

Opportunity, Thy Name Is Pollution

Legislated out of the underwriting business by the New Deal, the commercial banks hope to use the pollution crisis as a way of getting back in.



PRESIDENT NIXON has dropped a sweeping 37-point antipollution proposal onto the bargaining table while the Democrat-controlled Congress is wrestling with its own antipollution measures. No matter which plans become the law of the land, the politicians have gotten the message and are almost certain to commit the U.S. to a \$30-billion-plus attempt at cleaning up its own backyard.

In this rush to remedy an already dangerous situation, the nation's commercial banks think they see an opening. Legislated out of the security underwriting business back in the Depression days, when the nation was stunned by bank failures, the commercial banks would like to get into the act by gaining the right to underwrite water and sewage bonds.

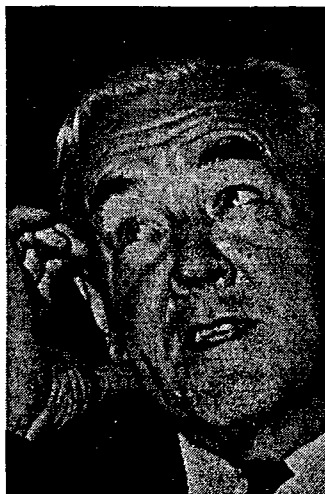
The commercial banks had already managed to get part way back in, but mainly in the sale of so-called "general obligation" municipal bonds backed by the full faith and credit of the government unit or agency that issues them. They were not allowed to underwrite revenue bonds, the fastest-growing segment of the municipal market.

Even before Congress gets around to mulling President Nixon's new environmental financing scheme, it will consider the role of the banks. Right now, House and Senate conferees are attempting to iron out the differences on their respective versions of the Clean Water Bill, which passed both houses of Congress last year. In the

Tommy The Cork

ONE of FDR's bright young men, Thomas G. Corcoran never let his Phi Beta Kappa key and Harvard law degree dull his Irish political instinct. His great New Deal coup—aside from bouncing up often enough to earn his nickname from FDR—was the hard politicking needed to make Congress set up the Securities & Exchange Commission.

Now 69, he's still bouncing—as a high-priced Washington lawyer-lobbyist on such jobs as getting commercial banks the right to deal in all kinds of municipal securities (see story). Judging by his success in 1968 with "dormitory" bonds and his progress today with pollution bonds, he has lost little political clout since New Deal days.



Senate version, at the last possible moment Senator William Proxmire, Democrat of Wisconsin, quietly inserted a pet amendment of his. It allowed commercial banks to underwrite water and sewer revenue bonds.

The traditional Wall Street underwriters, represented by the Investment Bankers Association, don't like this one bit. Once before they were caught by surprise, on another "social issue" bit of legislation. Back in 1968 an amendment was added to the Omnibus Housing bill allowing commercial banks to underwrite dormitory bonds, also a "revenue type" issue. That was the foot in the door.

This time the stakes are even higher. Sewer and water bonds account for about one-third of the \$3.5 billion in revenue bonds that were marketed last year. In the office of the Comptroller of the Currency, a legal expert commented: "If the banks get into pollution bonds, there won't be a heckuva lot of bonds left they can't underwrite."

"This is an economic fight between two important portions of the industry," he points out. "It isn't a moral right or wrong thing." He implies that these things have a way of snowballing. For instance, when the banks were allowed to get in on selling dormitory bonds, it was assumed that this was a step toward helping hard-pressed educational institutions raise needed funds. "There were a lot of Congressional objections later that the banks should have been restricted

just to college housing," he says. "One of the first requests I got was from a state that wanted to issue this type of bond for a 'dormitory' for prison guards." He turned down the request.

Senator Proxmire, a political liberal and fiscal conservative, explains why he wants to let the banks in on anti-pollution financing: "The projections of future municipal financial needs indicate that state and local governments will continue to be heavy borrowers in the capital markets.... Most of the increase is expected to take place in bonds for water and sewer systems and for transportation." To get more bids and help localities to sell these bonds at the lowest possible interest cost, Proxmire concluded that commercial banks must be allowed in.

Of course, the investment bankers don't see it that way. Says a New York investment banker who also has held a top Treasury job and worked for one of the leading big city banks: "I

don't have a doubt that letting commercial banks in would supply capital, but it wouldn't add much to distribution unless the banks take the bonds themselves for their own portfolios." Obviously, the IBA is worried lest the banks be trotted out as a source of financing anytime a costly domestic problem comes up.

Figuring the Odds

Will the banks get what they want? One of Senator Edmund Muskie's top "taxticians," who is attempting to shepherd the Maine Democrat's own water bill through the conference committee, makes no bones about the fact that he'd gladly sacrifice the commercial banks' participation in his water-pollution bill if he sensed it was creating too much flak as the revised bill came up for final vote. But the Muskie bill counts more on federal grants than on borrowing, so that the banks aren't all that important to it.

President Nixon's proposed sewage program, on the other hand, depends mainly on the bond market approach. The way he sees it, the Federal Government would make grants of \$4 billion, and the states and localities would have to come up with \$6 billion in the four-year fiscal period starting July 1. Nixon would set up a new agency, the Environmental Financing Authority. It would buy up any bond issues the locals couldn't sell; for its own source of funds, the EFA would in turn sell a new taxable bond to the public. The Treasury would pay EFA a subsidy to make up the difference in the interest EFA would receive on the local bonds and what it had to pay out to sell its own.

Paying for correcting generations of crimes against our environment is going to be costly. It may well require every bit of financing aid available. The banks are ready and willing. They may soon be able. ■

Compromised Compromise / The Stock Exchange's proposed new commission schedules may create more problems than they solve.

SECURITIES have been a real growth industry. Commissions from New York Stock Exchange trading alone have soared from perhaps \$500 million in 1960 to some \$1.8 billion last year—and they provide about half of total investment house income; underwriting, American Stock Exchange, over-the-counter, mutual funds account for at least as much more. Wall Street has gone in under a decade from revenues of \$1-billion-plus to \$5-billion-plus.

Yet Wall Street is singing the blues. It has been unable to control expenses, especially on small orders. Many brokerage firms are in the red.

Other problems have been mounting. The big institutions that trade in blocks of tens and even hundreds of thousands of shares think they are paying too much for the privilege of using the Stock Exchange. Increasingly they have been turning to off-market deals (see p. 70).

Securities firms not members of the Big Board complain about being unable to share Big Board commissions.

Early in February the New York Stock Exchange submitted to the Securities & Exchange Commission a set of proposals designed to alleviate these complaints. However, the proposals aren't going to have easy sledding. The National Association of Securities Dealers, the organization of nonmember firms, wasn't satisfied with the cut offered them: 20% to 25% of the commissions they generate for Big Board firms. The NASD wanted a 50-50 split.

Nor were the institutions satisfied

with the cuts, running to nearly 40% on big blocks. They wanted more. They wanted the right to become members, themselves. Robert M. Loeffler, senior vice president of Investors Diversified Services said: "I really don't want to fight with the New York Stock Exchange. I want to join it." The NYSE proposals did allow for some public ownership of member firms, but were so framed as to exclude institutional investors.

The Poor Pay Most

Some of the loudest complaints concerned commissions on small orders, raised as much as 115% and more. In effect, the smaller investor was being asked 1) to pick up all of the increase in overall commissions, and 2) to offset the cost of lower commissions on the big trades as well.

In raising commissions so steeply on small transactions, argued Merrill Lynch, Pierce, Fenner & Smith, by far the biggest Big Board firm, Wall Street may well be mistreating the goose that lays all the golden eggs.

Merrill Lynch's attitude was that, although the overall increase of 10% could not be called excessive, the smaller investor had been asked to bear much too large a share.

Merrill Lynch President Donald Regan said that the small trader "is necessary for both the continuity and the liquidity of the market." He expressed the fear that "we might price them out of buying and selling. And, if that happened, we wouldn't have a vi-

able exchange." He meant a few big transactions can't make an auction market; you need thousands of individual decision-makers, big and small.

Regan further argued: "A shoe manufacturer may lose money on baby shoes, but if you don't make baby shoes, people won't get into the habit of wearing shoes." His firm, he added, recently made a study of the 412,000 new accounts it opened in 1969. "Twenty-nine percent of our new customers are below the age of 29. Fifty percent are under 40."

Others, however, felt the overall increase was too small. Said Harold A. Rousselot, chairman of the Association of Stock Exchange Firms and a partner of Francis I. duPont & Co.: "A 10% increase overall simply won't solve the loss crunch; it merely gives back what was taken away by the [25% or so] volume discount of 1968."

Meanwhile, the question of whether brokerage houses should be allowed to go public hangs fire. Without higher commissions, many firms just wouldn't look attractive to investors.

Will the higher commissions go through? Nobody knows. The Securities & Exchange Commission can reject or amend the proposals. The Justice Department opposes all fixed commissions, contending they should be set by competition. The prestigious house of Smith, Barney & Co. lost no time in calling for a delay. Commissions, it insisted, should not be considered in isolation but as part of Wall Street's overall problems. ■