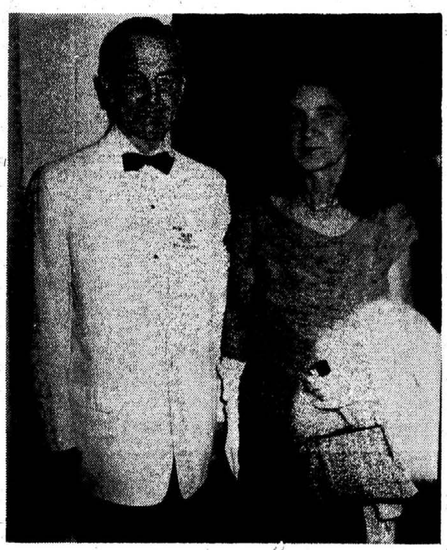
New Governors of the *Investment Bankers Association*

Mr. & Mrs. James H. Lemon, *Johnston, Lemon & Co.*, Washington, D. C.

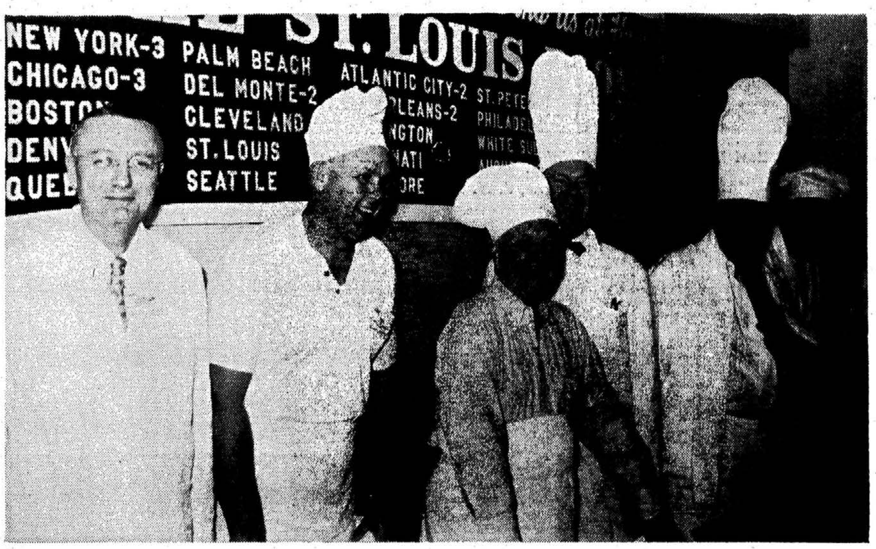
Mr. & Mrs. Harold X. Schreder, *Distributors Group Incorporated*, New York

Mrs. Oliver J. Troster; Col. Oliver J. Troster, *Troster, Singer & Co.*, New York; Mrs. and Mr. Arleigh P. Hess, *Hess, Grant & Remington*, Philadelphia

Mr. & Mrs. John J. Kenny, *J. J. Kenny Co.*, New York



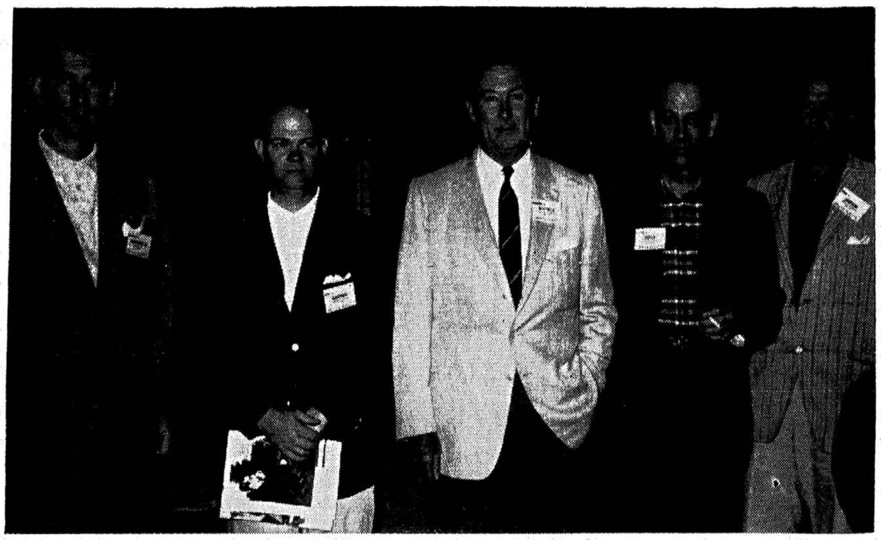
Mr. & Mrs. William J. Falsey, *Chas. W. Scranton & Co.*, New Haven




St. Louis Room's Happy Workers

Mr. & Mrs. William T. Walker, Jr., *William R. Staats & Co.*, Los Angeles

Mr. & Mrs. Kelton E. White, *G. H. Walker & Co.*, St. Louis



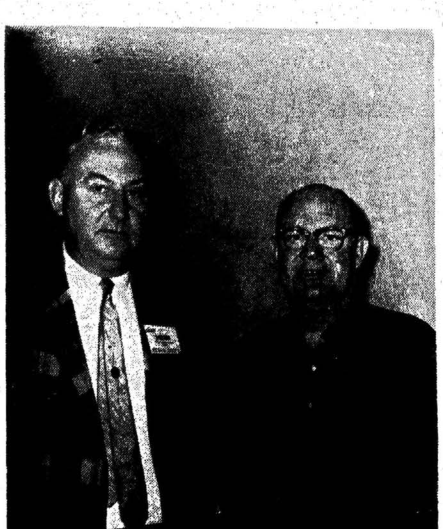
Beverly B. Munford III, *Davenport & Co.*, Richmond; John R. Gardner, *Reinholdt & Gardner*, St. Louis; Brainerd H. Whitbeck, *First Boston Corporation;* Peyton R. Biddle, *Philadelphia National Bank*, Philadelphia; John S. Lawson, *Discount Corporation*, New York

Mr. & Mrs. Louis A. Hauptfleisch, *Goldman, Sachs & Co.*, New York

Mr. & Mrs. Eugene L. Neidiger, *Earl M. Scanlan & Co.*, Denver

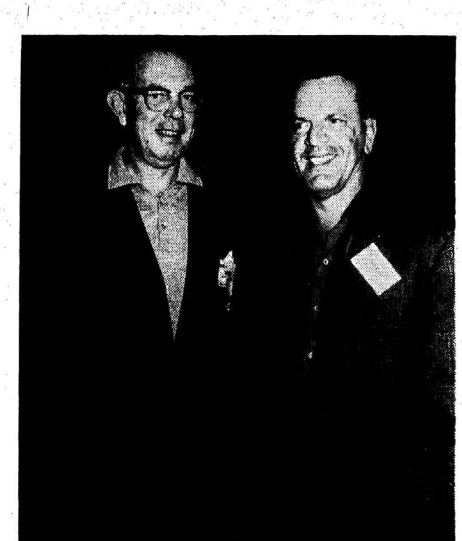
Mr. & Mrs. Earl L. Hagensieker, *Reinholdt & Gardner*, St. Louis; Arthur A. Christophel, *Reinholdt & Gardner*, St. Louis; Mrs. Albert M. Schmelzle, St. Louis; Morton A. Cayne, *J. N. Russell & Co., Inc.*, Cleveland

Eldridge B. Scurr, *Chiles & Co.*, Omaha, Neb.; Warren D. Chiles, *Chiles & Co.*, Omaha, Neb.



Lockett Shelton, *Republic National Bank*, Dallas; Lester H. Empey, *Wells Fargo Bank*, San Francisco

Advertising Award Winners: Walter W. Craigie, *F. W. Craigie & Co.*, Richmond, Va.; George H. C. Green, *Liberty National Bank & Trust Co.*, Oklahoma City; Lee F. Murphy, *Ladd Dinkins & Co.*, New Orleans; Curtis H. Bingham, *Bingham, Walter & Hurry, Inc.*, Los Angeles, President of I.B.A.; Frank C. Carr, *John Nuveen & Co.*, Chicago



George Wendt, *First National Bank*, Chicago; David T. Miralia, *Kuhn Loeb & Co.*, New York

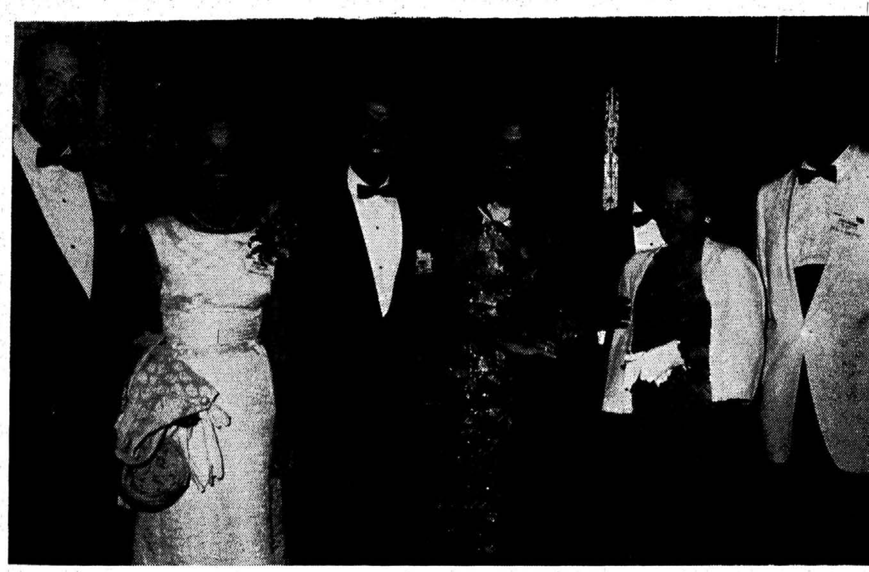
Mr. & Mrs. Kenneth C. Ebbitt, *Shelby Cullom Davis & Co.*, New York; William J. Riley, *E. F. Hutton & Co. Incorporated*, New York; Mrs. Peter R. Veit, *Lyons, Hannahs & Lee*, New York; Mrs. Donald R. Johnston, New York

Mr. & Mrs. George B. Fisher, *Bosworth, Sullivan & Company, Inc.*, Denver; Lewis M. Weston, *Goldman, Sachs & Co.*, New York; John H. Stites, Jr., *J. J. B. Hilliard & Son*, Louisville, Ky.; Gerald D. Wyatt, *A. E. Masten & Company*, Pittsburgh

Award Winners: Robert Mason, *Merrill Lynch, Pierce, Fenner & Smith Incorporated*, Chicago, Chairman, Education Committee; John W. Hanes, Jr., *Wertheim & Co.*, New York, Prize Winner; H. H. Sherburne, *Bacon, Whipple & Co.*, New York, Chairman, Institute Planning Commission; Curtis H. Bingham, *Bingham, Walter & Hurry, Inc.*, Los Angeles, President of the IBA; John M. McCarthy, *Lord, Abbett & Co.*, New York, Prize Winner

Charles N. Fisher, *Singer, Deane & Scribner*, Pittsburgh; William F. Morgan, *Blyth & Co., Inc.*, New York; Miles Pelikan, *John Nuveen & Co.*, New York; Edward L. Brown, *Marine Trust Company*, New York; John B. Dawson, *Wood, King & Dawson*, New York





Mr. & Mrs. Edward B. Wulbern, *Pierce, Carrison, Wulbern, Inc.*, Jacksonville; Mr. & Mrs. Edgar M. Norris, *Edgar M. Norris & Co.*, Greenville, S. C.; Mr. & Mrs. James A. Cranford, *Atlantic National Bank of Jacksonville*, Jacksonville, Fla.; Frank A. Chisholm, *Varnedoe, Chisholm & Co.*, Savannah





William D. Kerr, *Wertheim & Co.*, New York; Mrs. W. Olin Nisbet, Jr.; Hugh D. Carter, *Courts & Co.*, Atlanta; W. Olin Nisbet, Jr., *Interstate Securities Corporation*, Charlotte, N. C.; Rucker Agee, *Sterne, Agee & Leach*, Birmingham, Ala.

Mr. & Mrs. George Wendt, *First National Bank of Chicago*

Mr. & Mrs. Warren D. Chiles, *Chiles & Co.*, Omaha, Neb.; Charles A. Schoeneberger, *National Boulevard Bank*, Chicago; Mr. & Mrs. Richard J. Brashler, *Barcus, Kindred & Co.*, Chicago

Mr. & Mrs. Milton A. Manlev, *Manley, Bennett, McDonald & Co.*, Detroit

# In Attendance at Convention

*Continued from page 100*

**CASEY, DOUGLAS**
A. C. Allyn & Co., Chicago
**CASEY, Jr., JAMES D.**
A. C. Allyn & Co., New York
**CASGRAIN, RODOLPHE B.***
Casgrain & Co., Montreal
**CAYNE, MORTON A.**
J. N. Russell & Co., Cleveland
**CHAMBERLAIN, MELVILLE P.***
Chemical Bank New York Trust Company, New York
**CHAPMAN, R. C.**
Fulton, Reid & Co., Cleveland
**CHAPPELL, WILLIAM B.***
The First Boston Corporation, New York
**CHILDS, J. MABON**
Chaplin, McGuiness & Co., Pittsburgh
**CHILES, WARREN D.***
Chiles & Co., Omaha
**CHISHOLM, FRANK A.**
Varnedoe, Chisholm & Co., Savannah
**CHRISTOPHEL, ARTHUR A.**
Reinholdt & Gardner, St. Louis
**CLAFLIN, WILLIAM H.***
Tucker, Anthony & R. L. Day, Boston
**CLAIBORNE, Jr., JOHN H.**
Federal National Mortgage Association, New York
**CLAPP, Jr., JOHN J.***
R. W. Pressprich & Co., New York
**CLARK, FORRESTER A.**
H. C. Wainwright & Co., Boston
**CLARK, HAROLD W.**
Cherokee Securities Company, Nashville

*Denotes Mr. & Mrs.

**CLARK, JOHN. C.***
Wachovia Bank & Trust Company, Winston-Salem
**CLARK, JOSEPH F.**
Municipal Finance Officers Association, Chicago
**CLARK, ROBERT E.***
Calvin Bullock, Ltd., New York
**CLARK, ROBERT M.**
Blunt Ellis & Simmons, Chicago
**CLARK, WILLIAM N.**
Chicago Tribune, Chicago
**CLARKE, HARRISON***
Johnson, Lane, Space & Co., Atlanta
**CLARKE, JAMES H.**
American National Bank, Chicago
**CLAYTON, CALVIN W.**
Clayton Securities Corporation, Boston
**CLAYTON, III., JOHN B.***
First National Bank, Dallas
**COAKLEY, VINCENT**
Bear, Stearns & Co., New York
**COATS, GLENN B.**
The First National Bank, Fort Worth
**COCULO, T. ANTHONY**
Fidelity-Philadelphia Trust Company, Philadelphia
**COGGESHALL, J. WELLS**
Colonial Distributors, Inc., St. Petersburg
**COLEMAN, FRANCIS X.**
Dempsey-Tegeler & Co., New York
**COLLINS, JULIEN H.***
Julien Collins & Company, Chicago
**CONDON, RAYMOND V.***
B. J. Van Ingen & Co., Chicago
**COOK, R. JACK***
Wm. J. Mericka & Co., Cleveland
**COOKE, CARL F.**
The First Boston Corporation, New York

**COOLEDGE, NORMAN A.**
Courts & Co., Atlanta
**COPELAND, LAMMOT du P.**
E. I. du Pont de Nemours & Co., Wilmington
**CORNWALL, ANDREW D.**
Blair & Co., New York
**COSTIGAN, EDWARD J.**
Edward D. Jones & Co., St. Louis
**COUIG, J. DALTON**
Hirsch & Co., New York
**COURTS, II, RICHARD W.**
Courts & Co., New York
**CRAFT, ROBERT H.**
Paribas Corporation, New York
**CRAIGIE, WALTER W.***
F. W. Craigie & Co., Richmond
**CRAMPTON, JAMES I.***
Security First National Bank, Los Angeles
**CRANDALL, ELWOOD A.**
J. A. Hogle & Co., Salt Lake City
**CRANFORD, JAMES A.***
Atlantic National Bank, Jacksonville
**CRAWFORD, GEDDINGS H.***
G. H. Crawford & Co., Columbia
**CREHAN, JAMES E.**
Moore, Leonard & Lynch, Pittsburgh
**CROOKSTON, J. IAN***
Nesbitt, Thomson & Co., Toronto
**CROSS, CALVIN M.**
Hallgarten & Co., New York
**CROSS, JOSEPH G.***
C. J. Devine & Co., New York
**CROSSLEY, E. LYNN***
Municipal Finance Officers Association, Dallas
**CROWELL, DONALD W.***
Crowell, Weedon & Co., Los Angeles
**CROWLEY, Mrs., JAMES W.**
Investment Bankers Association, Washington
**CRUIKSHANK, GEORGE***
U. S. News & World Report, Washington

**CRUMPTON, III, THOMAS U.**
Interstate Securities Corporation, Atlanta
**CUNNINGHAM, FRANCIS J.**
Kidder, Peabody & Co., New York
**CURREY, Jr., BROWNLEE O.***
Equitable Securities Corporation, New York
**CURRY, ANDREW G.**
A. E. Ames & Co., New York
**CURTIN, JOHN S.**
Kalman & Co., Minneapolis
**CURTIS, ARTHUR W.**
A. G. Becker & Co., Chicago
**CUTLER, PAUL WM.***
Chapman & Cutler, Chicago
**CUTTER, CHARLES F.**
F. S. Moseley & Co., Chicago
**DAANE, J. DEWEY**
Department of the Treasury, Washington

**DAESCHLER, ROBERT J.***
W. H. Morton Co., New York
**DARBY, EDWIN W.**
Chicago Sun-Times, Chicago
**DARMSTATTER, E. WM.**
Stifel, Nicolaus & Co., St. Louis
**DATTELBAUM, DAVID N.**
A. G. Becker & Co., New York
**DAVID, J. PHILIP**
Schneider, Bernet & Hickman, Dallas
**DAVIDS, MARK***
Lester, Ryons & Co., Los Angeles
**DAVIS, Jr., HERBERT H.**
Kirkpatrick-Pettis Company, Omaha
**DAVIS, NORMAN***
Walston & Co., Denver

*Continued on page 112*

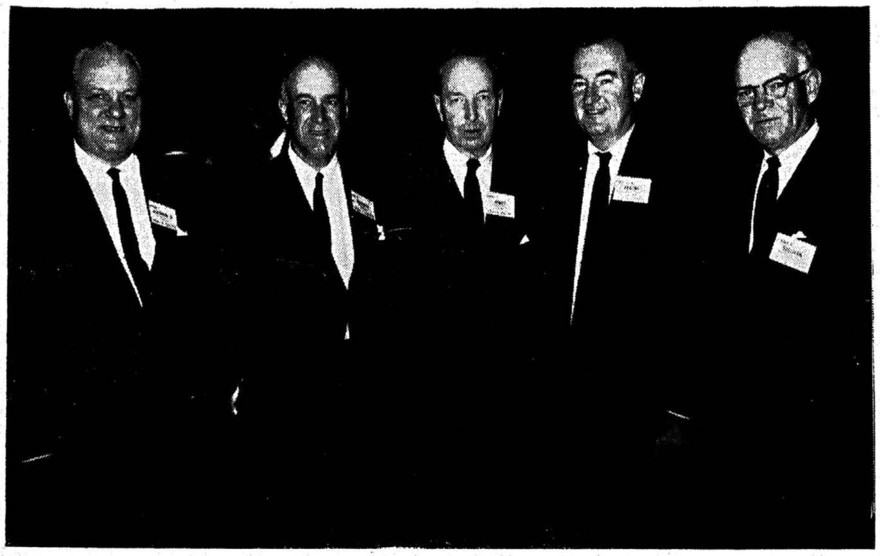
Mr. & Mrs. F. Vincent Reilly, *Commercial & Financial Chronicle*, New York; Mr. & Mrs. Edwin L. Beck, *Commercial & Financial Chronicle*, New York



Mr. & Mrs. William C. Lickle, *Laird, Bissell & Meeds*, Wilmington, Del.; Lou Gibbs, *Laird, Bissell & Meeds*, New York; Mrs. & Mr. Middleton Rose, *Laird, Bissell & Meeds*, New York



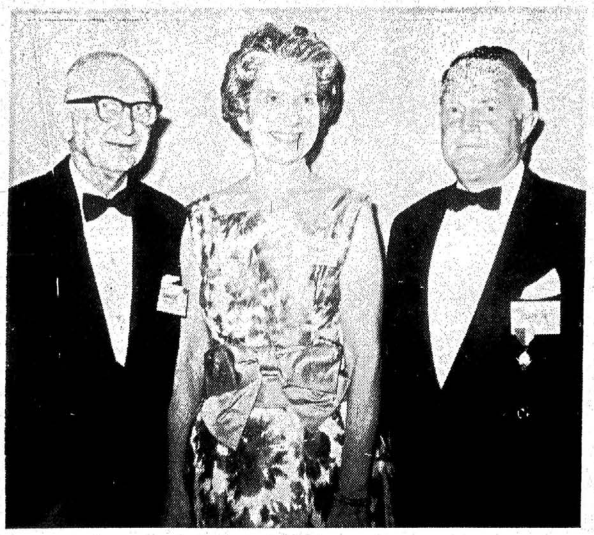
Mr. & Mrs. J. Earle Jardine, *William R. Staats & Co.*, Los Angeles; Robert H. B. Baldwin, *Morgan Stanley & Co.*, New York; Mrs. & Mr. E. A. Evans, *Oil Users Association*, Maimi



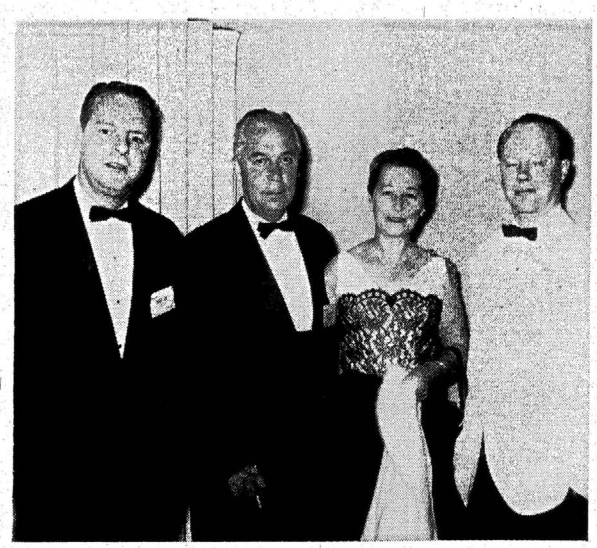
Arthur E. Goodwin, Jr., *Johnston, Lemon & Co.*, Washington, D. C.; Paul O. Frederick, *Fahnestock & Co.*, New York; Charles L. Hewitt, *Fahnestock & Co.*, New York; Robert A. W. Brauns, *McDonnell & Co. Incorporated*, New York; Leonard R. Sullivan, *Fitzpatrick, Sullivan & Co.*, New York

H. H. Sherburne, *Bacon, Whipple & Co.*, New York; Mr. & Mrs. H. Lawrence Bogert, Jr., *Eastman Dillon, Union Securities & Co.*, New York; Egerton B. Vinson, *De Haven & Townsend, Crouter & Bodine*, Philadelphia; E. B. de Selding, *Spencer Trask & Co.*, New York

William H. Swerd, *Morgan Stanley & Co.*, New York; Wallace C. Latour, *Francis I. du Pont & Co.*, New York; Edmond du Pont, *Francis I. du Pont & Co.*, Wilmington, Del.; Lammot du P. Copeland, *E. I. du Pont de Nemours & Co.*, Wilmington, Del.; William B. Chappell, *First Boston Corporation*, New York

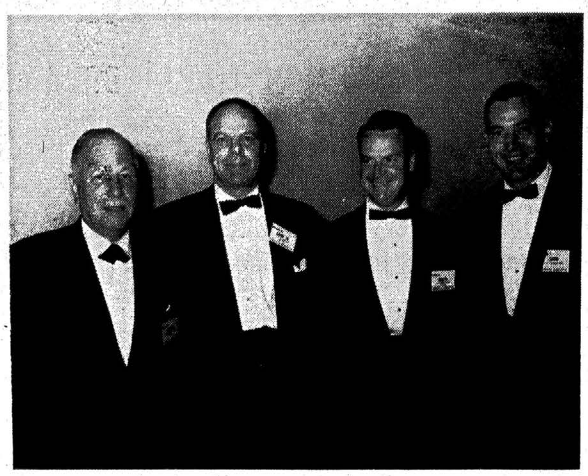


Mr. & Mrs. Anthony E. Tomasic, *Thomas & Company*, Pittsburgh; John J. Clapp, Jr., *R. W. Pressprich & Co.*, New York



Norman E. Reed, Jr., *Curtiss, House & Co.*, Cleveland; Mr. & Mrs. Joseph A. Glynn, Jr., *Blewer, Glynn & Co.*, St. Louis; Theodore A. Gaskell, *Hayden, Miller & Co.*, Cleveland

Mr. & Mrs. Charles E. Lovell, *McDonald & Co.*, Youngstown, Ohio; Herman J. Sheedy, *McDonald & Co.*, Cleveland



James W. Wolff, *Zuckerman, Smith & Co.*, New York; William M. Cahn, Jr., *Schwabacher & Co.*, New York; Floyd H. Beatty, *A. G. Edwards & Sons*, St. Louis; William F. Sarni, *A. G. Edwards & Sons*, St. Louis

Mr. & Mrs. Walter H. Steel, *Drexel & Co.*, New York; Mrs. & Mr. Walter A. Schmidt, *Schmidt, Roberts & Parke*, Philadelphia

Mr. & Mrs. Samuel F. Hughes, *Greenshields Incorporated*, New York; Mrs. & Mr. John M. Heimerdinger, *Walter, Woody & Heimerdinger*, Cincinnati

Col. and Mrs. Oliver J. Troster, *Troster, Singer & Co.*, New York; Mr. & Mrs. Arleigh P. Hess, *Hess, Grant & Remington*, Philadelphia

Gordon L. Calvert, Municipal Director and Assistant General Counsel, *Investment Bankers Association*, Washington, D. C.; George B. Wendt, *First National Bank of Chicago*, Chairman of the I.B.A. Municipal Securities Committee; Dr. Henry J. Frank, *Fairleigh-Dickenson University*, Rutherford, N. J., Guest Speaker at I.B.A. Municipal Forum

Mr. & Mrs. Robie L. Mitchell, *Mitchell, Pershing, Shetterly & Mitchell*, New York; Mrs. & Mr. Dudley C. Foley, Jr., *Foley, Cox & Judell*, New Orleans

Mr. & Mrs. Jack O. Doerge, *Saunders, Stiver & Co.*, Cleveland; Mr. & Mrs. Allen C. DuBois, *Wertheim & Co.*, New York

Graham E. Jones, Theodore Rosen, and Robert E. Linton, all of *Burnham and Company*, New York City

Mr. & Mrs. Walter H. Steele, *Drexel & Co.*, New York; Mrs. & Mr. G. Keith Funston, *New York Stock Exchange*, New York

Governors Elect: Robert A. Nathane, *Merrill Lynch, Pierce, Fenner & Smith Incorporated*, Seattle; Herman J. Sheedy, *McDonald & Company*, Cleveland; Richard B. Walbert, *Blyth & Co., Inc.*, Chicago; John D. Young, *Lee Higginson Corporation*, Boston

John H. Stites, *J. J. B. Hilliard & Son*, Louisville, Ky.; Thomas L. Anglin, *Mackall & Coe*, Washington, D. C.; Roswell J. Yunker, *A. M. Kidder & Co., Inc.*, New York; Lee P. Moore, *A. M. Kidder & Co., Inc.*, Winter Park, Fla.

Sumner B. Emerson, *Morgan Stanley & Co.*, New York; Herman B. Joseph, *Joseph, Mellen & Miller*, Cleveland; William H. Sword, *Morgan Stanley & Co.*, New York; Fred T. Seving, *Butcher & Sherrerd*, Philadelphia

# "Golden Dates" of the IBA

*Continued from page 21*

the need for public education program to caution investors aagínst 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 eight 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).

"Advertising Investment Securities" published by IBA in cooperation with Financial Advertisers Association.

Harry Rascovar, 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 text in courses offered by other Groups and in training programs by individual members.

**1931**

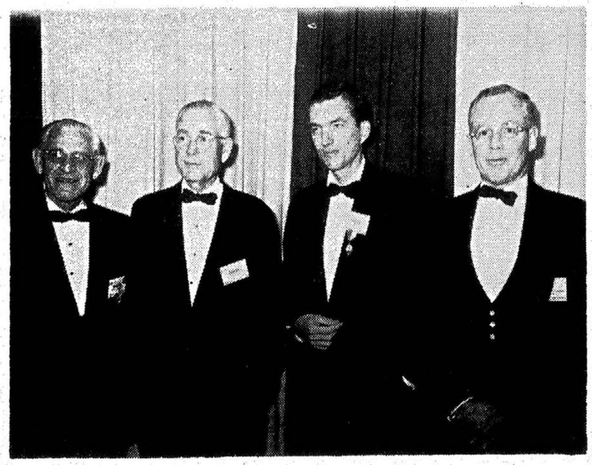
*IBA of A Bulletin* replaced by *Investment Banking* in April as the official Association publication. Originally planned as a monthly magazine, publication became less and less frequent until the final issue appeared in June, 1949.

Cost Accounting Subcommittee created to set up standards of cost and executive control for the investment banking business.

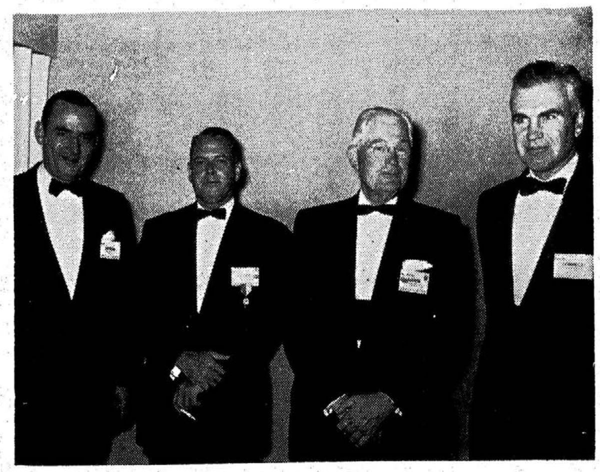
National Credit Corporation created by President Hoover, endorsed by IBA Board of Governors as an aid to stabilizing the nation's economy.

*Continued on page 110*

Mr. & Mrs. George W. Elkins, Jr., *Elkins, Morris, Stokes & Co.*, Philadelphia; Sidney S. Blake, *Janney, Battles & E. W. Clark*, Philadelphia; William H. P. Townsend, *Janney, Battles & E. W. Clark*, Philadelphia



Curtis H. Bingham, *Bingham, Walter & Hurry, Inc.*, Los Angeles; Allen C. DuBois, *Wertheim & Co.*, New York; Peter C. DuBois, *Barron's*, New York; William L. Cary, *Securities & Exchange Commission*, Washington, D. C.



John J. Jackson, *Baker, Watts & Co.*, Baltimore; James E. Roddy, *Scharff & Jones, Inc.*, New Orleans; Wm. Russell Barrow, *Barrow, Leary & Co.*, Shreveport, La.; Bayard Dominick, *Dominick & Dominick*, New York

# "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 those issuers and also to the relations between the issuer and the investment banker.

Twenty-second Annual Convention featured ten round-table forums on subjects of 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 to 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 paralleling 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.

Robert Stevenson, III appointed Secretary of the Association. David Dillman appointed Educational Director. Dudley C. Smith appointed Municipal Director.

**1937**

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—for essays which contribute a better public understanding of the investment banking business.

**1940**

Census of IBA members conducted to compile data on membership, activities, etc.

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. Fleek.

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. Calvert 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 Research Associates; kit of materials and booklet sold to interested members.

**1948**

Erwin W. Boehmler appointed Public Education Director.

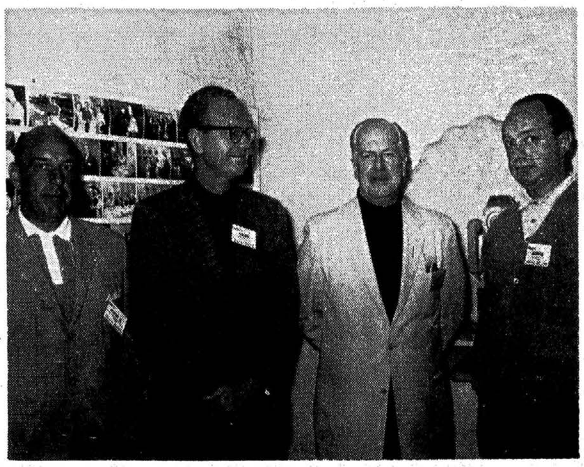
Joint Committee on Education Representing the American Securities Business begun; sponsors Annual Forum on Finance. IBA was charter member of this program to educate college professors on securities business and free enterprise system.

**1949**

Retirement program begun for IBA employees.

Savings Bond Committee aided Treasury in selling bonds to investing public.

Mr. & Mrs. Archie F. MacAllaster, *W. C. Pitfield & Co. Inc.*, New York; Mrs. & Mr. Arthur S. Torrey, *W. C. Pitfield & Co., Ltd.*, Montreal



John L. Porter, *Television Shares Management Corporation*, Chicago; Graham W. Walker, *Dempsey-Tegeler & Co., Inc.*, New York; Francis X. Coleman, *Dempsey-Tegeler & Co., Inc.*, New York; Robert R. Brinker, *John Nuveen & Co.*, Chicago

W. Olin Nesbit, Jr., *Interstate Securities Corporation*, Charlotte, N. C.; Thomas U. Crumpton III, *Interstate Securities Corporation*, Atlanta; Edward B. Wulbern, *Pierce, Carrison, Wulbern, Inc.*, Jacksonville; Arthur M. Rose, *Interstate Securities Corporation*, Charlotte, N. C.

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* initiated 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."

Correspondence Course in 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.

**1951**

Investment Banking Seminar program begun in cooperation with Wharton School, University of Pennsylvania. Two hundred and seven men completed this executive development program in 1951 and 1952.

Manual on Securities Salesmanship published. Prepared by George W. Davis and published by Education Committee. Nearly 20,000 copies have been sold. The Manual is used by many members in their internal training programs.

**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 program 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 550 have graduated.

Anti-Trust charges against 17 member investment banking firms 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.

"The Richest Man in Babylon" — New IBA film premiered at Annual Convention. This film tells the timeless story of thrift and investing; over 160 prints have been sold to members and others.

**1958**

"Investment Banking Functions" published by Bureau of Business Research, University of Michigan. IBA contributed financially as well as materially to this work by Professor Merwin H. Waterman.

IBA received a Certificate of Cooperation from the International Cooperation Administration for providing technical assistance to a financial advisory program sponsored by the agency in cooperation with other governments.

**1958-62**

Association took successful stand against Federal Aid to Education legislation.

**1959**

"Fundamentals of Municipals 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 Investment Association of New York; this comprehensive book was 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.

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**

Municipal Advertising Contest conducted by Special Municipal Committee on Public Education. Also published "Federal Aid to Education?", booklet stating IBA position on this important issue.

John A. Kruse, *Prescott & Co.*, Cleveland, Ohio; Mrs. Thomas A. Melody, Cleveland; J. Raymond Boyce, *Auchincloss, Parker & Redpath*, New York

Edgar R. Oppenheim, *Leo Oppenheim & Co.*, Oklahoma City; Wilbur G. Inman, *John Nuveen & Co.*, Chicago; Harry Brown, *Salomon Brothers & Hutzler*, Chicago

Coleman E. Trainor, *Peoples National Bank of Central Virginia*, Charlottesville, Va.; T. Russell McConchie, *Peoples National Bank of Central Virginia*, Charlottesville, Va.; Wm. P. Moore, Jr., *C. F. Cassell & Co.*, Charlotte, Va.

Bill Zentz appointed Research Director, replacing Frank E. Morris who joined the U. S. Treasury.

Fiftieth Anniversary Committee appointed to draw up program for celebrating Association's fiftieth year.

**1962**

First Municipal conference sponsored by IBA in Chicago, Sept. 10-12.

FIFTIETH ANNIVERSARY COMMITTEE

**Walter A. Schmidt, Chairman**
Schmidt, Roberts & Parke
Philadelphia, Pa.

**Hugh D. Carter, Jr.**
Courts & Co.
Atlanta, Ga.

**Warren H. Crowell**
Crowell, Weedon & Co.
Los Angeles, Calif.

**Thomas W. Evans**
Continental Illinois National Bank & Trust Co. of Chicago
Chicago, Ill.

**Elvin K. Popper**
I. M. Simon & Co.
St. Louis, Mo.

**John Redwood, Jr.**
Baker, Watts & Co.
Baltimore, Md.

**Fred D. Stone, Jr.**
The Marine Trust Co. of Western New York
New York, N. Y.

# IBA Institute's Contest Winners For Best Essays

HOLLYWOOD, Fla. — John W. Hanes, Jr. of Wertheim & Co., New York, was named the winner of the 1962 All-Institute Essay

John W. Hanes, Jr. John M. McCarthy

Competition sponsored by the Investment Bankers Association as part of its annual Institute of Investment Banking. John M. McCarthy of Lord, Abbett & 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 IBA Education Committee, Robert Mason of Merrill 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 IBA member firms. Registrants meet for a week each spring at the Wharton School of Finance and Commerce on the University of Pennsylvania campus in Philadelphia. Members of the first and second year classes are required to submit essays in order to continue in the three-year program.

Mr. Hanes received a $500 award and briefly addressed the Convention delegates on "Industrial Aid Bonds", the subject of his essay. Mr. McCarthy received a $250 award for his paper, "An Investment Analysis of the Electronics Industry."

A graduate of Yale, Mr. Hanes has been with Wertheim & Co. since June, 1961. Prior to that he served eight years with the Department 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. Hanes is also a director of the Fairfax National Bank and a member of the Fairfax County Commercial and Industrial Development Commission (both in Fairfax, Va.)

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

# In Attendance at Convention

*Continued from page 105*

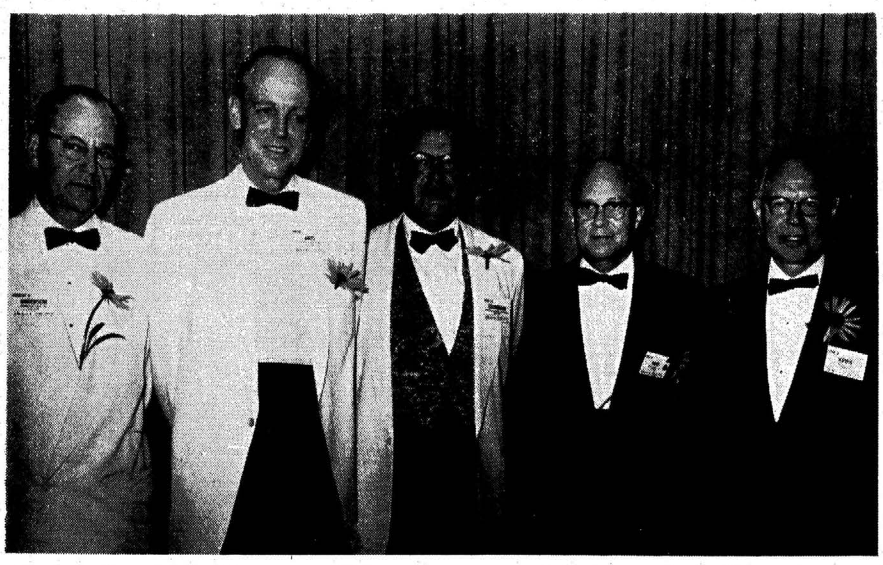
**DAVIS, SCOTT***
Ralph W. Davis & Co., Chicago
**DAVIS, SHELBY CULLOM***
Shelby Cullom Davis & Co., New York
**DAWSON, DUDLEY***
Greenshields Incorporated, Montreal
**DAWSON, JOHN B.***
Wood, King & Dawson, New York
**DAY, JAMES E.**
Midwest Stock Exchange, Chicago
**DEALE, BLAIR B.***
Equitable Securities Canada Ltd., Toronto
**DECANTILLON, JAMES J.**
Continental Illinois National Bank, Chicago
**DeGROFF, RALPH L.**
Robert Garrett & Sons, Baltimore
**DeGROOT, WILLARD G.***
Bateman, Eichler & Co., Los Angeles
**de MILHAU, JOHN W.**
The Chase Manhattan Bank, New York
**DeNUNZIO, RALPH D.***
Kidder, Peabody & Co., New York
**DERREY, ROBERT F.**
Barr Brothers & Co., New York
**de SELDING, EDWARD B.**
Spencer Trask & Co., New York
**DeSTAEBLER, EUGENE L.***
Eldredge & Co., New York
**DEVLIN, WILLIAM A.**
Reynolds & Co., New York
**DEWAR, H. H.**
Dewar, Robertson & Pancoast, San Antonio
**DEWAR, ROBERT L.**
Dewar, Robertson & Pancoast, Dallas
**DIKEMAN, Jr., EDWIN J.**
Bankers Trust Company, New York
**DIMASSIS, Mrs. STANLEY**
Investment Bankers Association, Washington
**DINNICK, JOHN S.***
McLeod, Young, Weir & Co., Toronto
**DOERGE, JACK O.***
Saunders, Stiver & Co., Cleveland
**DOMINICK, BAYARD***
Dominick & Dominick, New York
**DORBRITZ, ERNEST O.**
Moore, Leonard & Lynch, Pittsburgh
**DREYFUSS, BARNEY**
Ferris & Co., Washington
**DROBNIS, GEORGE J.**
Chicago
**duBELL, FRANK S.**
Granbery, Marache & Co., New York
**DuBOIS, ALLEN C.***
Wertheim & Co., New York
**DuBOIS, PETER C.**
Barron's, New York
**DUFFY, SYDNEY G.**
Blyth & Co., New York
**DUGGAN, PAUL N.***
Sutro & Co., San Francisco
**DUNN, STEWART A.***
C. J. Devine & Co., New York
**duPONT, EDMOND**
Francis I. duPont & Co., Wilmington
**DUSENBERY, EARL B.**
Pacific Northwest Company, Seattle
**EARLE, HENRY***
First of Michigan Corporation, Detroit
**EATON, Jr., CHARLES F.**
Eaton & Howard, Boston
**EATON, JOSEPH E.**
Eaton & Howard, New York
**EBBITT, KENNETH C.***
Shelby Cullom Davis & Co., New York
**EBERSTADT, ANDREW W.**
F. Eberstadt & Co., New York
**ECKELBERRY, JOHN E.**
Clark, Dodge & Co., New York
**EDWARDS, JOHN H.***
R. J. Edwards, Inc., Oklahoma City
**EGBERT, RICHARD C.***
Estabrook & Co., New York
**ELAM, RALPH**
Sweney Cartwright & Co., Columbus
**ELKINS, Jr., GEORGE W.***
Elkins, Morris, Stokes & Co., Philadelphia
**EMERSON, SUMNER B.**
Morgan Stanley & Co., New York
**EMPEY, LESTER H.***
Wells Fargo Bank, San Francisco
**ERGOOD, Jr., RUSSELL M.***
Stroud & Co., Philadelphia
**ERLANGER, NORMAN D.**
Asiel & Co., New York
**ERPF, CARL K.**
Ladenburg, Thalmann & Co., New York
**ETHERINGTON, EDWIN D.**
American Stock Exchange, New York
**EVANS, CLEMENT A.**
Clement A. Evans & Co., Atlanta
**EWING, ROBERT W.**
A. E. Masten & Co., Wheeling
**FAATH, Jr., HARRY W.**
A. C. Allyn & Co., Chicago
**FAIRMAN, Jr., FRED W.**
Bache & Co., New York
**FALSEY, WILLIAM J.***
Chas. W. Scranton & Co., New Haven
**FALVEY, JOHN A.**
Investment Bankers Association, Washington
**FARNSWORTH, FREDERICK C.***
Second District Securities Co., New York
**FARRELL, F. D.**
City National Bank, Kansas City
**FAULKNER, DWIGHT F.**
Faulkner, Dawkins & Sullivan, New York
**FAY, Jr., WILLIAM E.***
Smith, Barney & Co., Chicago
**FEELEY, THOMAS E.**
Goodbody & Co., New York
**FERRIS, Jr., GEORGE M.**
Ferris & Co., Washington
**FINNEY, Jr., HOWARD***
Bear, Stearns & Co., New York
**FISHER, CHARLES N.**
Singer, Deane & Scribner, Pittsburgh
**FISHER, GEORGE B.***
Bosworth, Sullivan & Co., Denver
**FLETCHER, DONALD T.**
William Blair & Co., Chicago
**FLOERSHEIMER, WALTER D.**
Sutro Bros. & Co., Palm Beach
**FOLEY, Jr., DUDLEY C.***
Foley, Cox & Judell, New Orleans

*Denotes Mr. & Mrs.

*Continued on page 115*

Mr. & Mrs. George M. Wilson, *Equitable Securities Canada Ltd.*, Toronto; Mr. & Mrs. Blair B. Deale, *Equitable Securities Canada, Ltd.*, Toronto; Mr. & Mrs. J. Ian Crookston, *Nesbitt, Thomson and Company Ltd.*, Toronto





Jim Daisy Initiates: Herbert R. Anderson, *Distributors Group, Incorporated*, New York; Amyas Ames, *Kidder, Peabody & Co.*, New York; Kurt H. Grunebaum, *New York Hanseatic Corporation*, New York; Edde K. Hays, *Dean Witter & Co.*, Chicago; John A. Kruse, *Prescott & Co.*, Cleveland

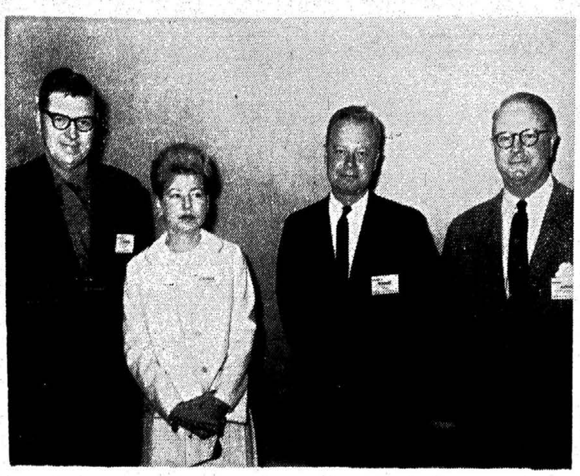


Mr. & Mrs. Elwood D. Boynton, *E. D. Boynton & Co.*, New York; Mr. & Mrs. Charles M. Werly, *Putnam Fund Distributors, Inc.*, Boston; Lawrence B. Illoway, *Penington, Colket & Co.*, Philadelphia

Chapin Litten, *Northern Trust Company*, Chicago; James F. Reilly, *Goodbody & Co.*, New York; Frederick C. Farnsworth, *Second District Securities Co.*, New York

Shelby Cullom Davis, *Shelby Cullom Davis & Co.*, New York; William T. Kemble, *Estabrook & Co.*, Boston; J. Victor Loewi, *Loewi & Co. Incorporated*, Milwaukee

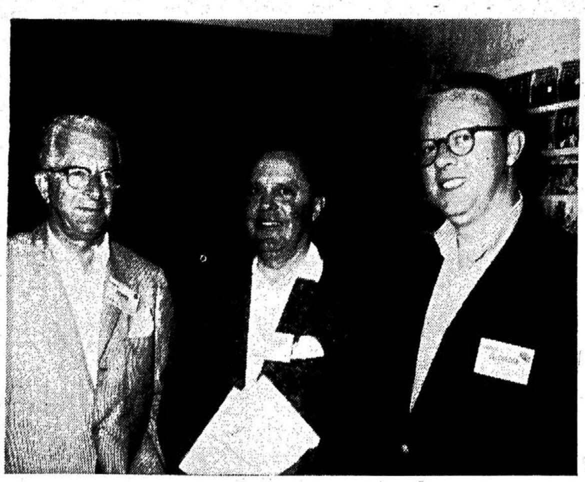
Mr. & Mrs. Ewing T. Boles, *The Ohio Company*, Columbus, Ohio; John G. Parsons, Jr., *Fidelity-Philadelphia Trust Company*, Philadelphia



Mr. & Mrs. Walter M. Sorensen, *Rotan, Mosle & Co.*, Houston; Richard B. Walbert, *Blyth & Co., Inc.*, Chicago; Murray T. Hanson, General Counsel, *Investment Bankers Association of America*

Albert R. Hughes, *Lord, Abbett & Co.*, New York; Mason B. Starring, *A. C. Allyn & Co.*, New York; Albert C. Purkiss, *Walston & Co., Inc.*, New York; Nathan K. Parker, *Kay, Richards & Co.*, Pittsburgh

Mr. & Mrs. Philip Smith, *National Securities & Research Corporation*, New York; John C. Senholzi, *Chase Manhattan Bank*, New York; Theodore F. G. Adair, *F. Eberstadt & Co.*, New York

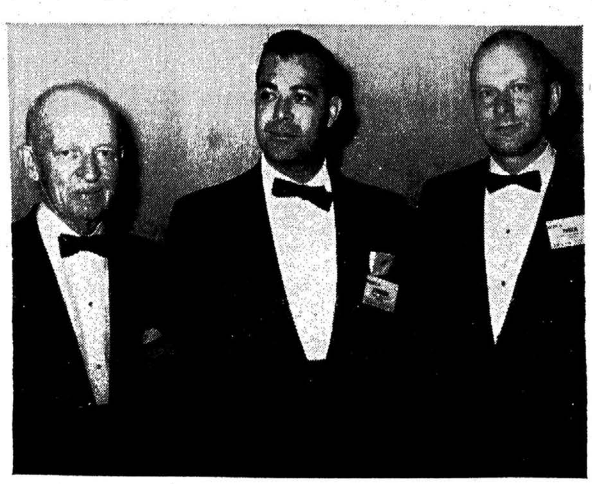


Elvin K. Popper, *I. M. Simon & Co.*, St. Louis; J. Raymond Boyce, *Auchincloss, Parker & Redpath*, New York; Norman A. Cooledge, *Courts & Co.*, Atlanta

Frank L. Reissner, *Indianapolis Bond & Share Corporation*, Indianapolis; Fred W. Fairman, Jr., *Bache & Co.*, New York; Mrs. & Mr. Robert A. Powers, *Smith, Barney & Co.*, New York

Arthur Tresch, *A. E. Masten & Company*, Pittsburgh; James H. Clarke, *American National Bank*, Chicago; Robert W. Ewing, *A. E. Masten & Company*, Wheeling, W. Va.

John J. Kenny, *J. J. Kenny Co.*, New York; Ernest W. Borkland, Jr., *Tucker, Anthony & R. L. Day*, New York; Joseph D. Murphy, *Stifel, Nicolaus & Company Incorporated*, Chicago

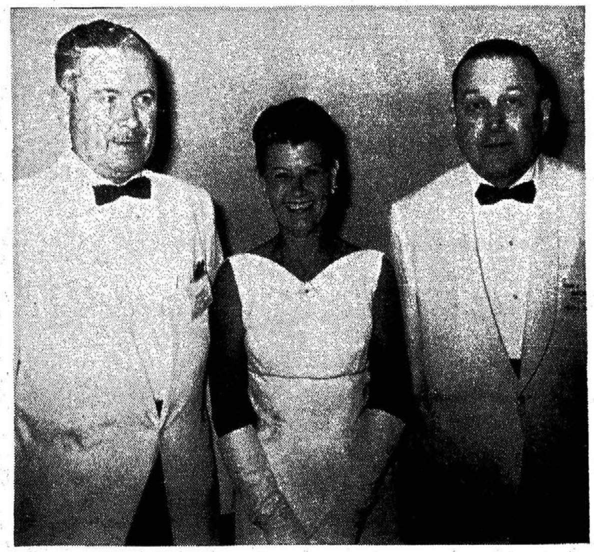


Carl McGlone, *Chapman, Howe & Co.*, Chicago; Wallace D. Johnson, *David A. Noyes & Co.*, Chicago; Milan G. Hiben, *American National Bank*, Chicago

Fred F. Leustig, *Murch & Co., Inc.*, Cleveland; Mr. & Mrs. Richard N. Beaty, *Carl M. Loeb, Rhoades & Co.*, New York; Thomas M. Keresey, *Model, Roland & Co.*, New York

Maurice Meyer III, *Hirsch & Co.*, New York; Mrs. & Mr. Maurice Meyer, *Hirsch & Co.*, New York

Mr. & Mrs. Joseph P. Short, *Arthurs, Lestrange & Co.*, Pittsburgh; Walter B. Nelson, *Fahnestock & Co.*, Philadelphia



Mr. & Mrs. J. F. Stephens, *Texas Fund Management Co.*, Houston; Claude M. McDonald, *McDonald, Evans & Co.*, Kansas City, Mo.

# In Attendance at Convention

*Continued from page 112*

**FOSTER, ALBERT O.***
Foster & Marshall, Seattle
**FOSTER, DAVID SCOTT**
Pershing & Co., New York
**FOX, GEORGE**
Piper, Jaffray & Hopwood, Minneapolis
**FOX, P. FRED***
P. F. Fox & Co., New York
**FOX-MARTIN, MILTON***
Hugh W. Long & Co., Elizabeth
**FRANK, DR. HENRY J.**
Fairleigh-Dickinson University, Rutherford
**FREDERICK, PAUL O.**
Fahnestock & Co., New York
**FREELAND, H. THEODORE***
American Securities Corporation, New York
**FREEMAN, MERRILL D.***
Salomon Brothers & Hutzler, New York
**FRIDLEY, EARL G.***
Fridley & Frederking, Houston
**FRIEND, ARTHUR S.***
Folger, Nolan, Fleming & Co., Washington
**FRIEND, Jr., WALTER W.**
R. W. Pressprich & Co., New York
**FUGLESTAD, ARNE**
Lee Higginson Corporation, New York
**FULKERSON, Jr., W. NEAL***
Bankers Trust Company, New York
**FULLER, JOSEPH T.**
William A. Fuller & Co., Chicago
**FULTON, WALLACE H.**
National Association of Securities Dealers, Washington
**FULTON, W. YOST**
Fulton, Reid & Co., Cleveland
**FUNSTON, G. KEITH***
New York Stock Exchange, New York
**GALLAGHER, WILLIAM G.**
Vance, Sanders & Co., New York
**GALLOWAY, ARCHIBALD N.***
Sykes, Galloway & Dikeman, New York

***Denotes Mr. & Mrs.**

**GALLIVAN, JAMES F.**
Alester G. Furman Co., Greenville
**GARDINER, Jr., JOHN J.***
Irving Lundborg & Co., San Francisco
**GARDNER, JOHN R.**
Reinholdt & Gardner, St. Louis
**GARRAWAY, ROBERT C.**
Deposit Guaranty Bank & Trust Co., Jackson
**GARRITY, JOHN P.**
Chicago Sun-Times, New York
**GASAWAY, HOWARD H.**
The Ohio Company, Columbus
**GASKELL, THEODORE A.**
Hayden, Miller & Co., Cleveland
**GASSARD, H. L.**
Investment Dealers' Association, Toronto
**GAUGHAN, PHILIP P.**
DeHaven & Townsend, Crouter & Bodine, Philadelphia
**GAUNTT, WILLIAM L.***
Thornton, Mohr, Farish & Gauntt, Montgomery
**GEDDES, EUGENE M.**
Clark, Dodge & Co., New York
**GENACHTE, PAUL F.***
The Chase Manhattan Bank, New York
**GERRISH, ROBERT G.**
Oscar E. Dooly & Co., Miami
**GIBBONS, Jr., GEORGE B.***
Geo. B. Gibbons & Co., New York
**GIBBS, LOUIS A.**
Laird, Bissell & Meeds, New York
**GIBSON, RICHARD D.**
Boettcher & Co., Denver
**GILBERT, JAMES F.**
Hornblower & Weeks, New York
**GILMARTIN, ROGER T.**
Morgan Stanley & Co., New York
**GIRMSCHEID, Jr., ROBERT A.**
Investment Bankers Association, Washington
**GLASGOW, LAWSON***
Royal Securities Corporation, Montreal
**GLOVER, W. WAYNE***
United California Bank, Los Angeles

**GLYNN, Jr., JOSEPH A.***
Blewer, Glynn & Co., St. Louis
**GODSHALL, R. ELLIS**
Clement A. Evans & Co., Atlanta
**GOODWIN, Jr., ARTHUR E.**
Johnston, Lemon & Co., Washington
**GOULD, JOHN D. B.**
The Philadelphia National Bank, Philadelphia
**GRAM, Jr., HARVEY B.***
Johnston, Lemon & Co., Washington
**GRANGAARD, BERNHARD C.***
Central National Bank, Des Moines
**GRANT, Jr., HUNTER B.***
Coffin & Burr, New York
**GRAY, WILLIAM S.***
Wm. J. Mericka & Co., Cleveland
**GREEN, GEORGE H. C.***
Liberty National Bank, Oklahoma City
**GREEN, J. BRADLEY***
Morgan Guaranty Trust Company, New York
**GREGORY, ROBERT H.**
Gregory & Sons, New York
**GREGORY, III, WILLIAM H.**
Gregory & Sons, New York
**GRUNEBAUM, KURT H.***
New York Hanseatic Corporation, New York
**GUASTELLA, ARTHUR R.**
Daily Bond Buyer, New York
**GUERNSEY, DAVID T.**
B. J. Van Ingen & Co., New York
**GULLIVER, ALLAN D.***
Merrill Lynch, Pierce, Fenner & Smith Inc., New York
**GUMMERSBACH, ALBERT E.**
Dempsey-Tegeler & Co., St. Louis
**GUNN, E. H.***
Bell, Gouinlock & Co., Toronto
**GURCAK, FRANK J.**
Thomas & Co., Pittsburgh
**GUTFREUND, JOHN H.***
Salomon Brothers & Hutzler, New York
**HAGAN, III, JOHN C.***
Mason-Hagan, Inc., Richmond
**HAGENSIEKER, EARL L.***
Reinholdt & Gardner, St. Louis
**HAIRE, JOHN R.**
Hugh W. Long & Co., Elizabeth
**HALL, GEORGE W.***
Wm. E. Pollock & Co., New York

**HALLIBURTON, GUS G.**
Equitable Securities Corporation, Nashville
**HALLORAN, ROBERT K.***
Robert Winthrop & Co., New York
**HALLOWELL, HENRY R.***
Hallowell, Sulzberger, Jenks, Kirkland & Co., Philadelphia
**HAMILTON, ROBERT E.***
Laidlaw & Co., New York
**HANES, Jr., JOHN W.***
Wertheim & Co., New York
**HANRAHAN, PAUL B.***
Hanrahan & Co., Worcester
**HANSEL, DOUGLAS R.***
Shields & Co., New York
**HANSON, MURRAY**
Investment Bankers Association, Washington
**HARDING, WILLIAM G.**
Coffin & Burr, Boston

**HARDY, Jr., EDWARD K.**
The Illinois Company, Chicago
**HARRINGTON, FULLER A.***
Harrington & Co., Jackson
**HARRIS, DAVID J.**
Bache & Co., Chicago
**HARRIS, HENRY L.***
Henry Harris & Sons, New York
**HARRIS, I. DOUGLAS**
Henry Harris & Sons, New York
**HARRIS, WILLIAM B.**
Harris & Partners, New York
**HARVEY, Jr., F. BARTON**
Alex. Brown & Sons, Baltimore
**HASSMAN, ELMER G.**
A. G. Becker & Co., Chicago
**HATCHER, LLOYD B.***
White, Weld & Co., New York

*Continued on page 119*

Thomas P. Phelan, *Pacific Coast Stock Exchange;* H. H. Dewar, *Dewar, Robertson & Pancoast,* San Antonio; Wallace H. Fulton, *National Association of Securities Dealers,* Washington; Mrs. & Mr. William B. Chappell, *First Boston Corporation,* New York



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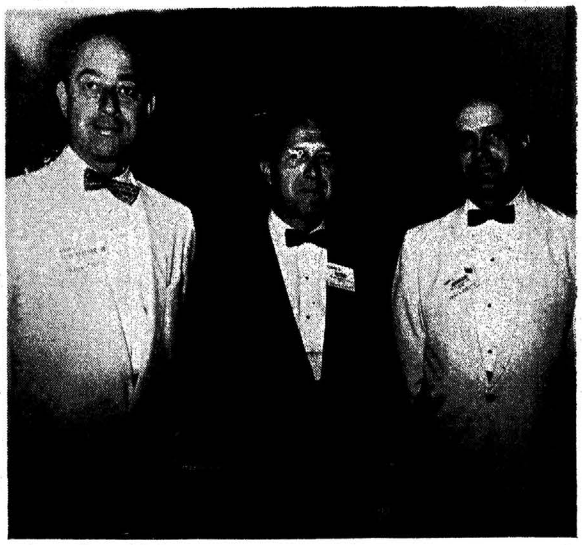
Ass't Municipal Director For Public Education

John M. Nash

Avery Rockefeller, Jr., *Dominick & Dominick*, New York; Joseph Ludin, *Dillon, Read & Co., Inc.*, New York; Frank H. Hunter, *McKelvy & Company*, Pittsburgh

Mr. & Mrs. Mark Davids, *Lester, Ryons & Co.*, Los Angeles; Mr. & Mrs. Fred D. Stone, Jr., *Marine Trust Company of Western New York*, New York City



Albert E. Schwabacher, Jr., *Schwabacher & Co.*, San Francisco; Clarence W. Ostema, *New York Hanseatic Corporation*, New York; Albert L. Johnson, *The First National Bank*, Memphis

# 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 Nortrwestern 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 some 120,000 homes for a total viewing audience of approximately 275,000 persons each Sundav 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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**Robert Mason, Chairman**
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Chicago, Ill.

**Edmund M. Adams**
Crowell, Weedon & Co.
Los Angeles, Calif.

**William O. Alden, Jr.**
Alden & Co., Inc.
Louisville, Ky.

**Addison W. Arthurs**
Arthurs, Lestrange & Co.
Pittsburgh, Pa.

**Robert Henry Baker**
Rowles, Winston & Co.
Houston, Tex.

**Frederic C. Beil, Jr.**
Blair & Co., Inc.
St. Petersburg, Fla.

**Paulen E. Burke**
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**R. Stuart Dickson**
R. S. Dickson & Co., Inc.
Charlotte, N. C.

**George M. Ferris, Jr.**
Ferris & Co.
Washington, D. C.

**Robert D. Field**
Paine, Webber, Jackson & Curtis
St. Paul, Minn.

**William S. Gray**
Wm. J. Mericka & Co., Inc.
Cleveland, Ohio

**Charles L. Hewitt**
Fahnestock & Co.
New York, N. Y.

**Harry A. Jacobs, Jr.**
Bache & Co.
New York, N. Y.

**George S. Kemp, Jr.**
Abbott, Proctor & Paine
Richmond, Va.

**Donald Langley**
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**Thomas A. Melody**
Merrill, Turben & Co., Inc.
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**Glenn R. Miller**
Cruttenden, Podesta & Miller
Chicago, Ill.

**Paul F. Miller, Jr.**
Drexel & Co.
Philadelphia, Pa.

**R. Burton Parker**
Kay, Richards & Co.
Pittsburgh, Pa.

**G. Glen Potter**
Reynolds & Co.
Boston, Mass.

**James W. Riordan**
Reinholdt & Gardner
St. Louis, Mo.

**Robert O. Shepard**
Prescott & Co.
Cleveland, Ohio

**Harold H. Sherburne**
Bacon, Whipple & Co.
New York, N. Y.

**William Slater**
Blyth & Co., Inc.
Seattle, Wash.

**John E. Vernier**
Manley, Bennett, McDonald & Company
Detroit, Mich.

**Frank E. Voysey**
Kidder, Peabody & Co.
Chicago, Ill.

**Charles S. Werner**
Shearson, Hammill & Co.
Chicago, Ill.

**Wendell W. Witter**
Dean Witter & Co.
San Francisco, Calif.

Mr. & Mrs. P. Alden Bergquist, *First National Bank*, Chicago; William S. Morrison, Jr., *Harris Trust & Savings Bank*, Chicago

Archibald N. Galloway, *Sykes, Galloway & Dikeman*, New York; Louis A. Hauptfleisch, *Goldman, Sachs & Co.*, New York; Mrs. Edward L. Brown, New York; Russell M. Ergood, Jr., *Stroud & Company Incorporated*, Philadelphia; Jerome C. L. Tripp, *Tripp & Co., Inc.*, New York

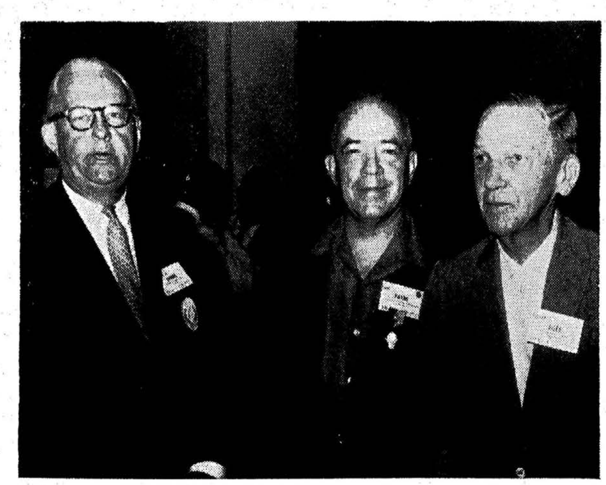
Mrs. & Mr. Orin M. Phelps, *The Phelps Company*, Miami


George P. Rutherford, *Dominion Securities Corporation*, New York, *Dominion Securities Corporation* is the only Canadian Founder member firm

Mr. & Mrs. Jack O. Doerge, *Saunders, Stiver & Co.*, Cleveland; John F. Bryan, *Reynolds & Co.*, New York; Mrs. & Mr. Gilbert Hattier, Jr., *Hattier & Sanford*, New Orleans

Mr. & Mrs. John C. Clark, *Wachovia Bank & Trust Co.*, Winston-Salem, N. C.; Mr. & Mrs. John N. Mitchell, *Caldwell, Trimble & Mitchell*, New York

Mr. & Mrs. W. Neal Fulkerson, *Bankers Trust Company*, New York; Mrs. & Mr. Merrill D. Freeman, *Salomon Brothers & Hutzler*, New York



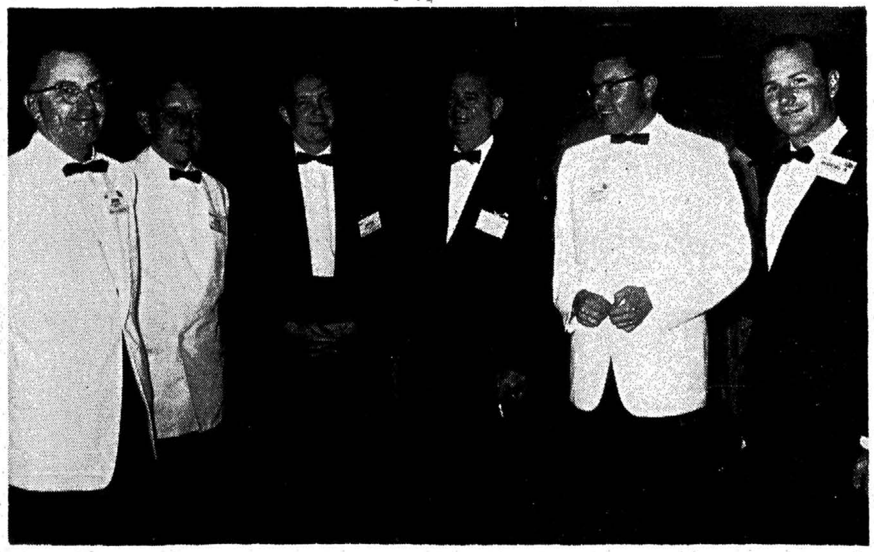
Clement A. Evans, *Clement A. Evans & Co., Inc.*, Atlanta; Carr Payne, *Cumberland Securities Corporation*, Nashville; Rucker Agee, *Sterne, Agee & Leach*, Birmingham

William T. Kemble, *Estabrook & Co.*, Boston; Mrs. & Mr. Philip M. Stearns, *Oscar Dooly & Co.*, Miami; Mrs. William T. Kemble

Mr. & Mrs. Albert O. Foster, *Foster & Marshall, Inc.*, Seattle; Mr. & Mrs. W. Wayne Glover, *United California Bank*, Los Angeles

Louis A. Gibbs, *Laird, Bissell & Meeds*, New York; Mrs. & Mr. Milton Brittain, *Fahnestock & Co.*, New York

William L. Cary, *Securities & Exchange Commission*, Washington, D. C.; Curtis H. Bingham, *Bingham, Walter & Hurry, Inc.*, Los Angeles, President of the *Investment Bankers Association*



Jack Zeitler, *Third National Bank*, Nashville; Bracebridge H. Young, *Second District Securities Co.*, New York; John Krause, *Reinholdt & Gardner*, St. Louis; Arthur A. Christophel, *Reinholdt & Gardner*, St. Louis; J. Wells Coggeshall, *Colonial Distributors, Inc.*, St. Petersburg, Fla.; James C. Bradford, Jr., *J. C. Bradford & Co.*, Nashville

Kenneth Murton, *A. E. Ames & Co. Incorporated*, New York; G. Peter Nares, *James Richardson & Sons, Inc.*, New York

# In Attendance at Convention

*Continued from page 115*

**HATTIER, Jr., GILBERT***
Hattier & Sanford, New Orleans
**HAUPTFLEISCH, LOUIS A.***
Goldman, Sachs & Co., New York
**HAUSER, MICHAEL M.**
Ft. Lauderdale News, Hollywood
**HAWES, HARDIN H.**
Harris Trust & Savings Bank, Chicago
**HAWKINSON, JOHN**
Television Shares Management Corporation, Chicago
**HAYDEN, DONALD W.**
Baumgartner, Downing & Co., Baltimore
**HAYES, MILTON J.**
American National Bank, Chicago
**HAZARD, OLIVER C.**
Hayden, Stone & Co., New York
**HAYS, EDDE K.**
Dean Witter & Co., Chicago
**HEFFERNAN, PAUL**
Daily Bond Buyer, New York
**HEGAMASTER, DONALD**
Ball, Burge & Kraus, Cleveland
**HEIMERDINGER, JOHN M.***
Walter, Woody & Heimerdinger, Cincinnati
**HEINEMANN, ERIC**
Business Week, New York
**HEITNER, NORMAN E.***
Yates, Heitner & Woods, St. Louis
**HENDERSON, TED C.**
T. C. Henderson & Co., Des Moines

***Denotes Mr. & Mrs.**

**HENDRIX, JAMES R.***
Hendrix & Mayes, Birmingham
**HERMAN, KENNETH S.**
Walston & Co., New York
**HERRINGTON, GEORGE***
Orrick, Dahlquist, Herrington & Sutcliffe, San Francisco
**HESS, ARLEIGH P.***
Hess, Grant & Remington, Philadelphia
**HESS, Jr., WALTER W.***
L. F. Rothschild & Co., New York
**HETTLEMAN, PHILLIP***
Hettleman & Co., New York
**HEWITT, CHARLES L.**
Fahnestock & Co., New York
**HEYES, FRED L.***
Dillon, Read & Co., New York
**HIBBERD, WILLIAM W.***
Trust Company of Georgia, New York
**HIBEN, MILAN G.**
American National Bank, Chicago
**HICKEY, III, MATTHEW J.**
Hickey & Co., Chicago
**HILBORNE, TOM G.***
Liberty National Bank, Oklahoma City
**HILL, DRAPER***
Harkness & Hill, Boston
**HILL, KENNETH E.**
Eastman Dillon, Union Securities & Co., New York
**HILL, MALVERN**
Malvern Hill & Co., New York
**HILLIARD, HENNING***
J. J. B. Hilliard & Son, Louisville
**HILSON, JOHN S.***
Wertheim & Co., New York

**HINDS, TOM E.**
Hollywood Sun-Tattler, Hollywood
**HISS, PHILIP M.***
First National Bank of Chicago, New York
**HODGE, CHARLES J.**
Glore, Forgan & Co., New York
**HOLMYARD, HAROLD R.**
Hayden, Stone & Co., New York
**HOOPER, Jr., WILLIAM U.**
Mead, Miller & Co., Baltimore
**HOPKINSON, Jr., EDWARD**
Drexel & Co., Philadelphia
**HORNING, BERT H.**
Dempsey-Tegeler & Co., St. Louis
**HORTON, ARTHUR**
Penington, Colket & Co., Philadelphia
**HOUSER, C. WILLARD***
Texas Group, IBA, Austin
**HOUSTON, B. F.***
Dallas Union Securities Co., Dallas
**HOWARD, C. EDWARD***
Piper, Jaffray & Hopwood, Minneapolis
**HOWARD, JOHN E.**
Industrial National Bank, Providence
**HUDSON, FRED W.***
Ball, Burge & Kraus, Cleveland
**HUGHES, ALBERT R.***
Lord, Abbett & Co., New York
**HUGHES, SAMUEL F.***
Greenshields Incorporated, New York
**HUGHES, WILLIAM S.***
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**HUNSAKER, Jr., JEROME C.**
Colonial Distributors, Inc., Boston
**HUNTER, DAVID W.**
McKelvy & Co., Pittsburgh
**HUNTER, FRANK H.**
McKelvy & Co., Pittsburgh
**HUNTER, HERBERT D.**
Watling, Lerchen & Co., Detroit
**HURLEY, GERALD L.**
Barr Brothers & Co., New York
**HURLEY, WILLIAM L.**
Baker, Simonds & Co., Detroit
**HYDE, J. HINDON**
Halle & Stieglitz, New York
**IJAMS, MAITLAND T.**
W. C. Langley & Co., New York
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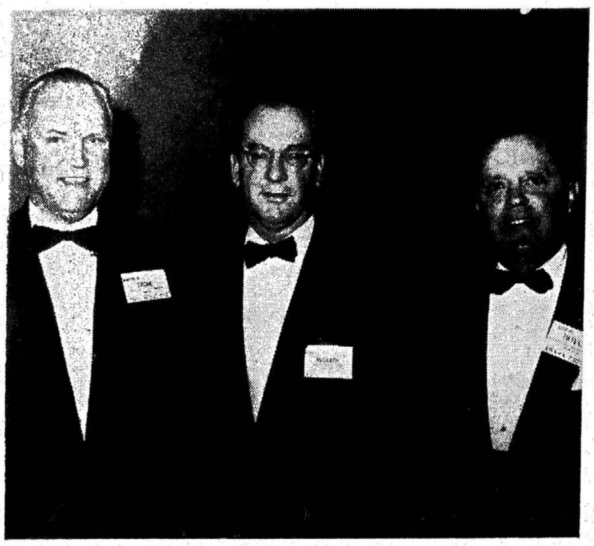
Penington, Colket & Co., Philadelphia
**INMAN, WILBUR G.**
John Nuveen & Co., Chicago
**JACKSON, JOHN J.**
Baker, Watts & Co., Baltimore
**JACOBS, Jr., HARRY A.**
Bache & Co., New York
**JACOBUS, MELVIN S.***
Shaw, Hooker & Co., San Francisco
**JACOBUS, ROYDEN E.**
Vilas & Hickey, New York
**JARDINE, J. EARLE***
William R. Staats & Co., Los Angeles
**JEDLICKA, FRANK**
Arnhold & S. Bleichroeder, New York
**JOHNSON, ALBERT L.**
The First National Bank, Memphis
**JOHNSON, JOSEPH T.**
The Milwaukee Company, Milwaukee
**JOHNSON, WALLACE D.**
David A. Noyes & Co., Chicago
**JOHNSTON, DONALD R.***
Harris & Partners, New York
**JOHNSTON, ROBERT B.**
The First National Bank, Chicago
**JONES, DAVID F.**
Mellon National Bank, New York
**JONES, EDWARD D.**
Edward D. Jones & Co., St. Louis
**JONES, GRAHAM E.***
Burnham & Co., New York
**JONES, HANK**
The Miami News, Ft. Lauderdale
**JONES, RICHARD W.**
Mitchum, Jones & Templeton, Los Angeles
**JORDAN, Jr., G. CARL**
R. W. Pressprich & Co., Boston
**JOSEPH, HERMAN B.**
Joseph, Mellen & Miller, Cleveland
**KALISCH, Jr., ABNER***
Banco Popular de Puerto Rico, San Juan
**KAUFMAN, C. L.***
Kaufman Bros. Co., Norfolk
**KEATING, LAURENCE C.**
Goodbody & Co., New York
**KELLEY, ROBERT X.**
Harriman Ripley & Co., Chicago
**KELLOGG, III, JAMES C.***
Spear, Leeds & Kellogg, New York
**KELLY, EDWARD J.**
Carl M. Loeb, Rhoades & Co., New York
**KEMBLE, WILLIAM T.***
Estabrook & Co., Boston

**KEMP, Jr., GEORGE STEVENSON***
Abbott, Proctor & Paine, Richmond
**KEMPER, JOHN A.***
John A. Kemper & Co., Lima, Ohio
**KENNEDY, Jr., DANIEL C.**
Lord, Abbett & Co., Chicago
**KENNY, JOHN J.***
J. J. Kenny Co., New York
**KERESEY, THOMAS M.**
Model, Roland & Co., New York
**KERR, WILLIAM D.**
Wertheim & Co., New York
**KEUSCH, ERNEST E.**
W. E. Hutton & Co., New York
**KIEPER, HENRY J.**
New York Hanseatic Corporation, New York

**KIMBALL, RICHARD**
Merrill Lynch, Pierce, Fenner & Smith, New York
**KING, JOSEPH H.***
Eastman Dillon, Union Securities & Co., New York
**KINGSBURY, JAMES M.**
Dominick & Dominick, New York
**KLEIMAN, EDWIN J.**
Vilas & Hickey, New York
**KLINGEL, JAMES E.***
Juran & Moody, St. Paul
**KNAPP, ALFRED S.**
Janney, Battles & E. W. Clark, Philadelphia

*Continued on page 120*



Walter H. Stohl, *Fidelity Union Trust Co.*, Newark; Gordon McGrath, *Winslow, Cohu & Stetson, Inc.*, New York; J. Raymond Boyce, *Auchincloss, Parker & Redpath*, New York

Mr. & Mrs. C. Edward Howard, *Piper, Jaffray & Hopwood*, Minneapolis; George Fox, *Piper, Jaffray & Hopwood*, Minneapolis; John S. Curtin, *Kalman & Co., Inc.*, Minneapolis

David F. Jones, *Mellon National Bank & Trust Company*, New York; J. Mabon Childs, *Chaplin, McGuiness & Co.*, Pittsburgh; William H. Staring, Jr., *Mellon National Bank & Trust Company*, Pittsburgh

Joseph F. Clark, *Municipal Finance Officers Association*, Chicago; Claud O. Boothman, *Dumas, Huguenin & Boothman*, Dallas; E. Lynn Crossley, *Municipal Finance Officers Association*, Dallas

Irving H. Campbell, *Bell, Gouinlock & Co., Ltd.*, Toronto; Mr. & Mrs. George P. Rutherford, *Dominion Securities Corporation*, New York; Andrew G. Curry, *A. E. Ames & Co. Incorporated*, New York

Mr. & Mrs. H. George Carrison, *Pierce, Carrison, Wulbern, Inc.*, Jacksonville; Mr. & Mrs. Robert G. Rouse, *Federal Reserve Bank*, New York

# In Attendance at Convention

*Continued from page 119*

KNEASS, GEORGE B.*
The Philadelphia National Bank, Philadelphia
KNIGHT, NEWELL S.*
First National Bank, St. Louis
KNIGHT, PEYTON H.
Emanuel Deetjen & Co., New York
KNOTHE, STANNARD B.
Halle & Stieglitz, New York
KNOX, JOHN T.
Federal Land Banks, New York
KOCUREK, ARNOLD J.
Rauscher, Pierce & Co., San Antonio
KOENIG, PHILIP F.*
Koenig, Keating & Stead, Chicago
KOLLS, Mrs. MARGARET E.
Investment Bankers Association, Washington
KRAUSE, JOHN
Reinholdt & Gardner, St. Louis
KRUSE, JOHN A.
Prescott & Co., Cleveland
KRUSEN, H. STANLEY
Shearson, Hammill & Co., New York

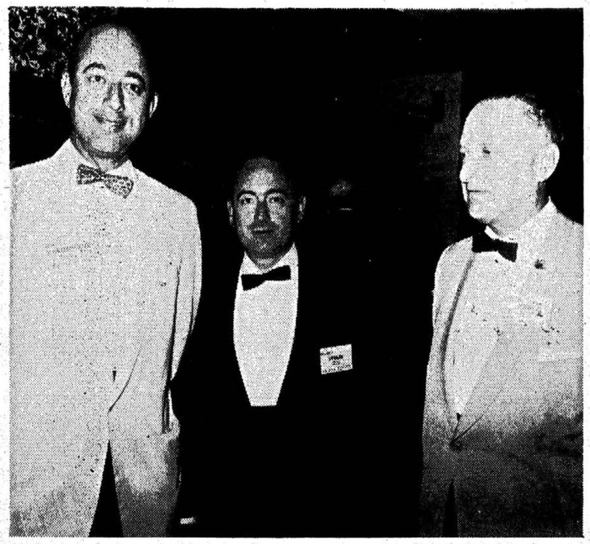
*Denotes Mr. & Mrs.

KULP, A. MOYER*
Wellington Management Company, Philadelphia
LABOUISSE, JOHN P.*
Howard, Weil, Labouisse, Friedrichs & Co., New Orleans
LANAHAN, W. WALLACE
Stein Bros. & Boyce, Baltimore
LANDSTREET, III, BEVERLY W.
Clark, Landstreet & Kirkpatrick, Nashville
LARKIN, JOHN J.
First National City Bank, New York
LARSON, DAVID
Government Development Bank for Puerto Rico, New York
LASCELLES, Jr., CHARLES B.
Common, Dann & Co., Buffalo
LATOUR, WALLACE C.*
Francis I. duPont & Co., New York
LAWLOR, Jr., WILLIAM J.
Hornblower & Weeks, Chicago
LAWSON, JOHN S.
Discount Corporation, New York
LEACH, RALPH F.
Morgan Guaranty Trust Company, New York
LEE, Jr., GARNETT O.
Anderson & Strudwick, Richmond

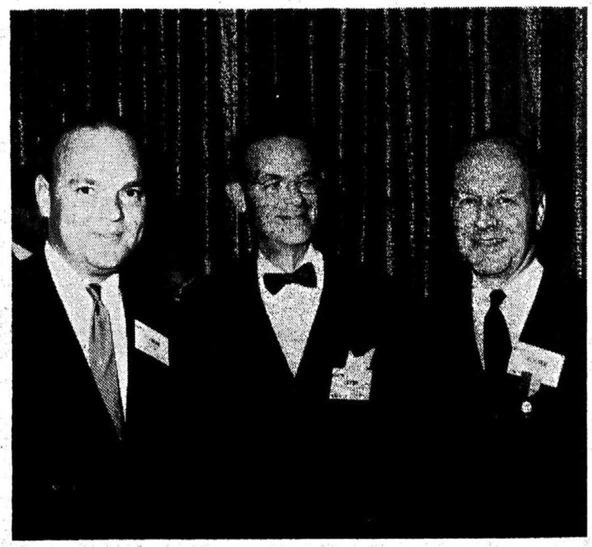
LEE, JAMES J.
W. E. Hutton & Co., New York
LEGROS, EDGAR E.*
The First Cleveland Corporation, Cleveland
LEITH, Jr., R. WILLIS*
Burgess & Leith, Boston
LEMON, JAMES H.*
Johnston, Lemon & Co., Washington
LEDYARD, Q. R.
Equitable Securities Corporation, Nashville
LESTER, Jr., B. P.*
Lester, Ryons & Co., Los Angeles
LEUSTIG, FRED F.
Murch & Co., Cleveland
LEVERING, WALTER B.
Carlisle & Jacquelin, New York
LEWIS, MILTON F.*
A. G. Becker & Co., New York
LICKLE, WILLIAM C.
Laird, Bissell & Meeds, Wilmington
LIEBMAN, WILLIAM L.
Loewi & Co., Milwaukee
LINDBURG, ARTHUR R.
Glore, Forgan & Co., Chicago
LINKLETTER, ART*
Los Angeles
LINTON, ROBERT E.
Burnham & Co., New York
LITTEN, CHAPIN
The Northern Trust Company, Chicago
LITTLE, ALDEN H.*
Investment Bankers Association, Hollywood
LOCKETT, JOSEPH F.
Townsend, Dabney & Tyson, Boston
LOCKWOOD, FRANK J.
A. G. Becker & Co., New York
LOEWI, J. VICTOR
Loewi & Co., Milwaukee
LOKAY, JOHN M.
Shearson, Hammill & Co., New York
LORD, Jr., ANDREW J.
Eaton & Howard, Boston
LOUD, NELSON
New York Securities Co., New York
LOVE, MALCOLM E.
Barr Brothers & Co., New York
LOVELL, CHARLES E.
McDonald & Co., Youngstown
LOW, V. THEODORE*
Bear, Stearns & Co., New York
LOWELL, Jr., JAMES R.
Paine, Webber, Jackson & Curtis, New York
LUBY, JOSEPH M.
Paine, Webber, Jackson & Curtis, New York
LUCAS, Jr., MARK A.
E. F. Hutton & Co., Kansas City
LUDIN, JOSEPH
Dillon, Read & Co., New York
LYNCH, Jr., CHARLES McK.*
Moore, Leonard & Lynch, Pittsburgh

LYNCH, III, THOMAS*
Moore, Leonard & Lynch, Pittsburgh
LYNE, LEWIS F.*
Mercantile National Bank, Dallas
LYNN, GENE*
Wertheim & Co., New York
LYONS, LAWRENCE
Allen & Co., New York
LYONS, SAM B.
Cruttenden, Podesta & Miller, Chicago
LYONS, Jr., W. L.
W. L. Lyons & Co., Louisville
MABIE, WILLIAM D.
A. G. Becker & Co., Chicago
MacALLASTER, ARCHIE F.*
W. C. Pitfield & Co., New York
MAGNUS, WILLIAM S.*
Magnus & Co., Cincinnati
MAGRANE, JOHN S.*
Dillon, Read & Co., New York
MANLEY, MILTON A.*
Manley, Bennett, McDonald & Co., Detroit
MARCKWALD, ANDREW K.*
Discount Corporation, New York
MARCUSSON, P. A.
Investment Dealers' Digest, New York
MARLIN, WILLIAM
Bache & Co., New York
MARTIN, CHARLES J.
Folger, Nolan, Fleming & Co., Washington
MASON, LESTER
Burroughs Clearing House, Detroit

MASON, ROBERT*
Merrill Lynch, Pierce, Fenner & Smith, Chicago
MASTERSON, THOMAS W.
Underwood, Neuhaus & Co., Houston
MATHERS, LLOYD C.
Goodbody & Co., New York
MAWDSLEY, LORRIN C.
Van Alstyne, Noel & Co., New York
MAY, J. DENNY*
The Parker Corporation, Boston
MAY, RANDALL E.*
Chicago Sun-Times & Daily News, Chicago
McBRIDE, ALFRED R.
Wright, Wood & Co., Philadelphia
McCANDLESS, JOHN A.
Vance, Sanders & Co., Boston
McCART, DAVID A.
Mills, Spence & Co., New York
McCARTHY, JOHN M.
Lord, Abbett & Co., New York
McCONCHIE, T. RUSSELL
Peoples National Bank, Charlottesville
McCONNEL, Jr., W. BRUCE*
Lazard Freres & Co., New York
McCORMACK, FRANK J.
H. Hentz & Co., New York
McCULLEY, C. RADER*
First Southwest Company, Dallas
McDONALD, C. BERT
McDonald & Co., Cleveland
McDONALD, CLAUDE M.
McDonald, Evans & Co., Kansas City



Albert E. Schwabacher, Jr., *Schwabacher & Co.*, San Francisco; William L. Liebman, *Loewi & Co. Incorporated*, Milwaukee; J. Victor Loewi, *Loewi & Co. Incorporated*, Milwaukee



Edwin J. Kleiman, *Vilas & Hickey*, New York; Morton A. Cayne, *J. N. Russell & Co., Inc.*, Cleveland; Col. Oliver J. Troster, *Troster, Singer & Co.*, New York

Mr .& Mrs. Monroe V. Poole, *Geo. B. Gibbons & Co., Inc.*, New York; Mr. & Mrs. Russell M. Ergood, Jr., *Stroud & Company Incorporated*, Philadelphia

McGLONE, CARL
Chapman, Howe & Co., Chicago
McGRATH, GORDON
Winslow, Cohu & Stetson, New York
McGREW, EDWARD D.
The Northern Trust Company, Chicago
McKEE, GROVER E.
F. S. Smithers & Co., New York
McKINNEY, RICHARD B.
Taylor & Co., Los Angeles
McLAREN, HARRIS B.
McDonald & Co., Cleveland
McLELLAN, PHILIP F.*
Massachusetts Life Fund Distributors, Boston
McTEAGUE, BERTRAND
Putnam & Co., Hartford
MELODY, THOMAS A.*
Merrill, Turben & Co., Cleveland
METZNER, RUSSELL H.
Central National Bank, Cleveland
MEYER, Jr., MAURICE*
Hirsch & Co., New York
MEYER, III, MAURICE
Hirsch & Co., New York
MEYERS, EDWARD J.
Baxter & Co., New York
MICHELS, HARRY A.*
Allen & Co., New York
MILLER, CHARLES M.
Mullaney, Wells & Co., Chicago
MILLER, TED*
Joseph, Mellen & Miller, Cleveland
MINETREE, JOSEPH P.*
Howard, Weil, Labouisse, Friedrichs & Co., New Orleans
MINTKESKI, EUGENE A.
Chemical Bank New York Trust Company, New York
MITCHELL, JOHN N.*
Caldwell, Trimble & Mitchell, New York
MITCHELL, ROBIE L.*
Mitchell, Pershing, Shetterly & Mitchell, New York
MIRALIA, DAVID T.*
Kuhn, Loeb & Co., New York
MOORE, LEE P.
A. M. Kidder & Co., Winter Park
MOORE, Jr., WILLIAM P.
C. F. Cassell & Co., Charlottesville
MORGAN, EVANS G.*
Manufacturers Hanover Trust Company, New York
MORGAN, WILLIAM F.*
Blyth & Co., New York
MORRIS, FRANK E.
Department of the Treasury, Washington
MORRISON, Jr., WILLIAM S.*
Harris Trust & Savings Bank, Chicago
MORSE, EDWARD
Associated Press, New York

*Denotes Mr. & Mrs.

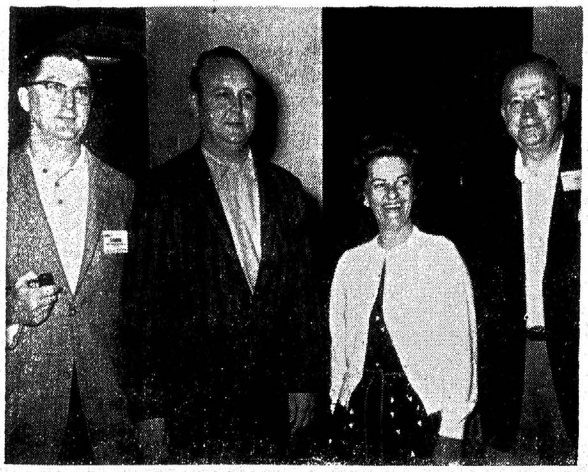
MORSE, WALTER E.*
Lehman Brothers, New York
MORTON, ROALD A.*
Blue List Publishing Company, New York
MOULTON, DONALD W.*
R. H. Moulton & Co., Los Angeles
MULDOWNEY, JOSEPH J.
Scott & Stringfellow, Richmond
MULLANEY, PAUL L.
Mullaney, Wells & Co., Chicago
MULLIGAN, RICHARD F.
Robert Garrett & Sons, Baltimore
MUNFORD, III, BEVERLEY B.
Davenport & Co., Richmond
MURPHY, JOSEPH D.
Stifel, Nicolaus & Co., Chicago
MURPHY, LEE F.*
Ladd Dinkins & Co., New Orleans
MURPHY, Jr., PETER J.
Stone & Webster Securities Corporation, New York
MURTON, KENNETH
A. E. Ames & Co., New York
MURRAY, C. IVOR*
Nesbitt, Thomson & Co., New York
MYERS, RAY F.
Continental Illinois National Bank, Chicago
NAGAN, PETER S.
Goldsmith-Nagan Washington Letter, Washington
NARES, G. PETER
James Richardson & Sons, New York
NASH, JOHN M.
Investment Bankers Association, Washington
NATHANE, ROBERT A.*
Merrill Lynch, Pierce, Fenner & Smith, Seattle
NEIDIGER, EUGENE L.*
Earl M. Scanlan & Co., Denver
NEILL, HUMPHREY B.
Neill Letters of Contrary Opinion, Saxtons River, Vt.
NELSON, EDWARD G.
Clark, Landstreet & Kirkpatrick, Nashville
NELSON, WALTER B.
Fahnestock & Co., Philadelphia
NELSON, W. LINTON*
Delaware Management Company, Philadelphia
NEUHAUS, PHILIP R.*
Underwood, Neuhaus & Co., Houston
NEWBURGER, FRANK L.
Newburger & Co., Philadelphia
NEWHARD, HARRY W.*
Newhard, Cook & Co., St. Louis
NEWMAN, Jr., A. JOSEPH
The Bulletin, Philadelphia
NEWTON, Jr., FRANK R.
Lentz, Newton & Co., San Antonio

NEWTON, GEORGE A.*
G. H. Walker & Co., St. Louis
NIEBLING, WALTER W.*
Merrill Lynch, Pierce, Fenner & Smith, New York
NIELSEN, EINER
J. C. Bradford & Co., Nashville
NIELSEN, HARRY
Investment Dealers' Digest, New York
NISBET, Jr., W. OLIN*
Interstate Securities Corporation, Charlotte
NOONAN, Jr., WILLIAM A.
Continental Illinois National Bank, Chicago
NORRIS, EDGAR M.*
Edgar M. Norris & Co., Greenville
NORTH, FRANK W.*
Barret, Fitch, North & Co., Kansas City
NOYES, BLANCKE
Hemphill, Noyes & Co., New York
NUGENT, JOSEPH C.
Mabon & Co., New York
O'DAY, DANIEL
The Northern Trust Company, New York
O'HARA, WALTER T.
Thomson & McKinnon, New York
O'KEEF, ROBERT H.*
The Marshall Company, Milwaukee
OPPENHEIM, EDGAR R.
Leo Oppenheim & Co., Oklahoma City
ORDING, JAMES H.
Association of Stock Exchange Firms, New York
ORR, JAMES H.
Colonial Distributors, Inc., Boston
ORR, JOHN C.*
Wall Street Journal, New York
OSTEMA, CLARENCE W.
New York Hanseatic Corporation, New York
OSTRANDER, WILLIAM H.
The First Boston Corporation, Chicago
O'SULLIVAN, JAMES E.
The Philadelphia National Bank, Philadelphia
OTIS, C. BARRON*
The Bond Buyer, New York
OTTO, GEORGE J.*
Irving Lundborg & Co., San Francisco
OVERBY, ANDREW N.
The First Boston Corporation, New York
PARCELLS, Jr., CHARLES A.*
Charles A. Parcells & Co., Detroit
PARKER, H. LAWRENCE
Morgan Stanley & Co., New York
PARKER, NATHAN K.*
Kay, Richards & Co., Pittsburgh
PARRY, SIDNEY L.
De Coppet & Doremus, New York
PARSONS, Jr., JOHN G.
Fidelity-Philadelphia Trust Company, Philadelphia
PATTERSON, DONALD C.*
Chemical Bank New York Trust Company, New York
PATTERSON, EDWARD
Allen & Co., New York
PAYNE, CARR
Cumberland Securities Corporation, Nashville
PAYNE, W. WALLACE*
First of Texas Corporation, San Antonio
PECK, ANDREW F.
Clark, Dodge & Co., New York
PEELOR, CHARLES G.
Arthurs, Lestrange & Co., Pittsburgh
PELIKAN, MILES
John Nuveen & Co., New York
PENDERGRAST, THOMAS J.
Courts & Co., Atlanta
PEPPER, CECIL B.
Thomson & McKinnon, New York
PETERS, GERALD P.*
Peters, Writer & Christensen, Denver
PEVEAR, WILLIAM W.*
Irving Trust Company, New York
PEYSER, BENJAMIN F.
Newburger, Loeb & Co., New York
PHELAN, THOMAS P.
Pacific Coast Stock Exchange, San Francisco
PHELPS, ORIN M.*
The Phelps Company, Miami
PHILIP, PETER V. N.*
W. H. Morton & Co., New York
PHILLIPS, T. WARD*
Central National Bank, Des Moines
PIERCE, CHARLES C.
Rauscher, Pierce & Co., Dallas
PIETROWICZ, STEPHEN R.
Chicago Tribune-Chicago's American, Chicago
PLATT, CHARLES M.*
U. S. News and World Report, Washington
PLENTY, ROYAL H.
Philadelphia Inquirer, Philadelphia

POLLOCK, WM. E.*
Wm. E. Pollock & Co., Beverly Hills
POOLE, MONROE V.*
Geo. B. Gibbons & Co., New York
POPPER, ELVIN K.*
I. M. Simon & Co., St. Louis
PORTER, FELIX N.*
First National Bank & Trust Company, Oklahoma City
PORTER, Jr., JOHN L.
Television Shares Management Corporation, Chicago
PORZELT, PAUL
Emanuel, Deetjen & Co., New York
POWELL, JAMES M.*
Boettcher & Co., Denver
POWELL, JOSEPH W.
Boston Capital Corporation, Boston
POWELSON, RALPH J.
Leedy, Wheeler & Alleman, Orlando

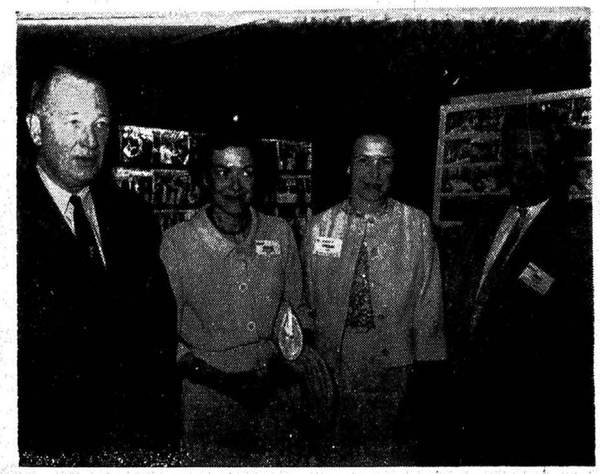
POWERS, ROBERT A.*
Smith, Barney & Co., New York
PRATT, ALBERT*
Paine, Webber, Jackson & Curtis, Boston
PRATT, MARSON B.*
Estabrook & Co., Boston
PROSSER, MALCOLM S.*
Seattle-First National Bank, Seattle
PURKISS, ALBERT C.
Walston & Co., New York
PUTNAM, Jr., GEORGE*
Putnam Fund Distributors, Boston
PUTNAM, HENRY W.*
De Coppet & Doremus, New York
PYNE, EBEN W.
First National City Bank, New York
QUINN, Jr., ARTHUR H.
The Philadelphia National Bank, Philadelphia

*Continued on page 123*



George E. Schafer, *Brown Brothers Harriman & Co.*, New York; Mr. & Mrs. Edmund G. Anderson, *B. J. Van Ingen & Co., Inc.*, Boston; Draper Hill, *Harkness & Hill Incorporated*, Boston

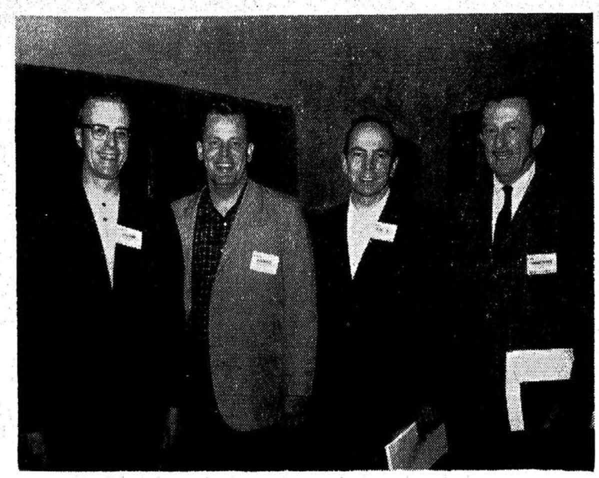
Allen Weintraub, *Newburger & Co.*, Philadelphia; Mrs. Richard Beaty, New York; Edward J. Kelly, *Carl M. Loeb, Rhoades & Co.*, New York; Barney Dreyfuss, *Ferris & Company*, Washington, D. C.



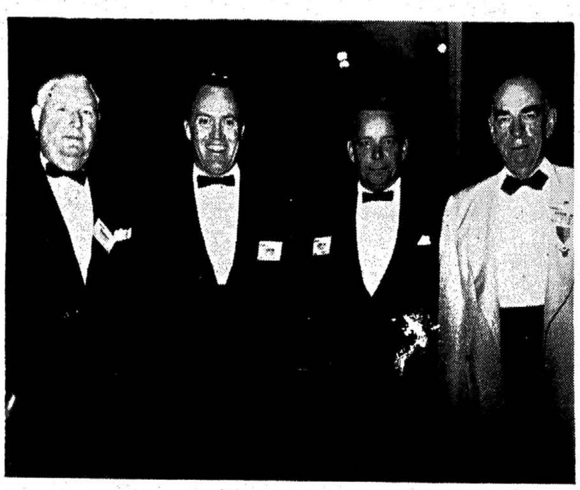
Mr. & Mrs. Alex. Seidler, *National State Bank*, Newark, N. J.; Mrs. William H. Hibberd, New York; Milton F. Lewis, *A. G. Becker & Co. Incorporated*, New York


John T. Knox, *Federal Land Banks*, New York; Albert L. Johnson, *First National Bank*, Memphis; James J. De Cantillon, *Continental Illinois National Bank & Trust Company*, Chicago; Garnett O. Lee, Jr., *Anderson & Strudwick*, Richmond, Va.

Frank S. Bennett, *Cutter, Bennett & Co.*, New York; Arthur E. Goodwin, Jr., *Johnston, Lemon & Co.*, Washington, D. C.; Arnold J. Kocurek, *Rauscher, Pierce & Co., Inc.*, Dallas; William J. Beahan, *Lebenthal & Co.*, New York



Joseph H. Sullivan, *Cunningham, Schmertz & Co., Inc.*, Pittsburgh; Allan B. Bogardus, *Watling, Lerchen & Co.*, New York; Norman B. Ward, Jr., *Singer, Deane & Scribner*, Pittsburgh; E. William Darmstatter, *Stifel, Nicolaus & Co. Incorporated*, St. Louis



S. Whitney Bradlev, *Eaton & Howard, Incorporated*, Boston; Joseph E. Eaton, *Eaton & Howard, Incorporated*, New York; Andrew J. Lord, Jr., *Eaton & Howard, Incorporated*, Boston; Charles F. Eaton, Jr., *Eaton & Howard, Incorporated*, Boston

Frank S. du Bell, *Granbery, Marache & Co. Incorporated*, New York; John W. de Milhau, *Chase Manhattan Bank*, New York; J. Mabon Childs, *Chaplin, McGuinness & Co.*, Pittsburgh; John D. B. Gould, *Philadelphia National Bank*, Philadelphia

Paul L. Mullaney, *Mullaney, Wells & Company*, Chicago; George R. Waldmann, *Mercantile Trust Company*, New York; L. H. Empey, *Wells Fargo Bank*, San Francisco; George P. Rutherford, *Dominion Securities Corporation*, New York

Mr. & Mrs. Albert M. Schmelzle, *Fusz-Schmelzle & Co.*, St. Louis; Mr. & Mrs. P. Fred Fox, *P. F. Fox & Co., Inc.*, New York

Mr. & Mrs. W. Bruce McConnel, Jr., *Lazard Freres & Co.*, New York; Mr. & Mrs. C. Rader McCulley, *First Southwest Company*, Dallas

Mr. & Mrs. Lawson Glasgow, *Royal Securities Corporation*, Montreal; Mr. & Mrs. Donald R. Johnston, *Harris & Partners*, New York

Mr. & Mrs. B. P. Lester, Jr., *Lester, Ryons & Co.*, Los Angeles; David W. Hunter, *McKelvy & Company*, Pittsburgh

Mr. & Mrs. Philip F. Koenig, *Koenig, Keating & Stead*, Chicago; Jay E. Thors, *C. F. Childs and Company*, New York

Mrs. Curtis H. Bingham, Los Angeles; Mr. & Mrs. George A. Newton, *G. H. Walker & Co.*, St. Louis

James S. Abrams, *Allen & Company*, New York; Mr. & Mrs. Newell S. Knight, *First National Bank*, St. Louis; Julien H. Collins, *Julien Collins & Company*, Chicago

Thomas J. Pendergrast, *Courts & Co.*, Atlanta; Einer Nielsen, *J. C. Bradford & Co.*, Nashville; Grady Wells, *Wells & Christensen, Inc.*, New York; Carr Payne, *Cumberland Securities Corporation*, Nashville

Lawrence Lyons, *Allen & Company*, New York; Mr. & Mrs. Mark A. Smith, *F. W. Craigie & Co.*, Richmond, Va.; Arthur M. Rose, *Interstate Securities Corporation*, Charlotte, N. C.

# In Attendance at Convention

*Continued from page 121*

**RAND, Jr., ARTHUR H.**
Woodard-Elwood & Co., Minneapolis
**RANKIN, HARLEY L.***
Kidder, Peabody & Co., Philadelphia
**RAY, THOMAS L.***
Mercantile Trust Company, St. Louis
**REDMAN, W. GUY***
A. G. Edwards & Sons, St. Louis
**REED, Jr., NORMAN E.**
Curtiss, House & Co., Cleveland
**REILLY, F. VINCENT***
Commercial & Financial Chronicle, New York
**REILLY, JAMES F.**
Goodbody & Co., New York
**REIS, Jr., GORDON***
Seasongood & Mayer, Cincinnati
**REISSNER, FRANK L.**
Indianapolis Bond & Share Corporation, Indianapolis

*Denotes Mr. & Mrs.

**REPP, HERBERT N.**
Discount Corporation, New York
**REDWOOD, Jr., JOHN**
Baker, Watts & Co., Baltimore
**REESE, EUGENE M.**
Newhard, Cook & Co., St. Louis
**REMSEN, RICHARD**
De Coppet & Doremus, New York
**RENDIGS, Jr., CHARLES W.**
Bache & Co., New York
**RENNAU, JOHN W.**
Carl M. Loeb, Rhoades & Co., New York
**REUSS, W. WENDELL**
W. E. Hutton & Co., New York
**REYNOLDS, Jr., STEPHEN C.**
Hemphill, Noyes & Co., New York
**REX, WILLIAM M.**
Clark, Dodge & Co., New York
**RICHTER, JOHN B.***
Butcher & Sherrerd, Philadelphia
**RIEPE, J. CREIGHTON***
Alex. Brown & Sons, Baltimore
**RILEY, WILLIAM J.**
E. F. Hutton & Co., New York
**RINKER, Jr., GEORGE**
The Ohio Company, Columbus
**RITTER, CARL W.**
Union-Tribune, San Diego
**RIVEL, ROBERT B.**
The Chase Manhattan Bank, New York
**ROBSON, FREMONT W.**
McLeod, Young, Weir, Inc., New York
**ROCKEFELLER, Jr., AVERY**
Dominick & Dominick, New York
**RODDY, JAMES E.**
Scharff & Jones, New Orleans
**RODRIGUEZ, SALVADOR***
Government Development Bank, San Juan
**ROGERS, PHILIP O.**
John C. Legg & Co., Baltimore
**ROGERS, Jr., SAMPSON**
McMaster Hutchinson & Co., Chicago
**RONAN, FRANK J.**
New York Hanseatic Corporation, New York
**ROOSEVELT, JULIAN K.***
Dick & Merle-Smith, New York
**ROSE, ARTHUR M.**
Interstate Securities Corporation, Charlotte
**ROSE, MIDDLETON***
Laird, Bissel & Meeds, New York
**ROSEN, THEODORE**
Burnham & Co., New York
**ROSS, ALFRED J.***
Dick & Merle-Smith, New York
**ROUSE, ROBERT G.***
Federal Reserve Bank, New York
**ROWE, ROBERT G.***
Stroud & Co., Philadelphia
**RUSSELL, JAMES**
The Miami Herald, Miami
**RUSSELL, JAMES A.**
Van Alstyne, Noel & Co., New York
**RUSSELL, PARIS SCOTT***
Glore, Forgan & Co., New York
**RUTHERFORD, GEORGE P.***
Dominion Securities Corporation, New York
**RYAN, ALLAN A.**
Smith, Barney & Co., New York
**RYAN, JAMES J.***
Park, Ryan, Inc., New York
**SAGE, II, ANDREW G. C.***
Lehman Brothers, New York
**SANDERS, FLOYD W.**
White, Weld & Co., Chicago
**SANFORD, Jr., J. B.***
Hattier & Sanford, New Orleans
**SARNI, WILLIAM F.**
A. G. Edwards & Sons, St. Louis
**SAUL, FRANKLIN R.**
First National City Bank, New York
**SCHAFER, GEORGE E.**
Brown Brothers Harriman & Co., New York
**SCHANCK, Jr., FRANCIS R.**
Bacon, Whipple & Co., Chicago
**SCHIMPFF, CHARLES H.***
Investment Company Institute, Los Angeles
**SCHLICHTING, ARTHUR W.**
Bankers Trust Company, New York
**SCHMELZLE, ALBERT***
Fusz-Schmelzle & Co., St. Louis
**SCHMIDT, LOUIS H.**
Evans & Co., New York
**SCHMIDT, WALTER A.***
Schmidt, Roberts & Parke, Philadelphia
**SCHOENEBERGER, CHARLES A.**
National Boulevard Bank, Chicago
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Scott & Stringfellow, Richmond
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**SCURR, ELDRIDGE B.***
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**SEIDLER, Jr., ALEX.***
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**SELLEW, WILLIAM W.**
J. R. Williston & Beane, New York
**SENER, Jr., JOSEPH W.**
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**SENHOLZI, JOHN C.**
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Yarnall, Biddle & Co., Philadelphia
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Shields & Co., New York
**SHOCKEY, THOMAS H.**
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**SHORT, JOSEPH P.***
Arthurs, Lestrange & Co., Pittsburgh
**SHUMAN, NICHOLAS**
Chicago Daily News, Chicago
**SHUMATE, J. B.**
The First National Bank, Miami

*Continued on page 125*

Mr. & Mrs. William J. Allison, *Allison-Williams Company*, Minneapolis; Mr. & Mrs. Raymond V. Condon, *B. J. Van Ingen & Co., Inc.*, Chicago

Ralph L. DeGroff, *Robert Garrett & Sons*, Baltimore; Earl G. Fridley, *Fridley & Frederking*, Houston; Mrs. & Mr. James E. Klingel, *Juran & Moody*, St. Paul, Minn.

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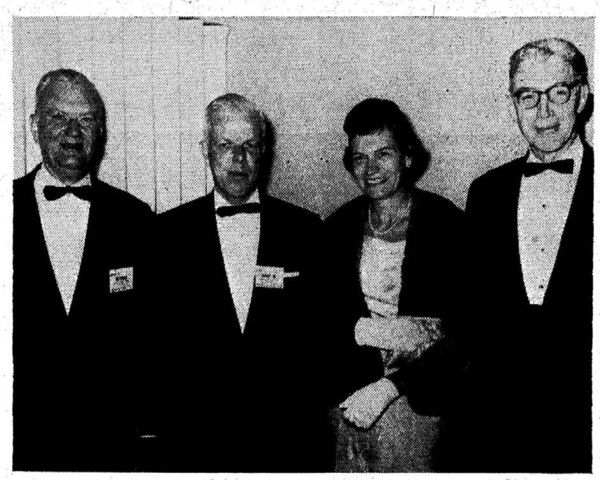

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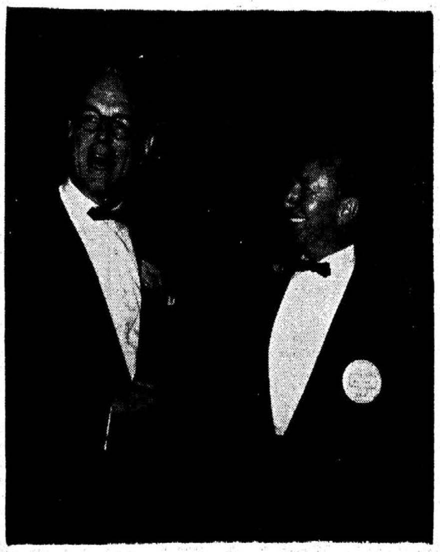

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# In Attendance at Convention

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SIEFERT, RUSSELL E.
Stern Brothers & Co., Kansas City
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Weedon & Co., New York
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National Securities & Research Corp., New York
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STEIN, ELLIOT H.*
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Blyth & Co., New York
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Carlisle & Jacquelin, New York
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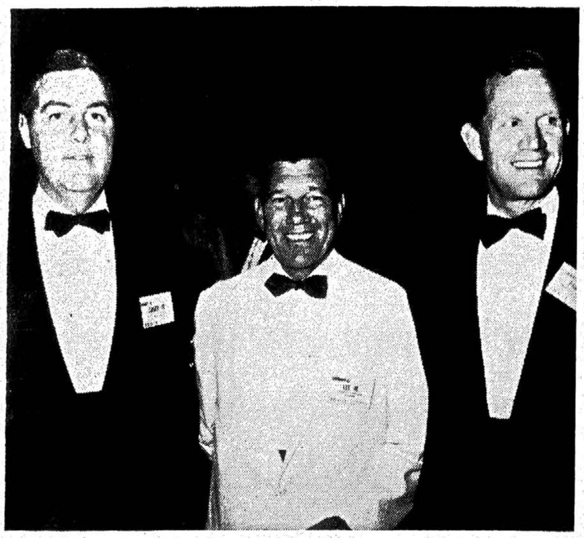

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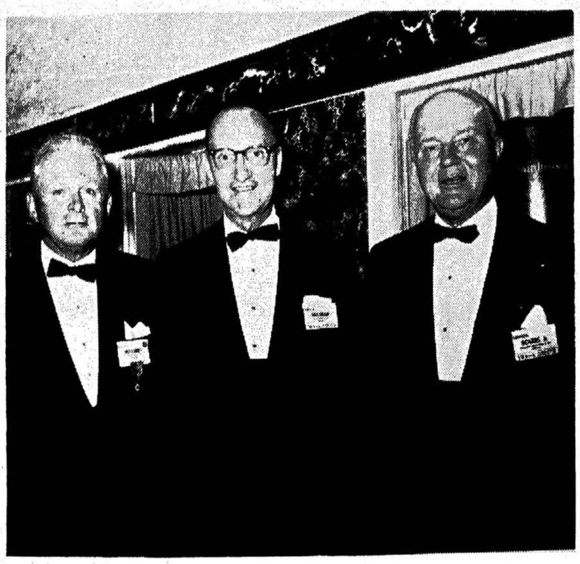

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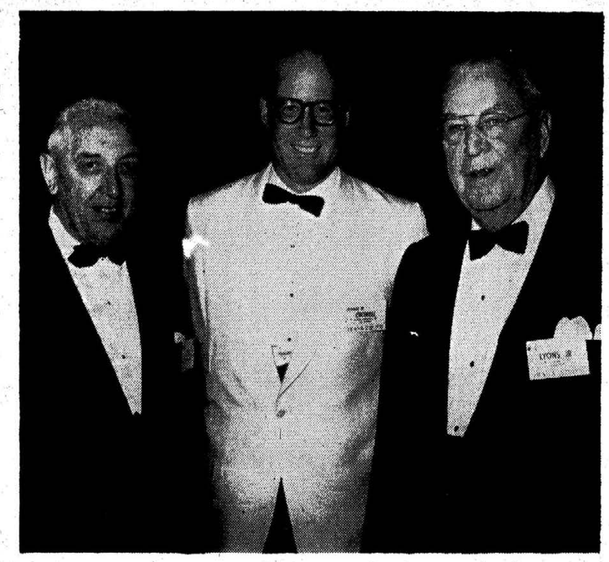

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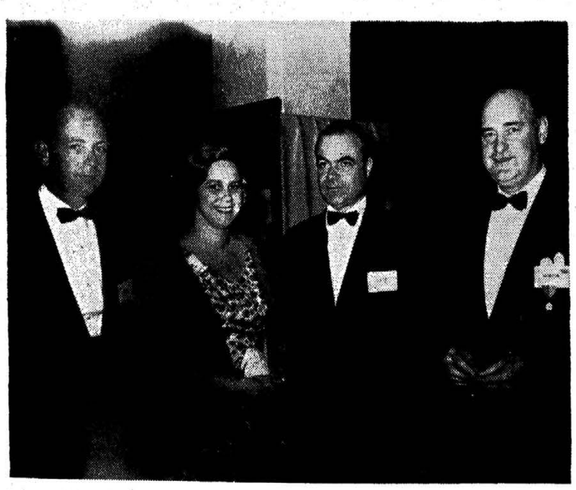

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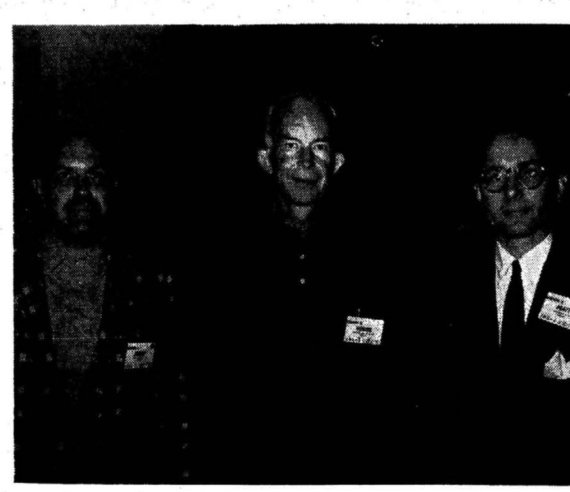

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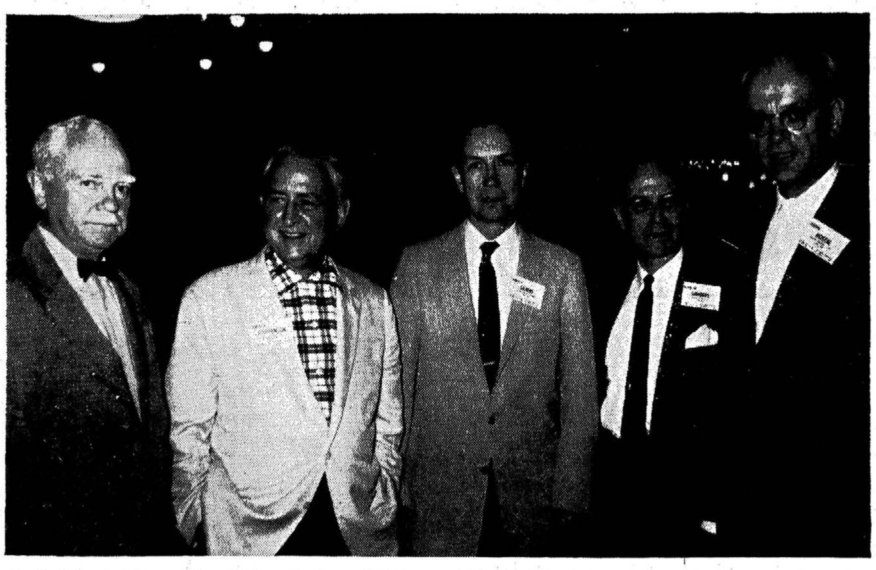

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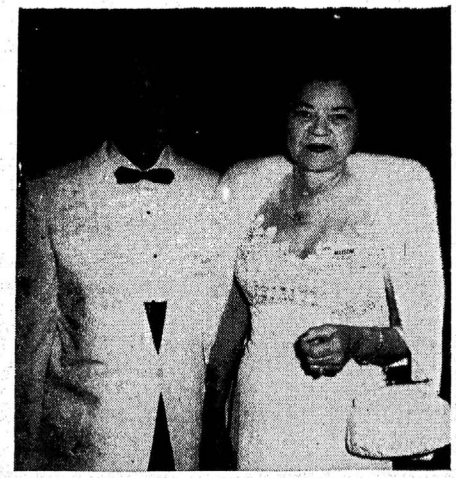

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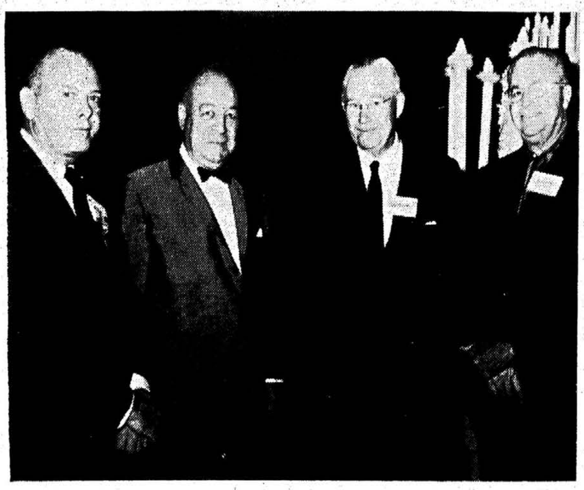

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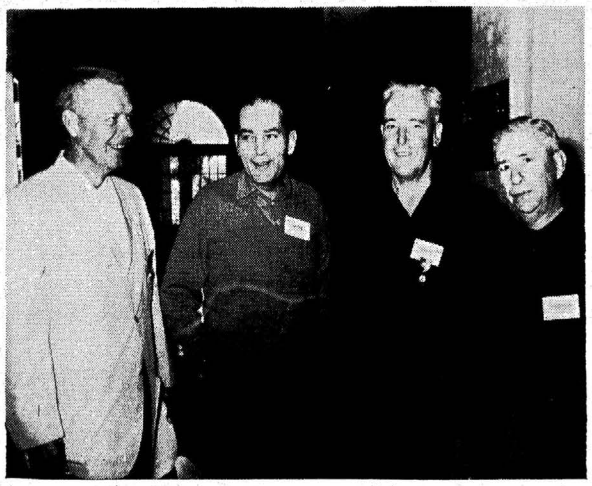

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# Report of IBA Foreign Investment Committee

*Continued from page 26*

no change in that view." His remarks in Rome did give rise to some concern both here and abroad.

Subsequent comment of Federal Reserve and Treasury officials confirm their eariler 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 19, 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 outmoded controls and restrictions on the free flow of capital that still are for too prevalent", stated:

"Imposition of capital controls by the United States 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 responsibilities as custodian 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 wholeheartedly agrees 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.

**Kurt H. Grunebaum**
New York Hanseatic Corp.
New York, N. Y.

**Wm. N. L. Hutchinson, Jr.**
Mitchum, Jones & Templeton, Incorporated
San Francisco, Calif.

**Joseph T. Johnson**
The Milwaukee Co.
Milwaukee, Wis.

**Henry A. J. Ralph**
Bank of America, N.T. & S.A.
New York, N. Y.

**Clifford R. Rohrberg**
Morgan Guaranty Trust Co. of New York
New York, N. Y.

**Nathaniel Samuels**
Kuhn, Loeb & Co.
New York, N. Y.

**Irving H. Sherman**
A. G. Becker & Co. Inc.
New York, N. Y.

**Anthony E. Tomasic**
Thomas & Company
Pittsburgh, Pa.

**K. P. Tsolainos**
Baker, Weeks & Co.
New York, N. Y.

**Arthur L. Wadsworth**
Dillon, Read & Co. Inc.
New York, N. Y.

**George H. Walker, Jr.**
G. H. Walker & Co.
New York, N. Y.

**John M. Young**
Morgan Stanley & Co.
New York, N. Y.

**TABLE I**

**Purchases of Foreign Securities by U. S. Investors***

($ Millions)

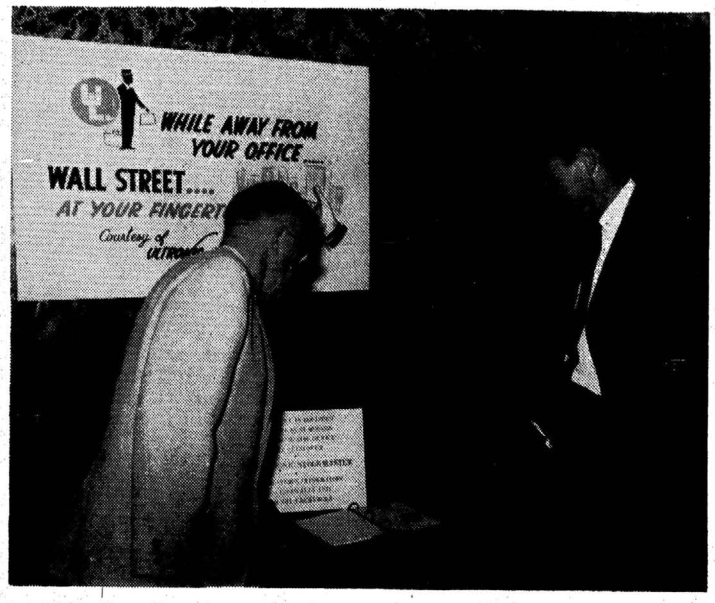
| Year | Stocks Purchases Gross | Stocks Purchases Net | Bonds Purchases Gross | Bonds Purchases Net | Bonds & Stocks Purchases Gross | Bonds & Stocks Purchases Net |
|---|---|---|---|---|---|---|
| 1946 | 65.6 | 0.4 | 490.4 | —265.5 | 556.1 | —265.1 |
| 1947 | 42.6 | —14.6 | 634.3 | — 24.5 | 676.8 | — 39.0 |
| 1948 | 96.7 | 15.0 | 291.4 | — 79.8 | 388.2 | 94.8 |
| 1949 | 70.8 | —18.0 | 311.5 | — 9.8 | 382.3 | — 27.8 |
| 1950 | 198.2 | 24.4 | 710.2 | 121.0 | 908.4 | 145.4 |
| 1951 | 348.7 | 76.4 | 801.0 | 300.6 | 1,149.7 | 377.0 |
| 1952 | 329.6 | 35.8 | 677.4 | 182.1 | 1,007.0 | 217.9 |
| 1953 | 503.4 | — 6.8 | 621.5 | — 79.0 | 924.9 | 72.2 |
| 1954 | 644.9 | 251.6 | 841.3 | 48.8 | 1,486.1 | 300.4 |
| 1955 | 877.9 | 214.3 | 509.4 | —183.9 | 1,387.3 | 30.4 |
| 1956 | 875.2 | 126.1 | 991.5 | 385.0 | 1,866.8 | 511.1 |
| 1957 | 621.9 | 29.1 | 1,392.0 | 693.1 | 2,014.0 | 722.1 |
| 1958 | 803.7 | 336.4 | 1,915.1 | 1,026.1 | 2,718.8 | 1,362.5 |
| 1959 | 803.8 | 237.7 | 1,457.6 | 512.0 | 2,261.5 | 749.7 |
| 1960 | 591.7 | 82.6 | 1,445.0 | 562.1 | 2,036.7 | 644.7 |
| 1961 | 965.6 | 370.0 | 1,262.4 | 460.4 | 2,228.0 | 830.4 |
| 1962† | 588.9 | 123.1 | 1,099.9 | 441.2 | 1,688.9 | 564.2 |

† January—August.
*Source:* Treasury Bulletin.

* The above data related to the total amount of money debited or credited to U. S. Accounts as the result of transactions in foreign securities, including Canadian securities. The gross purchases figures reflect both new and outstanding issues. The differences between the gross purchases and net purchases figures primarily reflect: (1) sales of foreign securities by U. S. investors to foreign investors; (2) redemption of foreign securities, either in the U. S. or abroad; and (3) purchases for sinking fund purposes.

The statistics cover only securities transactions (including transactions in the securities of international organizations, such as the World Bank). They do not include direct foreign investment by U. S. corporations, nor do they cover inter-company account transactions of U. S. non-banking firms with their own branches and subsidiaries abroad or with foreign parent companies. The statistics are based on monthly reports to the Treasury Department by banks and security dealers and brokers on transactions with foreigners for their own account and for the account of customers. They, therefore, do not cover transactions carried out entirely abroad in which a reporting institution is not involved.

The term "U. S. Investors" covers all institutions and individuals domiciled within the U. S. and its territories and possessions, with the exception of the following: (1) branches or agencies of foreign central banks; (2) other official institutions of foreign countries; and (3) international organizations.




Arleigh P. Hess, *Hess, Grant & Remington*, Philadelphia, checking the market with John R. Brown, Jr., *Ultronic Systems Corporation*, demonstrating Ultronics Stockmaster

**Table II**

PURCHASES OF FOREIGN SECURITIES

BY U. S. INVESTORS-1961
($ thousands)

| Country of Seller | Gross Purchases Bonds | Gross Purchases Stocks | Gross Purchases Total | Net Purchases Bonds | Net Purchases Stocks | Net Purchases Total |
|---|---|---|---|---|---|---|
| Europe | | | | | | |
| Austria | 12,126 | 200 | 12,326 | 8,335 | 176 | 8,511 |
| Belgium | 40,682 | 10,637 | 51,319 | 13,838 | 6,946 | 20,784 |
| Denmark | 16,082 | 216 | 16,298 | 14,349 | 170 | 14,519 |
| Finland | 2,257 | --- | 2,257 | -539 | --- | -539 |
| France | 14,032 | 49,220 | 63,252 | 2,156 | 31,235 | 33,391 |
| Germany | 33,829 | 55,524 | 89,353 | -5,223 | 36,646 | 31,423 |
| Greece | 1,198 | 219 | 1,417 | 131 | 200 | 331 |
| Italy | 5,211 | 10,262 | 15,473 | -13,122 | 4,049 | -9,073 |
| Netherlands | 12,664 | 116,639 | 129,303 | 2,589 | 71,852 | 74,441 |
| Norway | 21,648 | 864 | 22,512 | 320 | -464 | -144 |
| Portugal | 641 | 108 | 749 | 123 | -370 | -247 |
| Spain | 923 | 3,775 | 4,698 | -4,007 | 3,034 | -973 |
| Sweden | 5,400 | 630 | 6,030 | 1,147 | 495 | 1,642 |
| Switzerland | 69,028 | 63,864 | 132,892 | 3,155 | 28,590 | 31,745 |
| Turkey | 125 | 32 | 157 | 114 | 12 | 126 |
| United Kingdom | 44,146 | 123,701 | 167,847 | -6,029 | 63,387 | 57,358 |
| Other Europe | 17,615 | 2,064 | 19,679 | -4,186 | 964 | -3,222 |
| Total Europe | 297,607 | 437,955 | 735,562 | 13,151 | 246,922 | 260,073 |
| Canada | 438,400 | 440,818 | 879,218 | 244,218 | 74,117 | 318,335 |
| Latin America | 76,897 | 47,651 | 124,548 | 31,018 | 29,253 | 60,271 |
| Asia | 146,872 | 16,747 | 163,619 | 112,330 | 1,756 | 114,086 |
| Other Countries | 90,631 | 15,946 | 106,577 | 58,741 | 13,952 | 72,693 |
| International | 210,327 | --- | 210,327 | -648 | -643 | -1,291 |
| Grand Total | 1,260,734 | 959,117 | 2,219,851 | 458,810 | 365,357 | 824,167 |

**Table III**

**FOREIGN DOLLAR BOND OFFERINGS (1961-1962) ***

(Offered by Investment Bankers)

(Exclusive of Canadian and World Bank Issues)

| | Amount (000) | Concurrently Offered Short-Term Debt | Term | Rate | Date of Issue | Date of Maturity | Payment Clause | Offered | Price | Yield | Concurrent World Bank Financing |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1961 | | | | | | | | | | | |
| Kingdom of Norway | 18,000 | None | 15 yrs. | 5 1/2 | 5-1-61 | 5-1-76 | Dollars | 5-2-61 | 97 1/2 | 5.75 | None |
| Nippon Telegraph & Telephone Public Corporation | 15,000 | 5,000 | 15 yrs. | 6 | 4-15-61 | 4-15-76 | Dollars | 5-2-61 | 95 1/2 | 6.47 | None |
| Commonwealth of Australia | 25,000 | None | 20 yrs. | 5 1/2 | 7-1-61 | 7-1-81 | Dollars | 6-27-61 | 97 | 5.75 | None |
| Japan Development Bank | 15,000 | 5,000 | 15 yrs. | 6 | 10-15-61 | 10-15-76 | Dollars | 10-3-61 | 95 1/2 | 6.47 | None |
| Government of New Zealand | 20,000 | None | 15 yrs. | 5 3/4 | 10-15-61 | 10-15-76 | Dollars | 10-24-61 | 97 1/2 | 6.00 | None |
| Kingdom of Belgium | 25,000 | 30,000 | 15 yrs. | 5 1/2 | 12-1-61 | 12-1-76 | Dollars | 11-29-61 | 98 | 5.70 | None |
| Totals | 118,000 | 40,000 | | | | | | | | | |
| 1962 | | | | | | | | | | | |
| Commonwealth of Australia | 30,000 | None | 20 yrs. | 5 1/2 | 1-15-62 | 1-15-82 | Dollars | 1-23-62 | 98 1/4 | 5.65 | 100,000 |
| South Europe Pipeline Co. | 40,000 | None | 20 yrs. | 5 1/2 | 3-1-62 | 3-1-82 | Dollars | 3-13-62 | 100 1/2 | 5.46 | None |
| Kingdom of Belgium | 30,000 | None | 15 yrs. | 5 1/4 | 4-1-62 | 4-1-77 | Dollars | 3-28-62 | 98 1/2 | 5.40 | None |
| City of Oslo, Norway | 10,000 | None | 15 yrs. | 5 1/2 | 4-1-62 | 4-1-77 | Dollars | 4-3-62 | 98 | 5.70 | None |
| Kingdom of Denmark | 20,000 | None | 15 yrs. | 5 1/4 | 5-1-62 | 5-1-77 | Dollars | 5-2-62 | 97 3/4 | 5.47 | None |
| Government of New Zealand | 25,000 | None | 15 yrs. | 5 1/4 | 5-1-62 | 5-1-77 | Dollars | 5-7-62 | 97 1/2 | 5.50 | None |
| High Authority of the European Coal & Steel Community | 25,000 | None | 20 yrs. | 5 1/4 | 4-15-62 | 4-15-82 | Dollars | 5-15-62 | 99 | 5.33 | None |
| Japan Development Bank | 17,500 | None | 15 yrs. | 6 | 5-15-62 | 5-15-77 | Dollars | 5-15-62 | 96 | 6.41 | None |
| Copenhagen Telephone Co., Inc. | 15,000 | None | 15 yrs. | 5 5/8 | 6-1-62 | 6-1-77 | Dollars | 5-28-62 | 96.80 | 5.95 | None |
| Commonwealth of Australia | 30,000 | None | 20 yrs. | 5 1/2 | 7-1-62 | 7-1-82 | Dollars | 6-19-62 | 97 1/2 | 5.71 | None |
| Kingdom of Norway | 20,000 | None | 15 yrs. | 5 1/2 | 8-1-62 | 8-1-77 | Dollars | 7-24-62 | 96 1/2 | 5.85 | None |
| Shin Mitsubishi Heavy Industries Conv. Debs. | 10,000 | None | 15 yrs. | 6 1/2 | 9-25-62 | 9-30-77 | Dollars | 9-17-62 | 100 | 6.50 | None |
| Nippon Telegraph & Telephone | 18,500 | None | 15 yrs. | 6 | 9-15-62 | 9-15-77 | Dollars | 9-18-62 | 96 | 6.41 | None |
| Commonwealth of Australia | 25,000 | None | 20 yrs. | 5 1/2 | 10-1-62 | 10-1-82 | Dollars | 10-16-62 | 99 | 5.58 | None |
| Totals | 316,000 | None | | | | | | | | | |

*The Committee Report also included details of issues offered in the years 1956 to 1960 inclusive. This data was previously published in the "Chronicle's" IBA Convention Supplement dated Dec. 28, 1961. The aggregate for 1960, however, has been changed from $85,000,000 to $95,000,000 by virtue of the fact that the original data for that year did not include the offering of $10 million International Tel. & Tel. Sud America 7½s, dated Aug. 15, 1960, due Aug. 15, 1977, payable in dollars, and priced at par.

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