The Economic Club of New York

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Introduction

Chairman George R. Vila

A few years ago, who, may I ask you, would have paid the least attention to a Scot, who as we were all enjoying seemingly endless prosperity, was running around urging everybody to save and economize. Nobody did. I believe that same Scot will find us a very attentive audience tonight. After all, if he was right years ago in what he said about an impending energy shortage, he might again be right in what he has to say today about our future resources. This is a good time to hear him out.

Ian MacGregor, our first speaker tonight knows a great deal from firsthand experience about the management of material resources – a metallurgist by formal training. During World War II, he served with the British Ministry of Supply. In 1957, he joined Climax Molybdenum Division of American Metal Climax, first as vice president, then president, now chairman. His company is involved in mineral production and processing in just about every corner of the world. He has not yet been to the moon but he probably has a fair idea of what material support we may expect from that source.

Considering his talents and his outstanding record, one wonders why the British ever let him go. We sought an answer to this question, but both the public relations people at Amax and the British Embassy refused to comment. An unofficial source suggested that the English have long

had a policy to get rid of any person of Scottish origin who knew too much too early about North Sea oil rights. That may be the explanation. On the other hand, there are plenty of reasons why Ian might have wanted to leave the British Isles. As recorded in Burke's Peerage and Baronetage, Clan MacGregor of which he is a member has already lost over the years 22 persons to the hangman. Another four members were beheaded and three murdered, two of which by arrows in the back, and five were killed in battle – all that carnage in the immediate family of a single chief of his clan. By contrast, one knows only of one isolated case of a MacGregor meeting ill-fate in America. He was scalped by Indians in the mid-17th century. These historical circumstances, fortunately for us, make it possible to have here tonight Mr. Ian MacGregor. (Applause)

Ian MacGregor
Chairman, American Metal Climax

Thank you, Mr. Chairman, for these encouraging remarks. Distinguished guests, gentlemen – gee, we still have gatherings where we say gentlemen? One of our clubs not far from here ran into this problem and by force of economic circumstances and, if I may say, social pressures, decided to admit ladies. The results of this event took a while to spread through the organization. But one night the night manager, the night desk clerk, received a call from a gentlemen who identified himself as Mr. X, I'm a member. And he said, by the way, I'd like a room for tonight, a double room, so the clerk said, fine, for you and Mrs. X. Well, not exactly, for me and my

companion. So the room clerk said, well, gee, I'll have to talk to the night manager about that. I don't know how that fits in with our regulations now that we have ladies coming to the club. So he went away and he came back, and he said, I've just talked to the night manager. He says it'll be all right provided your lady companion is the wife of a member. (Laughter)

For nearly 25 years, the price of petroleum in the United States for both oil and gas actually fell in real terms in comparison with other goods. You know what the indexes show. Taking 1957 - '59 as 100, the US wholesale price for crude petroleum in the '67 - '69 period was exactly 100.6. This surely reflected an unnatural and unstable condition for the essential energy supply base for our industrial economy. This abnormality was triggered, of course, by earnest, misdirected, and perhaps disastrous efforts by some bureaus of our federal government to lower the price of energy to consumers. Even oil priced at a mere $.50 per million BTUs lost out to natural gas priced at $.15 to $.20 per million. The oil industry made a heroic effort to meet this competition.

Believe it or not, our coal industry, despite substantial loss of markets to our convenience fuels – oil and gas – managed to keep its costs competitive and in the range of $.15 to $.20 a million BTUs. The heavy transport cost of coal, however, meant that its use was restricted to the electrical utility industry where short hauls or unit trains were able to overcome the inherent transportation disadvantage.

But the cost of petroleum has suddenly increased by two to three times. This sharp increase in

the cost of a very basic ingredient of modern industrial civilization coincides with a period already characterized by an alarmingly high rate of inflation. These higher costs would be difficult enough to handle in normal times, but superimposed on the other inflationary forces, they undermine all of our efforts to contain inflation. Our most public, most urgent public need today is to organize a massive effort to conserve energy and to find alternative sources of energy. We must also work to let the free market forces restore some semblance of competition within the energy market.

Now let's look at some of the facts about our own usage of energy. In 1970, petroleum supplied about 77% of all of the US energy sources; coal about 20%, and the balance hydro and nuclear. At the same time, the uses of energy were distributed somewhat differently – about 33% for residential use and commercial use, about 41% for industrial purposes, and 26% for transportation. About eight million barrels a day of oil equivalent were needed before we embarked on a program of conservation to sustain our transportation system. In other words, our domestic oil production of something over ten million barrels per day would theoretically more than cover our transportation needs, keep the transportation system going.

Our domestic oil production, of course provided that we could convert the crude into products needed for transportation, was therefore reasonably adequate for our transportation needs. Projecting forward to 1980, we have figures of something like 14 million barrels in the National Industrial Petroleum Council's forecast, would still with a reasonable degree of care in its use,

be more than adequate for our transportation needs. Of course, provided always we could convert our petroleum into the products needed by our transportation industry.

Our basic energy problem is that low prices have encouraged us to be profligate in all uses as well as making us use oil and gas for what might be regarded as possibly wasteful uses. A free market, however, would help straighten this problem out in short time and would restrict our use of premium fuels to premium purposes. The oil-producing countries are now trying to see that what they regard as their valuable oil is priced at a level which reflects its true value to modern civilization. What the OPEC countries have demonstrated and we should give them some credit for this, is that oil is really a premium fuel and should be reserved for unique applications. All the unique and essential function of oil in our modern world is in transportation and communication. Oil is the key to an increasingly mobile world. Should we not, therefore, think about restricting its use to this unique top priority market?

The American freedom of movement provided by our unique form of mass transportation known, of course, colloquially as the automobile, is the feature of our society which is most envied and most emulated by the rest of the world. We should, therefore, look carefully at the alternatives we have available. For most uses of energy, we have a choice of fuels. In the past, the market made the choice for us. In this day and age we cannot use coal for transportation. Perhaps we should not be using oil or natural gas as boiler fuels. The rise in the price of petroleum puts into proper economic perspective the value of other domestic sources of energy,

especially coal, oil shale.

We should also reconsider coal as a basis for our petrochemical industry as it was in the last century. Immense progress was made by this industry after World War II when it turned to low cost natural gas which had previously been flared or wasted. Petrochemical production should certainly outrank electrical generation as a permitted priority use for natural gas. But let's not forget that soon coal may well be as economic as natural gas as the basis for our petrochemicals.

The United States is the only industrial nation in the free world that can do something about its energy supply, and in the process perhaps benefit the rest of the world as well. Nature has been incredibly bountiful in the United States endowment in energy. I will not discuss solar energy, fuel cells, breeder reactors, fusion, magnetohydrodynamics, geothermal power, tar sands, oil shale, coal liquefaction, or SNG from coal. The reason is simple. We cannot obtain significant contributions of energy from any of these sources between now and 1980. However, so far we have only scratched the surface of our fossil energy sources. We now need to scratch a little deeper and optimize the use of our coal resources.

This is especially true of those great reserves of coal lying close to the surface which can be quickly, easily, and cheaply mined. As Mr. Donald Cook of the American Electric Power stated in a recent newspaper ad, and I quote, "America has energy to burn in its veins." Coal constitutes more than 90% of the remaining US domestic energy supplies. It is estimated we have some 390

billion tons of coal and half of this is recoverable with the existing proven practices.

Saudi Arabia, richer than any other nation in oil, has some 138 billion barrels of indicated oil reserves. What most Americans don't know or realize is that the coal reserves in just two of our western states, Montana and Wyoming, have an energy equivalent of at least 135 billion barrels of oil, just about equal to those fabulous Saudi Arabian oil reserves. These two states have a depth less than 1,000 feet, 57 billion tons of sub-bituminous low sulphur coal. At least half of this is at sufficiently shallow depths that we can mine it economically by today's methods, including the cost of land reclamation after mining.

What are the prospects for the US coal industry today? As you know, about half of our coal is now being mined underground and the rest by surface mining. Underground mining was the first large-scale method of winning coal – until quite recently the principal method – and it will continue to be a vital source of mining of coal. Modern surface mining methods are the child of the US genius for large-scale equipment and machinery. With huge specialized equipment, large quantities of earth and rock cover can be easily and economically moved aside and the underlying coal mined cheaply, easily, and safely.

A point I want to stress is that this same large-scale equipment can put the earth back just as efficiently as it took it off, leaving scarcely a trace of mining. The whole operation, if you will, from grass to grass seldom misses as much as two growing seasons and frequently only one.

Unfortunately, this modern, highly technical industry is being harassed and victimized by something that happened before it was created. All along the Appalachian chain, coal seams were found to outcrop among the mountains. Entrepreneurs capable of small operations could easily scrape off a piece of the hillside and mine quickly and cheaply considerable quantities of coal which were trucked to nearby markets.

With a minimum of capital and technology or concern for appearance, the exercise was a great success for them. Vast areas of our countryside remain to show the scars of this early form of surface mining. Patient nature healed some of the wounds but quite often clay soils, acid drainage, indiscriminate dumping of spoil, resisted nature's natural rehabilitation leaving polluted streams and scarred mountainsides. I cannot emphasize too strongly that there are two quite separate surface mining industries – the old quick and dirty example I just described and today's modern surface mining conducted on a large scale by environmentally responsible operators, both of the eastern mountains and in our Mid- and far West.

Unfortunately, the public has been asked to think of surface mining in terms of this tragic, careless past. Even the media writes nostalgic editorials about the horrors of those far-off days rather than admitting the reality of modern industrial practice. Congress is right now attempting to formulate legislation to regulate surface mining practices. Last week, efforts were made by the House Interior and Insular Affairs Committee to formulate a bill which would perform the tricky job of being sufficiently restrictive to please the environmentalists and at the same time

sufficiently practical to enable a manageably economic job of mining and reclamation to be performed by industry.

Of course, the *New York Times* joined in the public debate over the so-called Hosmer Bill. Let me quote from an editorial. "In the energy shortage which confronts us, the country must draw on its vast coal supply. There is no question of that." So far so good, but I'm being mischievous. I'm using a brand-new technique. I'm quoting the *New York Times* out of context. (Laughter) The rest of the editorial went on to damn the industry for trying to push favorable legislation through Congress. Today, the same congressional committee is attempting to formulate practical legislation out of another draft bill, which in its initial form would literally have almost completely interdicted the surface mining of coal in this country. If the members of the Interior and Insular Affairs Committee are successful in formulating legislation which will not stifle present surface mining or completely prevent future production, we could once again say, seldom will so many pose so much to so few.

If we are to lessen the pressure the oil-producing nations can apply upon US foreign policy using their oil weapon, our public and our legislators must understand the necessity for an urgent large-scale buildup of coal mining in these United States. And buildup means heavy emphasis on modern highly productive surface mining. A massive effort to escalate our production of coal is the only way for the US to reduce unacceptable dependence on imports in any reasonably short time and end, to quote Mr. Kissinger, "our vulnerability to blackmail."

Indeed, according to all studies that have been made of our energy situation, the US dependence on imported oil is only just beginning. The producing governments nicely timed their use of the oil weapon. It coincided with the leveling off of our domestic oil and gas production. For the future, the conventional scenario predicted rapidly rising consumption of energy met by growing imports of oil from the Middle East. The energy crisis is not yet upon us. The world today still has an abundant supply of energy. At the moment, we have only a political crisis over its distribution. And as we have seen, this is difficult enough. The real energy crisis will come when the world's need for petroleum outruns the supply, and that crisis will arrive, I believe, on schedule in the early 1980s. We can view the present shortage of energy as an early warning system of this future, more basic crisis when demand outruns supply. That will be an event not easily solved by diplomatic conferences to obtain the removal of discriminatory embargos.

Our citizens may be deeply affected in their private lives by the energy shortage unless our public is prepared to throw its full support behind an energy policy that will save us from such alarming prospects. Something like President Nixon's Project Independence is our only hope for maintaining political options and a sound economy. The goal of self-sufficiency requires and deserves support from the public and the media and from our legislators.

Dr. Dixie Lee Ray, the Head of the Atomic Energy Commission, and Mr. William Simon, our Federal Energy Administrator, have attempted to outline for the president and the country a

positive national energy policy. This is the first attempt to spell out some goals worthy of an effort on the part of all. Prolonged debate over these proposals will use up valuable time. We should right now start on the job of establishing the means to achieve these goals which have already been spelled out. Whether we can achieve full self-sufficiency or not, the US must increase its own supply of energy from the domestic sources available to us.

The goals of Project Independence call for a 27% increase in US domestic production of oil to 14 million barrels of oil per day by 1980, a 20% increase in production of natural gas by 1980 to 13.2 million barrels of oil per day equivalent, and a 60% increase in production of coal by 1980 to some 900 million tons, or the equivalent of 11 million barrels per day of oil equivalent, and a 12-fold increase in nuclear energy production from its present embryonic level to 1.3 million barrels per day of oil equivalent by 1980. Our national energy policy must surely envisage such a massive effort to increase our production of oil, gas, coal, and nuclear energy. But more than that, in order to make sensible use of our natural energy resources and to provide a margin of safety, I believe we must establish a Manhattan Project-type of effort to raise our coal output by even more than this administration goal.

First, by doubling production to reach 1.2 billion tons by the end of this decade and then to 2 billion tons by 1990. The US must reduce its dependence on the imports of oil. Even with energetic conservation, imports would otherwise reach 7 million barrels a day by 1980 and probably double that by 1985. Priced conservatively, and you choose the numbers, $7 or $10 per

barrel, such imports would cost anything from $20 - $30 billion a year by 1980 and double that by 1985. But no matter what the price of oil is by that time, high or low, such a scale of imports would impose totally unsupportable demands on our foreign exchange resources.
In addition, they might even put unsupportable strains on the world's supply of petroleum and result in unacceptable tensions between us and our industrial allies in Europe and Japan. The rapidly increasing increment of US demand for imported oil will cause an energy problem for our friends and trading partners in Europe and Japan. They have few alternative sources of energy. We have immense resources in our coal. If we optimize our domestic energy supply and reduce the rising US demand for imported oil, we will be helping both Europe and Japan. Thus, paradoxically perhaps, Project Independence is not a selfish isolationist move, but the most substantial contribution the US can make to the common international energy problem.

I was glad to see that Treasury Secretary Shultz stressed this very point recently. It is still not adequately appreciated by the public or some of our commentators who criticize this imaginative and truly internationalist project. As massive consumers of energy, we surely have no alternative but to develop the coal production and seek the maximum degree of independence from foreign resources. All obstacles should be removed. Encouragement must be provided to supply energy from coal which could provide at reasonable capital cost an additional 600 million tons of coal, the equivalent in energy to 5 million barrels of oil per day, or something like 2 billion barrels of oil totally. This solution is our responsibility. All of us, consumers, industry, the business world, and government, and the public must recognize it. Our goal should be to double our coal

production by 1980. Thank you. (Applause)

Chairman George R. Vila: Thank you, Ian, for that very thoughtful and informative talk. I think you put a lot of things that have been concerning all of us into a very meaningful focus.

As a member of the Securities Exchange Commission, James Needham once advocated that the leadership of the New York Stock Exchange be entrusted to someone from outside the securities industry. He felt that such a break with tradition was necessary if needed reforms were ever to be carried out in an institution that had not changed since, or had changed very little since 1792.

He was given the opportunity to put his idea to the test. In August of '72, he took office as the first full-time salaried chairman in the history of the Big Board. The previous month a giant step had been taken in the reorganization of the exchange. The former industry-dominated Board of Governors had been replaced with a 21-member Board of Directors among which were, besides the chairman, ten public members and ten members from the securities industry. The so-called public members represent a wide cross-section of interests from large corporations in the consumer field to small investors clubs. In short, anything but a rubber stamp type of board.

Nevertheless, in the brief year and a half that he has held his present office, Chairman Needham has already succeeded in putting across several of his most potent ideas for reform. He has also won an audience in Washington for some very important legislation. Of particular importance to

all of us are the tax incentives he is seeking to bring the individual investor back to the market. But I don't want to anticipate what he will tell you about this in a few minutes.

What he will not tell you, out of modesty, is that he works more conscientiously and harder than most people at setting and achieving his goals. His former SEC boss, William Casey, was worried when he heard of Commissioner Needham's appointment to the New York Stock Exchange post. He expressed fear that the new chairman might kill himself trying to work six times harder in his new job because he was being paid six times as much as old Casey had paid him. (Laughter)

In reality, James Needham works hard at many other things besides his official duty. His idea of a great weekend is hours and hours of gardening, and his idea of a great trip abroad is to hop from one financial center to another promoting the free movement of capital. Shortly after his appointment in the fall of '72, he even included Moscow on an overseas itinerary in order to explain to the Russians how New York could help them meet their capital needs. Last October, he played host here in New York to representatives from 20-odd countries in the International Federation of Stock Exchanges. They made him a vice president of the federation.

Tomorrow, Thursday, a new chapter opens in his life story. James J. Needham, the author, will see his first book published. The title, *The Threat to Corporate Growth.* I am very eager to read it, and I am certain that after hearing our guest tonight most of you will want to lay your hands

on a copy. It is thus with great pleasure that I give the floor to Mr. Needham. (Applause)

James J. Needham

Chairman, New York Stock Exchange

Thank you Mr. President. Members of the dais, distinguished guests, I know it's bad manners to ever correct anyone, but the restructuring of the chairman's office that you referred to in my introduction, well, your introduction of me, was really one that was enunciated by Bill Martin. In all of my wildest dreams, I never thought of restructuring the chairmanship of the New York Stock Exchange, but I'm seriously indebted to Bill Martin for writing the job description. So with that, I hope you'll forgive me.

I just want to answer the question that's on the minds of some of you. Some have already asked me if I was aware that it was at the Economic Club that Bob Hack had spoken once. And I just want to let you know that I do know that. (Laughter)

You know they say that you can tell a lot about people, the nature of people of a country by the anecdotes that they tell. Now I never paid any, attributed any significance to that until tonight when Mr. MacGregor told his story. And he reminded me of a story that I heard at an early meeting, at one of the early meetings I went to of the Economic Club when they had someone from the UK, a Britisher. I've forgotten now who it was, but I'm sure he was very important,

who started to tell a story about the traveler who was exhausted and very tense and uptight and arrived in his hotel room here in the United States.

And in looking around he noticed that there was a Gideon Bible placed in a very convenient place for him to refer to. Not having any place to go and feeling very nervous and restless and very tense, he opened up the book and on the inside cover it said, if you're tired and restless and tense, read the psalm on page 39. And down below it was written in pen, was a little note that said, if after reading the psalm on page 39, you're still tired, and restless, and tense, call Muriel at 637-4312. (Laughter) I've never forgotten that story. And I've looked in every Bible I've ever seen, but I've never seen that notation. And that does tell us something about the people of the UK I think too.

Tonight I wish I could offer you some very clever and simple solutions to the energy crisis that is uppermost in the minds of all American businessmen – indeed, in the minds of all Americans. Unfortunately, I don't have those answers. I'm afraid that what I do have is a serious warning about the possibility of another kind of energy crisis not very far down the road. I'm referring to a shortage, a possible, possibly critical shortage of capital, which is after all a form of energy that is at least as important as oil in fueling American business activity.

It isn't difficult to perceive a distinct and very disturbing parallel between the unheeded warnings of earlier years about the impending fuel shortages which is now complicating the lives of all

Americans and the very clear present signals that a capital availability problem looms ahead. Without belaboring the point, there is no shortage of prophets who can honestly say of the oil crisis, I told you so. Nor is there any scarcity of commentators gifted with hindsight who can and do solemnly recall long years of complacency and inaction on the part of the government, on the part of industry, and on the part of the public.

As I understand it, the present problem did not materialize overnight because the Arab oil producers decided to boycott the United States. The boycott merely compressed the timetable. The result is that we are presently enduring an energy crisis by default a bit earlier than might otherwise have been the case. Right now we have the opportunity to begin planning and making the necessary decisions that will help to avoid an investment capital rerun of the present energy crisis. The lessons are before us if we're willing to heed them.

In recent weeks, an impressive roster of expert observers have begun to express serious concern about future capital availability. The widely respected economist, Dr. Paul McCracken, believes that rampant inflation is the most fundamental challenge facing industry today. In a recent article in the *Wall Street Journal* Dr. McCracken noted that inflation is having a severe impact on capital formation. When profits with more realistic estimates of cost are expressed in 1960 prices, '65 prices throughout, Dr. McCracken pointed out; the real purchasing power of after-tax profits in 1973 is found to be roughly half of that in 1965.

Perhaps even more significant is Dr. McCracken's finding that retained earnings expressed in 1965 prices dropped from $19 billion in '65 to $2 billion last year. Reginald Jones, Chairman of General Electric, approached this question from a different angle. He estimated recently that the cumulative capital needs of US business between now and 1985 will be in the neighborhood of $3.3 trillion. While acknowledging that part of this enormous sum can be raised through borrowing, he noted that corporate debt already totaled some $900 billion, about three times the federal debt. Substantial additional sums can be raised through retained earnings. But as Mr. Jones so rightly points out, much of the new capital will have to be generated in the equity markets. Lynn Townsend, Chairman of Chrysler Corporation, put an additional dimension on the problem. He was quoted in a recent issue of *U.S. News and World Report*, as saying there will be serious consequences if our capital markets are not able to supply to corporate America the equity capital that it needs at prices that are acceptable.

Zeroing in on the specific problem that we have been grappling with in the securities industry, Frank Hudson, Secretary of AT&T, has observed, and this also a direct quote, "The critical issue is not, as some would have it, whether we are for or against more profits for the securities industry. Instead it is whether or not we are going to have a securities industry which will be strong enough to be able to help raise the capital which we, in the telecommunications industry, need to meet demands for service and which industry generally needs to maintain and accelerate the country's progress."

It all boils down to this. Corporate America today faces a staggering economic challenge. We are a nation with an expanding workforce, longstanding tradition of rising wages, and a rising standard of living, and a strong commitment to the greatest possible degree of economic self-sufficiency. Enormous sums of investment capital will be needed to finance growth, to correct the scarcity of basic materials that are leaving great gaps in our industrial capabilities, and to maintain a competitive international economic posture in the decade ahead. We are talking here about multiple trillions of dollars – amounts undreamed of as recently as a year ago.

You, the leaders of American industry, are expected to provide useful employment for some 86 million people and to create more than 1.5 million additional jobs each year for young people coming into the workforce. America expects you to assume a constructive role in alleviating the nation's economic and social ills, in helping us surmount the energy crisis, in overcoming commodities shortages, in beating back inflation, in halting environmental deterioration. And you, the leaders of American industry, can indeed meet all of these challenges provided you can raise the necessary capital.

As Reginald Jones and other responsible leaders have made clear, the amounts needed are astronomical. Corporate America is already heavily in debt and there are limits in terms of conventional debt to equity ratios, and interest to earnings ratios, to how much more can be borrowed. When you add the prospect of lower borrowing capacities to evidence that inflation is severely compressing the real value of retained earnings, it is apparent that these major capital

pools are in serious danger of stagnating. Unless the equity markets can fill the ever-widening gap between the capital demand and the capital supply, the current murmurs about a capital shortfall may well rise to a crescendo that will be heard around the world. Clearly, the US equity capital markets are due to be tested as never before.

But as we have recognized in the securities industry for quite some time now, and as others outside the industry are finally beginning to realize, the question that looms larger and larger is whether or not the capital markets in this country are going to be healthy enough to do the job. This is the new and potentially devastating energy crisis that can only be headed off by action now.

Everybody today seems to have a different estimate of just how many trillions of dollars are going to be needed. At the New York Stock Exchange, instead of relying on other people's best guesses, we have launched an extensive study of the capital supply and demand prospects between now and 1985. Our objective is to obtain as accurate a picture as we can of just how much investment capital industry will need and where it is likely to come from.

At present, however, at this very moment, the Congress, the federal regulatory agencies, and the securities industry itself are debating major decisions that will affect the efficiency of the equity markets and the capital raising capabilities of corporate America for years to come. These decisions are going to be tremendously important to everyone sitting in this room tonight – to

your companies, to your employees, to your stockholders, and to all of your colleagues in American industry. It seems to me that you have a vital stake in deciding whether those decisions are going to be constructive or destructive. Surely it is in your interest that the correct decisions be made and that they be made promptly without unnecessary procrastination or delay so that you can get on with your business, the business of strengthening and expanding this nation's economy. To some extent the basic issue that has to be decided has been clouded by a good deal of emotional wrangling over details and by widespread imperfect understandings of what is actually involved.

Consider for a moment some of the current general misconceptions about the present state of the securities industry. It is widely assumed, for example, that individual investors have been disenchanted with the market and have been cashing in their holdings. Actually the evidence shows that while many individuals have been sitting on the sidelines for some time and there's been an overall decline in share ownership over the past two years, the idea of a general exodus has been greatly exaggerated. Many of you may be aware that in early 1973, the exchange estimated that there had been during the previous year a net decline of some 800,000 shareholders from the peak of 32.5 million estimated a year earlier. Our latest annual interim estimate shows a further net decline of 800,000 during 1973 to an estimated total of 30.9 million shareholders. This is hardly an encouraging statistic, but it's far less discouraging than the 3 or 4 million figure that some commentators have been suggesting.

These interim estimates, I should acknowledge, are open to a wider margin of error than the full scale studies the exchange conducts every five years. But even allowing for this, it is clear that there are today well over 30 million individual Americans who own shares of stock or mutual funds. Now it may be that a substantial number of share owners have remained share owners in the face of a prolonged period of declining markets and general economic uncertainty simply because they feel locked in by paper losses which they are unwilling to realize. It may also be that there is an underlying layer of unarticulated confidence that stock prices will eventually rebound to at least a point where present paper losses will be eradicated.

My point in raising the question of individual participation in the market in the present context is that the capital needs of corporate America cannot possibly be supplied by institutions alone. Your vast present and future requirements demand continuing active participation by millions of individual investors and a further broadening of the base of corporate ownership in this country. I firmly believe that we have in this country the necessary physical and intellectual resources to overcome the grave economic and political uncertainties which have prompted many people with investable funds to adopt a wait and see attitude about the market.

Given that assumption, there is one absolute prerequisite for stimulating public individual participation in the market. We must continue to maintain highly liquid, open auction markets in the stocks of the nation's major corporate enterprises. And we must continue to operate

marketplaces where the public knows it can buy and sell those stocks at fair prices at all times. The existing system with all of its imperfections enables us to do just that. And the fundamental reason is that this nation's securities auction markets, centered in our registered stock exchanges, stand at the confluence of a massive daily flow of buy and sell orders which accurately reflect up to the minute supply and demand for the stocks of America's leading corporations.

The two-way securities auction process made up of bids to buy and offers to sell provides both buyers and sellers with the best price available at a given moment. The stock prices generated in this auction process give investors and corporate issuers alike a continuous overview of what the public thinks these stocks are worth. Unless we can maintain markets that will provide the clarity, certainty, and breadth of judgment, investors and issuers have come to expect, we cannot expect millions of individuals to participate in the market and we cannot do a complete job of helping corporations generate the huge amounts of equity capital they need.

Our continuing ability to provide fair, orderly, and liquid markets for all who choose to participate in them will depend in a very large measure on both the final form and the timing of the securities legislation now moving through the Congress. Right now most of the attention is focused on legislation introduced by Senator Harrison A. Williams of New Jersey. Another major bill introduced in the House by Representative John E. Moss of California is also moving more slowly toward a vote.

Senator Williams' bill would mandate the creation of a national market system in which all trading and securities listed on stock exchanges would be linked in a vast communications network designed to give the public near instantaneous information on stock prices and sales. The essential elements of a national market system would be, first, a consolidated tape capable of reporting all transactions in listed securities taking place in all markets where those securities are traded. And second, a computerized quotation system with comparable capability for disseminating information on bids and offers on all listed stocks.

The system would operate under an umbrella of equal rules and regulations governing all participants. At the New York Stock Exchange, we fully support the concept of a national market system. Our chief problem, and it is a whopper, lies not so much with the proposed legislation, but with the impact of the SEC's independent decision to end fixed commission rates on all securities transactions after April 30, 1975. The implications of the impending changeover to competitive or negotiated rates in the context of the proposed legislation are tremendous. We believe that unless the legislation itself is modified to take these implications into account, the securities auction market system as we know it today could be quickly dismembered and US corporations could become subject to near total institutional dominance.

Let me explain briefly how this would come about. Under the traditional system of fixed security commission rates, stock exchange member brokers compete for public business primarily on the basis of the services they offer their customers. Elimination of fixed rates, which by the way we

regard as inevitable, will introduce a new element of price competition. The economic impact of this could substantially reshape the way securities are bought and sold apart from any legislation. When price competition in brokerage commissions hits the securities industry next year, virtually every firm will be reevaluating its business, focusing on areas of profitability and eliminating marginal activities and services. For many firms, this will be a matter of survival.

One obvious route for many firms will be to make markets in their own offices in active stocks traded on exchanges. With brokerage commissions on exchange business subject to price competition, firms will move increasingly to more profitable activity as dealers – buying and selling directly to customers from their own inventories rather than as agents taking customers' orders in those stocks to the exchange. By acting as dealers outside the exchanges, they can avoid much of the regulation, obligations, and cost imposed on exchange members. Obviously, any movement in force away from the exchanges will diminish the importance of the exchanges.

But this is by no means the basic problem. If it were, I frankly would not expect the larger corporate community to be terribly concerned. What should concern you is that the departing brokers will automatically take with them a substantial part of the order flow in listed stocks – some 125,000 orders a day by the most recent estimates which as I have already indicated is really what makes the stock exchanges work. And if that happens, the biggest losers are going to be the corporations and their millions of stockholders.

Consider the implications: this vast flow of orders is the unique representation of supply and demand that today sets the prices of listed corporate stocks based on the judgment of thousands of investors, large and small, interacting in one place and at one time. In dealer markets, by contrast, prices are set by the individual's assessment of supply and demand and sometimes by the state of their inventories. Moreover, in dealer markets prices will not be equally available to all investors. There may be one price for individuals and another for institutions and other large customers. When a dealer wants to liquidate his stock, or his inventory to stock for example, he will go directly to the big buyers with discounts not available to individuals.

What kind of continuity can be expected in dealer markets where individual dealers, unlike exchange specialists, can simply turn their backs and stop dealing when the going gets rough in a particular stock? A close look at the over-the-counter markets for unlisted securities in today's uncertain economic climate reveals that there are simply no real markets in many of these stocks. Dealers come and go as prices rise and fall.

Faced with this kind of unequal competition from large, independent dealers who are also siphoning off the order flow in their most active stocks, specialists will have compelling reasons to set up dealer operations of their own away from the exchanges. And as this trend grows, who will make auction markets in the hundreds of less active listed securities?

Finally, the concentration of orders on the exchanges is a major factor in making continuous

surveillance and regulation of trading possible. Regulating a sprawling dealer market would be vastly complicated, if possible, not only by the physical dispersion of the markets but by prices, market depth, and liquidity that vary substantially from one independent market maker to the other.

The prospects for individual investors aren't much brighter. Faced with impaired price continuity and liquidity in the auction markets, the individual might well turn to the dealers only to find that the dealers prefer to cater to large institutional customers and will only offer prices to individuals on a take it or leave it basis. Widespread uncertainty and dissatisfaction with this type of treatment and the absence of a satisfactory alternative could lead millions of individuals straight out of the market. And companies seeking to raise badly needed venture capital through new equity issues would find themselves effectively cut off from an important source of investment funds.

As is the case in Europe, the emphasis in stock investment could readily shift from the owner's expectation of capital gains to a demand for larger dividend payouts. Obviously if this happened on any substantial scale – and the indications all point in that direction – corporations would find it more difficult to retain earnings to help finance modernization and expansion. The net result all along the line would be to force corporations to rely more and more heavily on large institutions for essential capital. And it is not at all difficult to foresee a rapidly growing concentration of the ownership of American business in the hands of a relatively few enormous investors controlling

huge reserves of capital. I won't even mention the implications from a social point of view.

There is a way, though, a very simple way to circumvent this grim scenario, but it's a solution that only can be accomplished by congressional action. The congressional leaders most actively concerned with securities industry matters have repeatedly stressed the importance of preserving the securities auction markets in any future national market system. At the exchange, we have assumed it would be possible to build adequate safeguards into such a system. The critical unresolved issue at this time is how to avoid dismantling the securities auction markets immediately in the years ahead.

During the interim period, during the startup of competitive rates and the establishment of a properly functioning national market system at some future date, something must be done. The answer clearly and simply is to build an effective bridge over that gap. The Board of Directors of the exchange, which includes the chief executive officers of some of America's largest corporations, identified this critical problem more than a year ago. And at that time, they decided that all trading of listed securities should take place on registered national securities exchanges. This proposal would do no more and no less than require brokers and dealers alike, whether exchange members or not, to bring their trades in listed stocks to the exchange. This very simple solution would short-circuit the proliferation of hundreds of over-the-counter markets of varying quality, depth, and regulation in listed stocks, and it would maintain the maximum interplay of public supply and public demand.

I suggested earlier that investment capital is perhaps the basic source of corporate energy. The legislation we seek would, in fact, help keep the vital supply lines of investment capital open to American industry at a time when your need for capital will be greater than ever before. Only Congress has the power to take the steps that will avert a major crisis of capital availability, and fortunately, a few of them have begun to recognize the problem and that the issue goes beyond the securities industry and straight to the heart of our national economy.

Senator Williams last week had his bill on the national marketing system passed by the full committee. At the same time, the committee recognized and scheduled public hearings that there is a direct concern about preserving the auction markets and they are going to address this crucial unresolved issue of preserving the strength of those markets. Those hearings will consider supplementary legislation as introduced by Senator Williams along the lines that the Board of Directors has indicated.

The hearings will, in fact, determine whether or not the basic national market system bill will be augmented at least by a fail-safe mechanism that will provide the kind of safeguards we have been crusading for more than a year. I am confident that through public hearings of this issue and of the likely consequences of ignoring the danger signals I have outlined this evening will prompt the committee to take constructive actions along the lines suggested by Senator Williams.

The exchange will, of course, be testifying. Our case, as I think you may agree, is a very strong one. It would be immeasurably strengthened by the informed vocal support of corporate leaders like yourselves. Perhaps we can succeed alone in persuading the committee to approve the supplementary legislation. If we do not succeed, I hope the corporate community will not come to us two years from now demanding to know what has happened to the capital markets. We would derive little satisfaction from saying we told you so, as some disillusioned people are now saying about the oil crisis.

Earlier I indicated that the timing of this legislation would be just as crucial as its content. Not only does our national economic well-being require good legislation that will provide the impetus for constructive change, it also requires that such legislation be promptly enacted. I urge you to join with the securities industry in calling upon Congress to take positive action now to enact constructive legislation that will ensure the continuing viability of America's capital markets. If you believe that corporate America must place itself in the strongest possible position to accumulate the massive amounts of capital essential to the continuing economic strength and progress of our country, then you must move quickly. You must get involved now before it is too late. Thank you. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN GEORGE R. VILA: Well, we're sure going to get the book. That's a very, very

provocative and very, very timely speech. We're now going to have the question panel. And Mr. Brumm will address his question to Mr. MacGregor, the first question.

JAMES BRUMM: To tie the two speeches together, where will the capital come from to meet your goal for 1980 of doubling coal output?

IAN MACGREGOR: I think that the capital necessary for the expansion of coal that I'm talking about is relatively modest. That's one of the advantages of this whole thing. We reckon that it probably costs something like $20 - $25 per annual ton of capacity to create the large-scale, surface mining operations I'm talking about. Add to that maybe another $10 for transportation and other facilities and you still have quite modest sums of money.

JAMES BRUMM: You're talking now in terms of strip mining coal. Has the coal industry adequately informed the American public of the differences between strip mining that you talked about earlier, so that they will get political approval for the strip mining instead of the more expensive underground mining?

IAN MACGREGOR: We're in the process of doing that. That's what this speech was about tonight. I'm harnessing a new group of salesmen. Seriously, there's not full understanding of the importance of this problem. Underground mining, which is the old traditional way of winning coal, requires in addition to heavy capital expenditures a great deal of skilled personnel.

Underground mining is not an easy job. It is learned by people over a period of time. The reason for advancing the thesis that we should use and optimize our surface mining effort is that it obviates the necessity and of course the lead time in developing a new, huge group of people. The productivity ratios as between underground mining and surface mining are of the order of ten to one in modern mines. One man can produce close to 200 tons per shift in a modern, high production surface mine in our six teams in the West and 20 tons per man shift in the underground mines is quite an achievement. Of course, our figures in the US are still, even with these underground mining figures that I referred to, are still substantially above those in, say Europe or the other countries that have mined coal underground in the past. Our great opportunity lies in the fact that we do have some resources which can be mined by the kind of equipment and the kinds of methods which the US is good at – machinery on a large scale, with people who can be trained quickly and are carrying out responsible work in producing immense increments of productivity.

CHAIRMAN GEORGE R. VILA: Mr. Carson Parker, you will address your questions to Mr. Needham.

JOHN CARSON PARKER: Jim, referring to your statement about the number of individual share owners declining 800,000 in 1973, I believe this is an estimate rather than the result of a census. How accurate do you believe your estimate to be?

JAMES J. NEEDHAM: Well, our economists believe that it's a reasonable estimate. As I indicated in my talk, we recognize it could have some wide fluctuations. What probably raises the question in your mind is the lack of investor participation in the market. I just want to point out the fact that investors, when they liquidate their portfolios, they don't necessarily liquidate their entire portfolios. And secondly, the net redemption position of the mutual fund industry does not indicate a departure by many individuals but rather the larger type of investor in mutual funds are the ones who have been leaving. And add to that the number of employees who are participating indirectly perhaps in corporate equities through profit-sharing plans and bonus arrangements, I think tends to offset some of the negative factors in share ownership.

JOHN CARSON PARKER: What do you think is the major reason why in just the last two years, 1972 and 1973, the number of individual investors has begun to decrease?

JAMES J. NEEDHAM: I've maintained for years that the only reason people invest in the stock market is because of the economics of the situation. It's true that emotional patterns do develop and crises in other areas, political and social, affect the stock market activity. But fundamentally, equity securities have not been a desirable investment vehicle from a pure investment point of view. I think you understand what I mean by that.

JOHN CARSON PARKER: Yes, I think probably everybody understands. (Laughter)

JAMES J. NEEDHAM: I always like to state the obvious. (Laughter)

JOHN CARSON PARKER: Jim, isn't it a fact that if you look at institutional bailouts of some stocks, like the one that took place the other day in Westinghouse-Electric when the stock fell from $32 to $24 in a single session, doesn't that shatter the confidence of a great many individual investors particularly in the stock market?

JAMES J. NEEDHAM: Oh, I think it provides, more than shattering the confidence of individuals, I think it provides some interesting copy for financial writers. (Laughter) Because I think the individual investor really understands, perhaps better than most people are willing to recognize, just what that market is all about. It's a demand and supply market. If there are 10 million shares of stock outstanding of a particular company, and on that day only 100,000 shares trade, that's the market for that stock that day. The other 9 million shares don't mean anything. It's what comes to market on that day. I do think people are disturbed by this price volatility. But I do think they recognize too that the alternative, the alternatives that have been proposed, and I won't enumerate them, are far from satisfactory.

JOHN CARSON PARKER: When we look at debacle that in Westinghouse or in Simplicity Pattern, which fell from $32 to $20 a couple of weeks ago, or ITEC which was almost cut in half early in December, can you really claim the auction markets today are highly liquid?

JAMES J. NEEDHAM: Well, the people that wanted to buy and sell that day did. That's the test of liquidity. Have you tried buying or selling certain stocks that are not included in the auction market process? And I'm thinking principally of over-the-counter types of securities. There is no market in those securities today. How liquid is a piece of real estate? I think the market is liquid. You may criticize me by saying that's subject to definition, but I say to you, the fact that you are able to execute a buy or a sell transaction is evidence of the liquidity of the market.

JOHN CARSON PARKER: Well, you can execute a buy or a sell transaction but at a price, can't you? What makes you so sure that bringing all listed securities trading through the exchanges and thereby, I imagine, eliminating the third market is going to solve the capital raising problems that you referred to?

JAMES J. NEEDHAM: Let me take more than the nine seconds I'm allowed for a response. That's a complicated question deserving of a complete answer. First of all, it's my view, and it's always been my view, that the market must be made responsive to the needs of the users of the market. Namely, the stockholders. Now there are ways to cut down on the volatility of price movements and such a way is being tested now in Chicago by the Board of Options. I believe that option trading is a way of lessening price volatility. And once the institutions, the so-called sophisticated money managers, find out about it and learn how to use it the impact of their trading on stock prices on a daily basis will diminish. Secondly, I'm not going to talk about the third market because they're busy talking about General Motors. I'm going to talk about why

stocks have to come together in order to establish a price. Many corporations are finding out right about this time, if they haven't found already, that their contributions through profit-sharing plans and pension plans are going to be substantially increased as a result of depressed stock prices. Now that makes it an important economic factor in terms of paying out the benefits ultimately to the workers who are participants in those plans. Now the relationship between a fragmented market and a centralized market is very clear, and I think you can perceive that. The important thing is not the third market or the New York Stock Exchange. And we've tried to say that twelve different ways. The important thing is to bring all of the orders together because everyone who has ever taken a course in high school economics knows that supply and demand determine prices. And if supply is over here somewhere and you don't know about it, and you only know about one source of supply, you may pay more than you should. So by bringing all of the supply and demand into one place, the market more accurately reflects the economic value of that security on that day. And while I'm at it, let me explain what the specialist does. The supply and the demand are never equal. One is always larger than the other. It's at that point that the specialist is charged with the responsibility of stepping in and making a market, providing the balance, so to speak, in the equation so that the trades, all of the sells and all of the buys, can be executed. That's his sole economic function in life and he does it very well. (Applause)

JAMES BRUMM: Mr. MacGregor, your speech was promoted as not only on energy but also on minerals. Along that line there has been talk lately of an OPEC-type organization for various mineral-producing nations. One, do you see this happening? Two, if so, how long would it take

to create an effect on the United States economy like OPEC has been able to exert since October?

IAN MACGREGOR: The most popular topical reference to that type of operation is the one about bauxite. We import about 92% or 93% of our bauxite. That happens to be the most economic and convenient source of alumina for the aluminum industry, but it isn't by any manner or means the only way to derive alumina. We have vast tonnages of clays in the southern part of the US which, if you will, are bauxite in the making. Come back a million years from now and there may be bauxite. But they're sufficiently high in alumina that at some added cost we could easily derive the necessary alumina to support our industry. Now in that particular case I feel that those who are considering an OPEC-type of operation have fairly limited options. Well, maybe the additional cost at present values is maybe 25% or 30%, but still manageable. And exactly the same way that I'm promoting the idea that coal is our option in energy, take copper, another one which is popular, 70% of the world's copper is produced by four countries – Chile, Peru, Zaire, and Zambia. Here again the US is not necessarily a target for their operations because we're almost self-sufficient in copper. We consume about 2 million tons of copper a year at the present moment and we produce almost approximately that amount. We're nicely in balance. Oh, we might have more of a problem with lead and zinc, but here again I think that under the stimulus of the higher prices, we would trundle out new sources of both of these metals. I find difficulty in seeing any great problem in most of the important metals. Maybe in some of the less important metals or perhaps even some of the transitional ones like nickel.

We're almost totally dependent, maybe 95% dependent on nickel imported from abroad. We could be held up there. But our principal source of nickel hitherto has been from Canada. And I would leave you to determine for yourself to what extent Canada will become a member of an OPEC organization. Gold, we don't produce very much gold, but we seem to have been able to get along without it for long periods of time. Silver, again this is not totally essential material to our society, though it's very attractive and a wonderful thing to speculate with. Tungsten perhaps, North America is potentially one of the world's great tungsten sources. So again with the proviso that we can get along with our Canadian friends, we should be reasonably safe from any pressures from abroad. I would say by and large that we stand in pretty good shape and may avoid any parallel to the oil situation. (Applause)

JOHN CARSON PARKER: What has been the effect of the two-tier market on corporations' ability to raise equity capital?

JAMES J. NEEDHAM: Well, putting aside economic conditions themselves, if a two-tier market concept were to continue into the future, I think it would have disastrous effects on the ability of those corporations not included in tier one to raise capital. So I guess, you know, ignoring the economic climate, I would say it's been a hardship for those companies in the second tier to raise capital.

JOHN CARSON PARKER: Supposing the situation continues where it's extremely difficult for

corporations to raise equity with selling their equity at very low price to earnings ratios, would you say they start expanding or modernizing? Or should they sink further into debt even at very high cost?

JAMES J. NEEDHAM: Well, that's really a business decision, isn't it? And I guess you have to come out and say that if costs of raising equity capital are higher than the costs of borrowing money, then you have to borrow money. But what that does pre-suppose, and I won't go into it, is the availability of that money to borrow.

JOHN CARSON PARKER: Recently the Treasury Department issued a report on institutional trading which says the self-interest of institutional investors will cause them to be cautious in placing unreasonable demands on the liquidity of the market. Would you care to comment on that?

JAMES J. NEEDHAM: That statement was written by a Professor of Economics, wasn't it? I guess I would have to say that their track record to date doesn't demonstrate that. I feel that there's a change in the emotions of institutional investors. I think many of them have, are more concerned than corporate America right now, and they have every right to be because they have loaded their portfolios with just a few securities. And you know it's the old story about to whom do I sell them? If they're all sitting there with the same product and they hold massive quantities of securities of a particular company, who is going to buy it? That brings you full circle back to

the individual investor. And I might say here, just so we say it publicly, I don't want anyone to misinterpret what I'm saying. If all institutions wanted to get out of a particular stock at a particular moment, that does not usually have anything at all to do – I'm talking about an immediate type decision – with the desirability of that stock as an investment. It rather has something to do with what they feel is they've already realized a certain amount of profit and they're willing to take it, and they have another need for their cash and it fits into their cash flow system. So that they have a reason for disposing of that security totally unrelated to the economic value of that security. So that if the individual investor is the one who buys it, then he is buying in essence a good product and should not feel that he's taking some castaway from a large institutional investor.

JOHN CARSON PARKER: What percentage of public trading on the New York Stock Exchange today is being done by institutions?

JAMES J. NEEDHAM: Seventy percent. And we think that's topped out. The individual American still owns higher percentages of corporate equities than do institutions. We think that the massive flows of cash into funds in the past 20 years has reached its peak and that from here on in the percentages of trading will probably remain about the same. They could be a lot worse in the sense that if the Congress is not willing to accept our ideas for improving the attractiveness of equity securities as an investment vehicle, then investors will tend to place their funds elsewhere.

JOHN CARSON PARKER: Jim, I was asked to try and throw you some curve balls. I don't quite know what a curve ball is but here's one that's mildly bent. In your testimony before Senator Bentsen of July 26th, you said the exchange had taken no formal position on the proposal that limitations be placed on the size of institutional holdings. And in your testimony before the same committee on February 6th this year you said you were not in a position to offer a final evaluation of what the senator was proposing. So my curve ball is when are you going to take a position on this question? And can you give us an inkling of what it's likely to be?

JAMES J. NEEDHAM: Well, I only see three directors of the exchange here besides myself and that's not a quorum. A quorum is six. So the reason I answered the question the way I did was because the Board of Directors, and I was testifying as a member of the Board of Directors, had not taken a position and therefore I couldn't take a position. I think I'm allowed some personal license as chairman of the exchange, however, and I would say that to place restrictions on institutional holdings is not the American way, so to speak. I believe in free markets. I believe that institutions should not be limited severely to the extent of their investment choices. The thrust of my argument, and I believe it's the thrust of the entire Board of Directors, is that the market must be made more responsive to the individual himself. Now, that doesn't reach the big national policy question which is should, is there a domination of American industry by large institutions? And the question that automatically follows from that, what type of collusive activities is this group up to? That's a question that we don't reach at the New York Stock

Exchange. That's something for the Congress to decide. But in terms of trading and holding of equity portfolios, I believe that when the matter comes before the board, they will adhere to a free market policy. Thank you. (Applause)

JAMES BRUMM: Your coal division, like most other mining companies, doesn't open a mine until it has a firm, long-term contract for the coal to be produced. With this in mind, what do you see in the action of various state boards that control the utilities that will be the short-range, will be the major users of coal between now and 1980, as to how soon they will allow these utilities to make long-term contracts for coal, and therefore contract with you and other miners to open the mines?

IAN MACGREGOR: The majority of the utilities that we do business with do undertake long-term contracting for coal.

JAMES BRUMM: Right, but I mean, particularly here in the metropolitan area, and several other areas of the country, the utilities have only been allowed to buy on the spot market this last winter which you, nor anybody else I don't think would open a mine on that basis.

IAN MACGREGOR: Oh, no, that of course is one of the problems that faces Con Edison. They are nobody's customer. And therefore they have great trouble in finding any source of coal on that basis. There's no earthly way that they can get anything other than spot sales from places

like Poland or what have you.

JAMES BRUMM: Do you see a reversal in this trend or an opening of this, on the state political level, of allowing these utilities the long-term clearances they need so that we can get, so that more utilities can use coal other than the ones in the less populated areas?

IAN MACGREGOR: Mr. Brumm, this is a complicated question and it relates, I don't think, to the economic and regulatory bodies other than the possible environmental regulations. And here, I believe, that slowly but surely there will be some recognition of the realities of the world in which we live. I think Mr. Luce is busily engaged in trying to persuade his regulatory associates, if I may use that term, that he has a couple of plants that were designed and built for the use of coal which have recently been working on low sulphur premium oil or even natural gas – fuels which they may not be able to obtain at any price. And therefore, he has, I believe, a struggle with his lords and masters as to whether they will envisage possibly using coal as an alternative. And I gather that he is holding out a very strong carrot in front of them, namely that it would be much cheaper and that these accelerating, escalating rates that have to be passed on to the customers might be somewhat abated. I think that the marketplace will help make that decision. I agree with my co-speaker tonight that the marketplace is a very valuable thing. (Applause)

CHAIRMAN GEORGE R. VILA: We have time for just one more question, Mr. Needham.

JOHN CARSON PARKER: Looking at the health of the securities industry, in the last ten months we've seen two large firms – one of them a very large firm – go out of business. Are you confident that in the foreseeable future those are the last large firms that are going to be leaving the brokerage business? (Laughter)

JAMES J. NEEDHAM: You've forgotten I spent three years as an SEC Commissioner listening to people make predictions. I don't think that's the question. (Laughter)

JOHN CARSON PARKER: Jim, it may not be "the" question but that's my question. (Laughter)
JAMES J. NEEDHAM: Mr. John Carson Parker from *Business Week* one-upped me. That is right, that is your question and I will attempt to answer it. I don't know. (Laughter and Applause)

CHAIRMAN GEORGE R. VILA: All right, Mr. MacGregor and Mr. Needham, I know I speak for the audience when I say you've given a most thought-provoking, informative, and timely message this evening. And on behalf of the membership, I thank you very much for the very obvious effort that went into your preparation. (Applause)