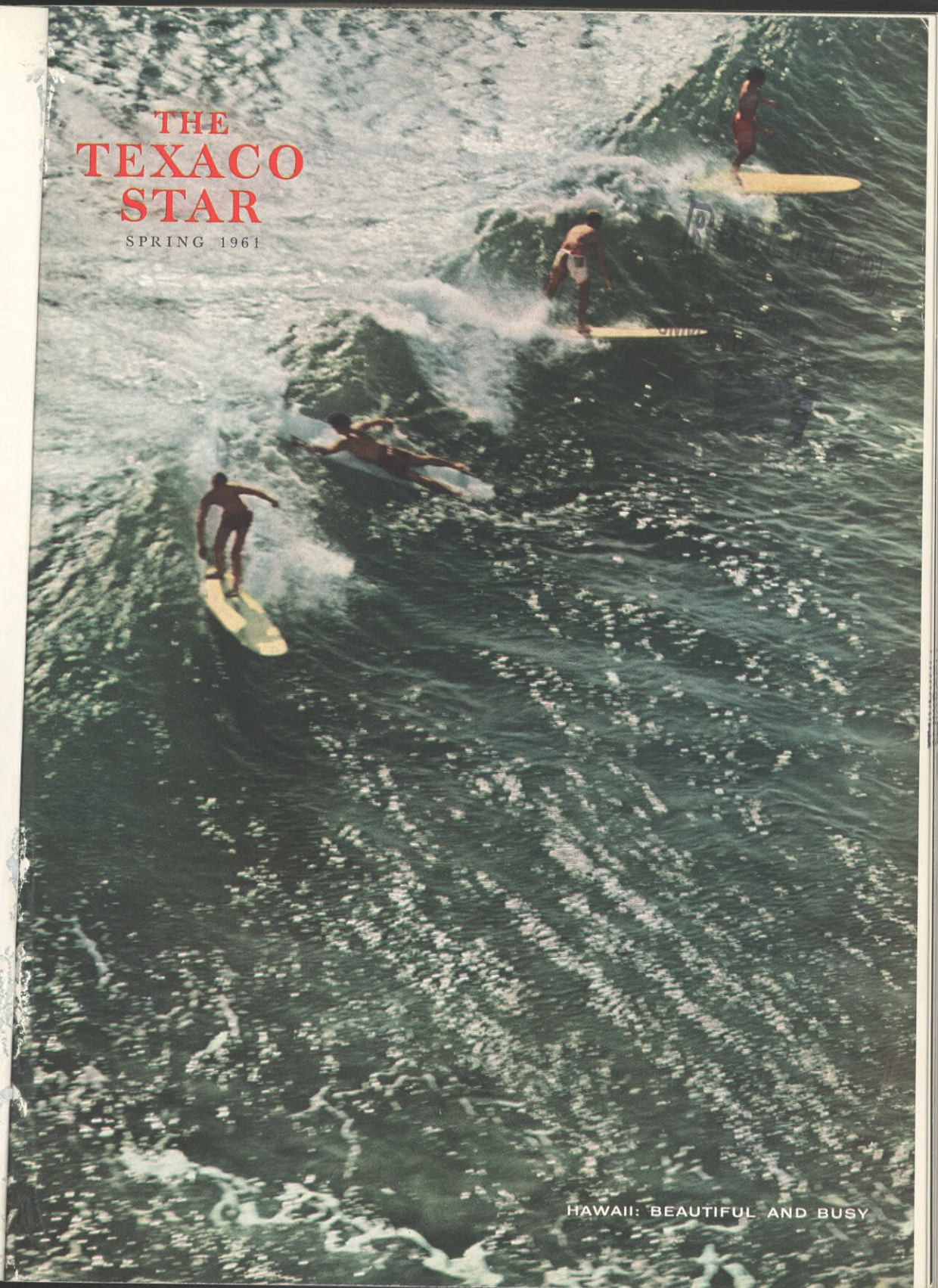
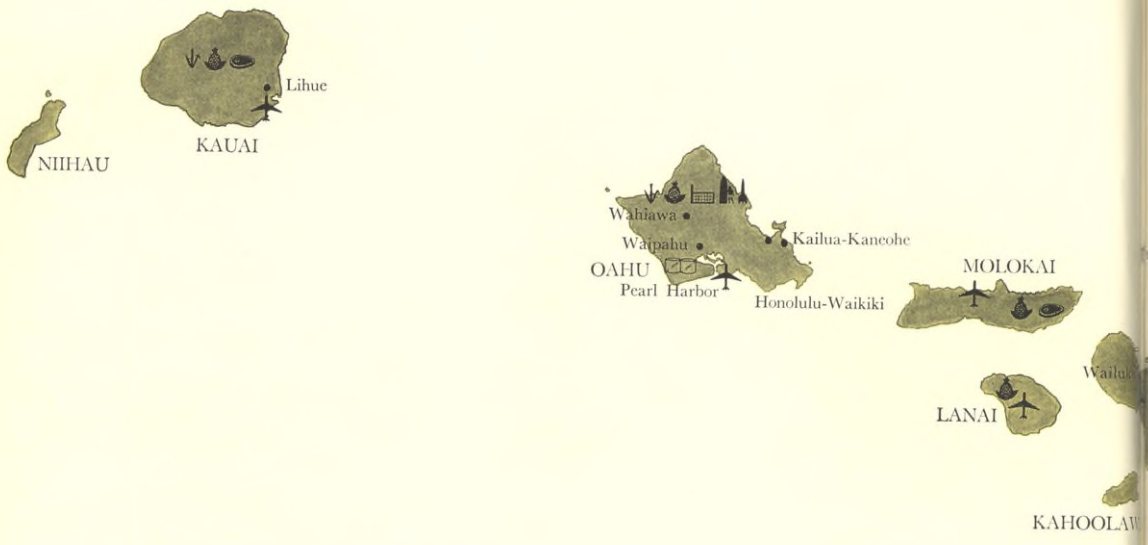
THE TEXACO STAR

SPRING 1961

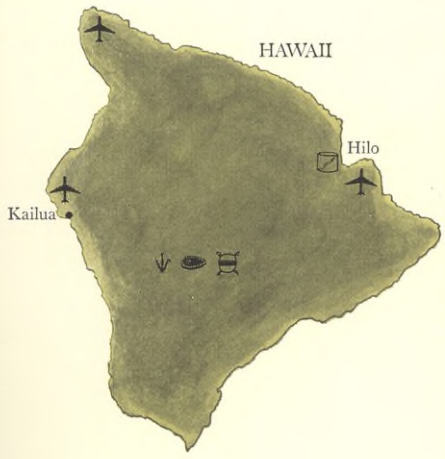


HAWAII: BEAUTIFUL AND BUSY

EIGHT PACIFIC ISLANDS MAKE OUR NEWEST STATE



The 50th state is a chain of eight islands that all together are bigger than the area of Connecticut plus Rhode Island. Its total population is larger than that of either Alaska, Delaware, Nevada, New Hampshire, Vermont, or Wyoming — but almost four-fifths of all Hawaiians live on Oahu. Oahu produces more than half of the state's total pineapple crop, about a fifth of the sugar. It also accounts for 90 per cent of the manufacturing done. This Spring Texaco began marketing in our newest state, whose booming economy is described beginning on Page 3 of this issue.



THE TEXACO STAR

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In a new steel mill on Oahu, a cascade of molten metal creates an industrialized version of the volcanic show, left.

HAWAII

ALONG THE CHAIN OF CRATERS ROAD on the island of Hawaii, flame from Kilauea Iki sometimes flares to 1,150 feet. The spectacle is a favorite tourist attraction; it also is an appropriate symbol of the explosive growth taking place throughout the islands.

Although traditionally it has been regarded by mainlanders as a placid, gentle, exquisitely-flowered chain of islands whose people live peacefully in a subtropical climate that invites relaxation if not downright languor, that picture of Hawaii and Hawaiians today is anything but accurate. Hawaii's boom is just as evident to the visitor these days as its bloom.

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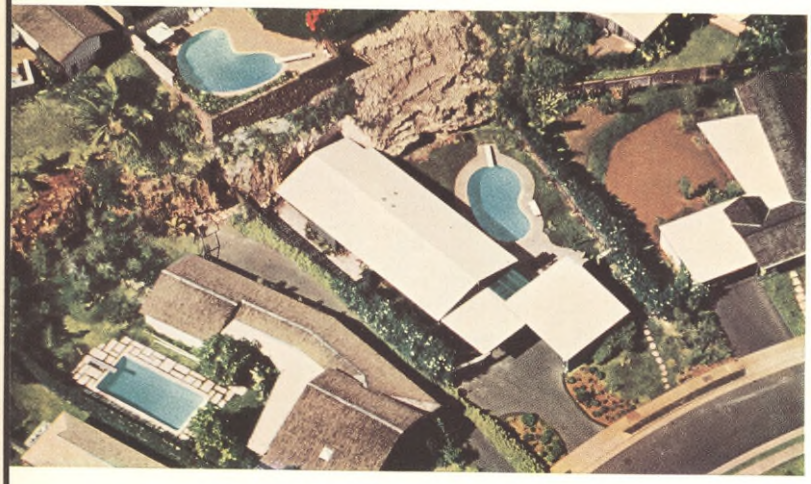


In the photo at top, *pineapple, which is Hawaii's second most important crop (sugar holds a slight edge), is being harvested. Hawaii grows about 70 per cent of the world's pineapple. At* center, *the fruit is being canned in one of the world's largest fruit processing plants, on Oahu. New housing developments, like the one at* left, *helped make the construction business Hawaii's third largest last year. Building industry accounted for more than $260 million, and continues to expand.*

Sugar and pineapple are still important, but tourism soon will be the biggest money earner

Since 1939, Hawaii's population has increased by 57 per cent. Personal income has risen by almost 20 per cent in the last two years, and construction bids let during the first half of last year were 60 per cent ahead of the comparable period during 1959.

Tourism, as a business, continues to set records. During the first half of last year, Hawaii was host to more than 20 per cent more visitors than it had greeted in the same period of 1959; and the surge in tourism has created a concurrent surge in hotel construction and building in general.

Not too long ago, Hawaii depended largely on its agriculture—centered on sugar and pineapple—for its national income. But farming is becoming less and less important as industrial activity spreads, and as land values rise. The garment industry has become a major one, and an increasing number of "think" industries (research and scientific groups) are moving to Hawaii. Still, agriculture as an earner is topped only by defense activity. Its location in the Pacific makes Hawaii a natural headquarters for the Pacific operations of every American military service.

Much of the new state's growth has been dependent on low-cost energy sources, of course; and for that reason it has in recent years become a steadily larger consumer of oil and its products. The increase in population has created a substantial market for autos, and Hawaii's ratio of a car for every 2.8 citizens is one of the highest in the nation.

A brief look at the islands' history helps one understand how they became what they are today. The "Sandwich Islands," as the British called the chain when Captain James Cook discovered it in 1778, originally were populated by Polynesians who had crossed the Pacific centuries earlier. In 1795, warrior chief Kamehameha proclaimed himself King of Hawaii, after whipping into line all his opponents on the islands. In 1893 the monarchy ended and Hawaii became a republic; five years later when the republic offered itself for annexation by the United States, the offer was accepted, and Hawaii became a territory. Statehood, which Hawaiians began working for in the '20s, was achieved on August 21, 1959.

Western civilization's influence in the Hawaiian Islands dates from 1820, when Christian missionaries from New England arrived. This was followed by sugar cultivation on a large scale, and later in the 19th century large numbers of Japanese, Filipinos, and Chinese were brought in to work in the fields.

Since the war, Honolulu has become a really big city, housing over half of the state's total population of 633,000. It has become so big, in fact, that many tourists now look to the Neighbor Islands of Kauai, Maui, and Hawaii for the "old Hawaii." Many new tourist areas are being developed as a result. Under construction now is a $40-million, 800-acre resort area on Maui. This is to be a resort development that will include 12 hotels, an 18-hole golf course, and a marina. On Kauai, an 108-room hotel recently was completed as the first phase of a $10-million resort project that will be finished during the next five years. Now under construction on Kauai is a $1.5-million resort hotel that will provide its guests with a 1,000-foot cable car lift from the beach to the hotel gardens 180 feet above the sea.

Tourism, as a matter of fact, promises to become Hawaii's leading industry. The state's 6,900 hotel rooms house a transient population whose needs have created thousands of new jobs, and have added millions of dollars to the Hawaiian economy. Tourists spent about $135 million dollars in the islands in 1960, and nearly 30,000 Hawaiians have jobs in some way related to tourism.

Aware that new tourist areas must be developed, Hawaii is spending millions on planning and capital improvements all through the islands. These include everything from parks and game preserves to new highways and major hydroelectric projects. More than 940,000 people traveled between the islands last year, and the local airlines carried more than 11,000 tons of cargo. But automobiles must be shipped on barges, making weekend trips from one island to another in the family car patently impractical. (An air ferry system is being talked about, and seagoing ferries that could carry as many as 150 autos are under discussion.) Thousands of Oahuans are waiting for the day when they can drive their own cars to every corner of the state for the first time, enjoying the 2,267-mile highway network.

Sugar and pineapple still are basic crops on the islands. 1960 harvests were valued at some $244 million, with sugar holding a slight edge. Hawaii produces more sugar than any other state — and about a fifth of all the sugar grown under the American flag.

Both the sugar and pineapple growers use mechanical equipment as fully as possible, with the result that they now hire only about 10 per cent of the state's labor force—compared with almost 20 per cent a decade ago.

The real contribution of the sugar and pineapple growers to the Hawaiian culture may never be reckoned, but it was they who helped create the racial mixture that distinguishes the new state from our other 49. It was the growers who brought thousands of Japanese and Chinese field hands to Oahu in the 1880s; and although most of these planned to work just a few years in Hawaii, then return to their home-

lands, few went home. They sent home for "picture brides," and established themselves on the islands. Plantation life was hard, though, and some broke their contracts, moving to other islands and changing their names. In some parts of Hawaii, old Japanese families still use an assumed name.

Slowly, the Far-Easterners made their way into the islands' business community, and today many of them are among the state's professional leaders. But many more have remained farmers, and it is the Chinese and Japanese and Hawaiians who are responsible now for most of the islands' farming.

With all its agriculture, Hawaii does not raise enough food to feed itself, and about 65 per cent of the dollar value of the food Hawaiians consume is imported. Land values are increasing at such a rate that the use of land for farming has become a tremendously expensive proposition, and the prediction is that within a very few years there will be almost no sugar growing on Oahu — which contains about four-fifths of the state's people in about a tenth of the state's area.

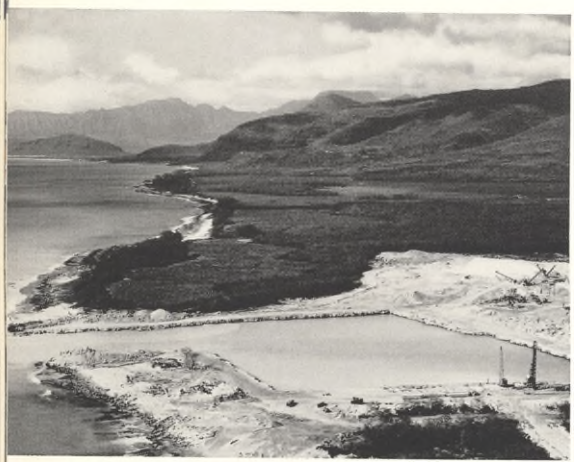
Timber once was one of Hawaii's most important natural resources, and may be again within a few decades. Sandalwood, which once grew in profusion on the islands but which virtually disappeared because of wasteful lumbering methods, is being planted as part of an extensive new timbering program. Other native Hawaiian woods, particularly hardwoods, are being planted also. These mature much faster, in the state's subtropical climates, than mainland woods, and are thought to have very good commercial potential. Currently, almost all of the 100 million board feet of lumber used yearly

Colorful tiki totem, left, *and the community fishing net,* above, *are two symbols of ancient Hawaii still occasionally seen by tourists.*

Hawaii's soaring population will need plenty of petroleum products to achieve its goals

TEXACO IN THE ISLANDS

This Spring, Texaco is opening its first service stations in Hawaii — on the islands of Oahu, Hawaii, and Maui — maintaining its distinction as the only oil company to market in every state. Gasolines and lubricants earmarked for Hawaii will be manufactured at the Company's Wilmington, California, refinery and shipped by tanker from the Texaco marine terminal at Long Beach (they are moved from Wilmington to Long Beach through pipe lines). Sky Chief and Fire Chief gasolines will be specially Climate-Controlled to provide the best possible performance in the Hawaiian climate. The Company's main storage facilities in Hawaii will be at its Barber's Point Terminal in Oahu, to which gasoline will be piped from a specially built barge. The barge will receive its cargo from Texaco tankers or ocean-going barges. The Company also will establish bulk plants on Hawaii and Maui, and will maintain complete servicing facilities at the new Honolulu International Airport.



At Barber's Point, above, *a harbor has been made for the specially built barge to which Texaco products shipped from the mainland will be transferred. These will be pipe-lined to the terminal's tanks (Page 9) a few miles from the harbor.*

in the islands is shipped in from the American mainland.

One of the most impressive signs of Hawaii's growth in recent years has been the bustle of its building industry, which last year completed about $260 million worth of new buildings. At one point the demand for new construction was running ahead of that in Los Angeles County.

Probably the most daring and imaginative project completed in recent years is the Ala Moana Center, between downtown Honolulu and Waikiki. A double-deck shopping center with free parking for 5,000 cars, Ala Moana rang up $42 million in retail sales in 1960 to account for five per cent of the statewide total. Nearing completion in the center is a 25-story office building topped by a revolving restaurant. A second 25-story building for the center is being planned.

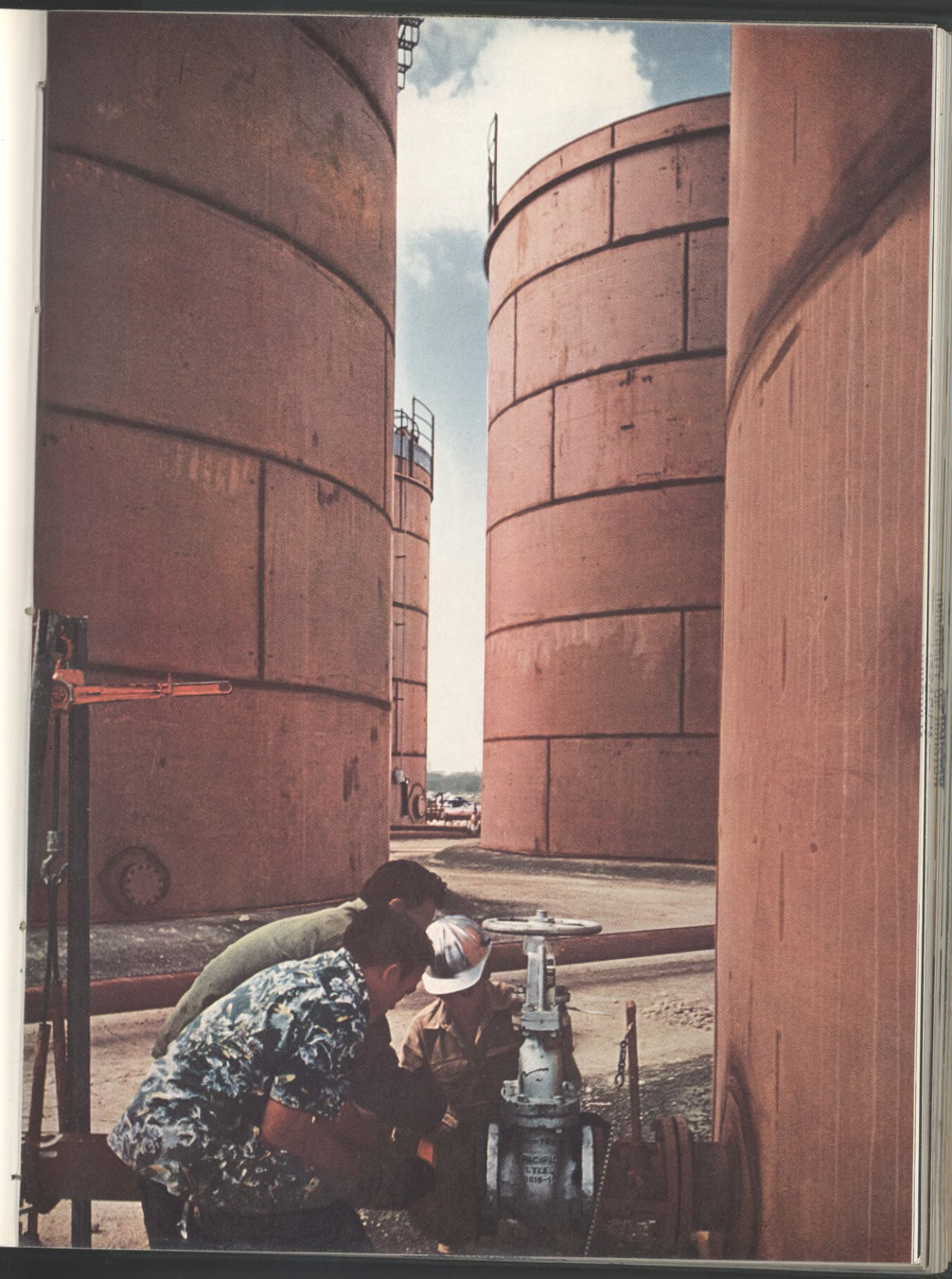
Next to the Pentagon, the Hawaii military establishment is the most important in the world. The islands are an outpost of United States military power and the headquarters of CINCPAC (Commander-in-Chief, Pacific), a command that covers half the world. Guided missile installations have been established, as have satellite tracking stations. Some 50,000 uniformed personnel are on duty in the islands, and 23,000 Federal employes are at work here. This concentration of Government workers has made the United States Government Hawaii's top revenue producer — Federal spending in the islands last year totaled $365 million. Almost $100 million was spent on military housing alone, during the last five years.

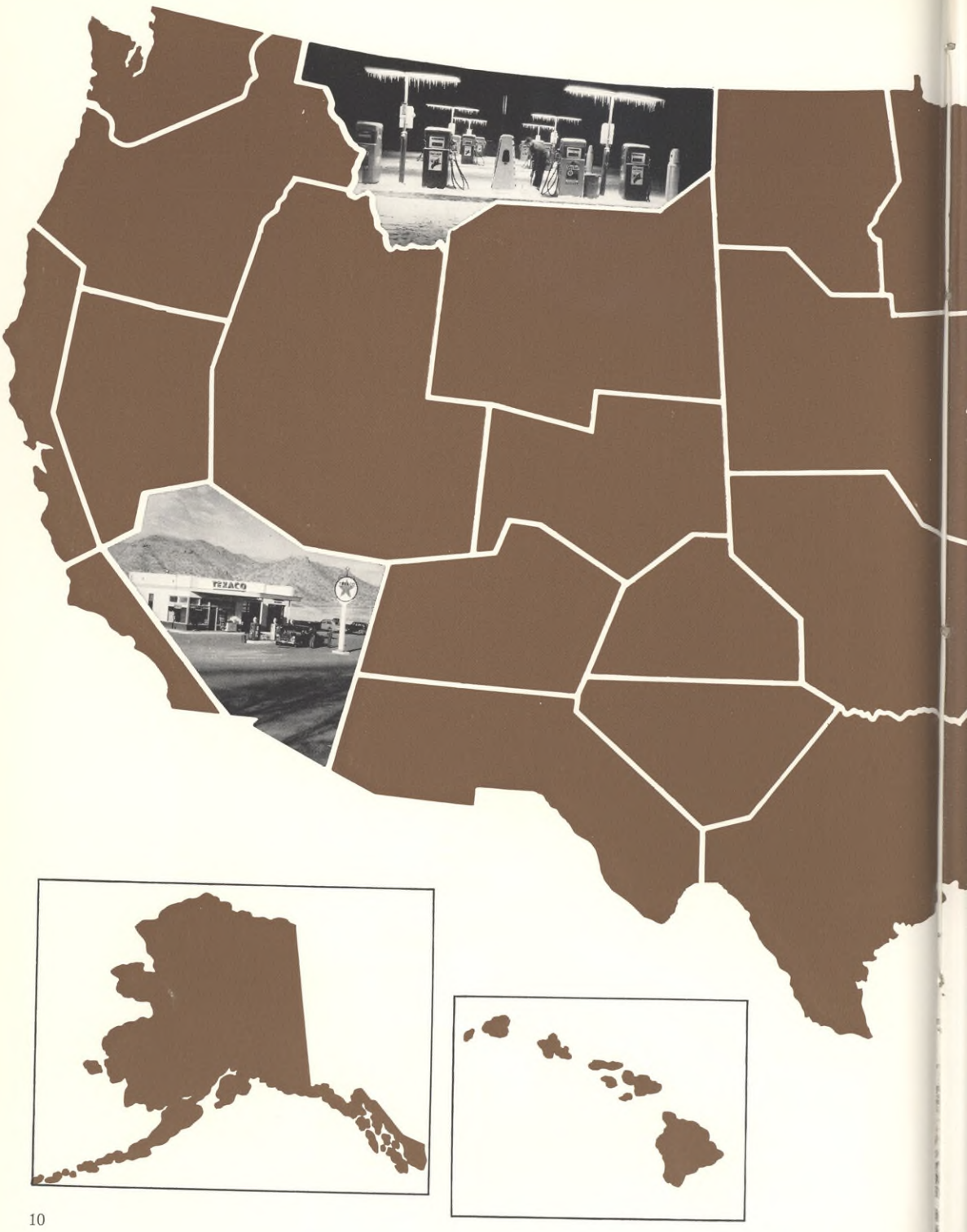
Thousands of Honolulu workers commute daily from homes about 15 miles out on the eastern and western shores of Oahu (two major tunnel systems have been bored through the Koolau mountain range, which traverses central Oahu, to speed the commuting), and the 20-minute drive takes one through a daily change of climate and environment.

Mountain ranges in the islands are the weathermakers. Trade winds sweeping in from the ocean create clouds at their peaks that pour rain steadily, and almost impenetrable rain forests line the tops of the ranges. Magnificent wild flowers and lush stands of bamboo grow in the heights, and the air is five to 10 degrees cooler than it is at sea level. The mountains create what Honoluluans call "liquid sunshine"— a fine, practically invisible sprinkle that appears to be falling from a cloudless sky. These are tiny rain droplets that have been carried several miles from the clouds by the trade winds.

Though they are 2,400 miles west of the California coast, Hawaiians keep in touch with the rest of America through their newspapers and television, and although many television programs are run as much as a week later in Oahu than they are in Ohio, President Kennedy's inaugural speech was seen in Honolulu on the same day it was made.

It is a rare day, according to Hawaiians, when one does not see a rainbow on his way to work. It is a rare day, these days, when the new state does not break one of its own records for economic growth. •

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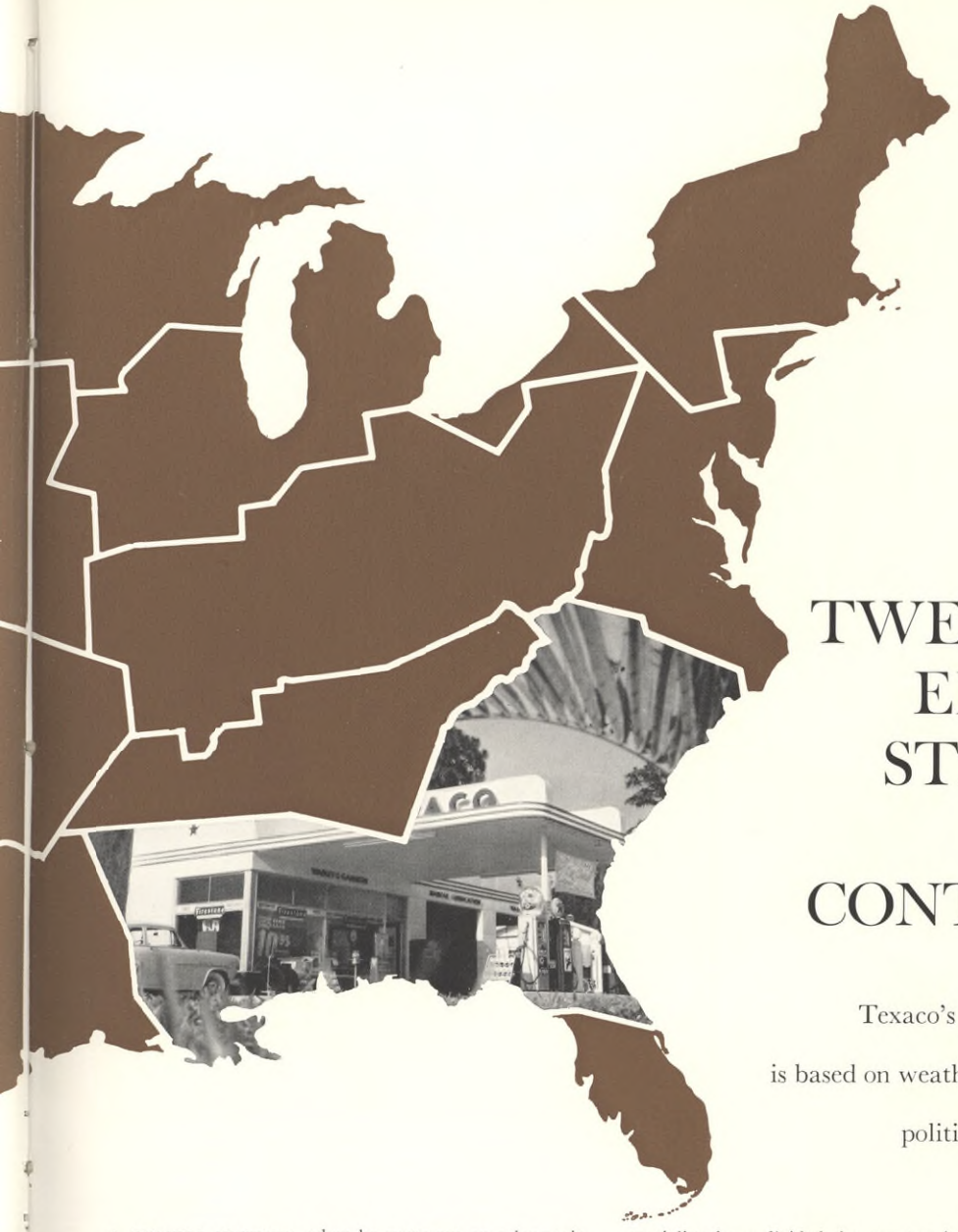


TWENTY-EIGHT STATES OF CONTROL

Texaco's map of nation is based on weather rather than political boundaries

A SENSIBLE MOTORIST, when he starts out on a long trip, not only dresses for the weather where he is but takes extra clothing to suit the weather where he's going. If he buys Texaco Sky Chief Su-preme or Texaco Fire Chief, his gasoline is dressed for the weather all along the way, too.

Texaco gasolines are not the same in Dallas and Detroit, not alike in Summer and Winter, considerably different in mountain country and desert. They are Climate-Controlled — refined with the climate in mind. The Company's fuel specialists have divided the country, including Alaska and Hawaii, into 28 distinct areas, defined according to their climate characteristics; in each area, one certain blend of Sky Chief Su-preme and one particular blend of Fire Chief will give the motorist the best performance. As he moves from one area to the next, he can be sure the Texaco gasoline he buys has been blended for the climate he's in.

The Climate Control method of refining was developed because the way a gasoline performs is importantly affected


TEXACO
TEXACO

by two things: the weather, and the altitude above sea level. When it's cold the automobile needs a gasoline that is highly volatile — one that ignites quickly. When the weather is warm, a highly volatile fuel is not desirable. It is likely to vaporize too fast, forming a vapor bubble in the fuel line that blocks the flow of liquid gasoline and stalls the engine. That is a vapor lock, and a nuisance.

All gasoline sold at the pumps is a blend. Sky Chief Supreme is a careful blend of more than half a dozen ingredients and so is Fire Chief. Some of the ingredients in the blends vaporize quickly, some slowly; and Texaco can create a final blend that vaporizes quickly or slowly by varying the proportions used. This is the way the Company's refineries control volatility.

Altitude is an important consideration because all liquids are more volatile — vaporize quicker — at high altitudes than at low levels. Finally, a higher octane is needed at sea level than is necessary in the mountains.

The 28 climate areas represent only part of the Climate Control concept, as a matter of fact. The gasolines sold in those areas are adjusted as often as 12 times a year to take care of temperature changes. Researchers in the Company's laboratories have found that temperature changes from month to month are substantial enough to make frequent adjustments in the gasolines necessary. Texaco began marketing gasolines especially blended according to seasons and geographic areas in the late '30s, and was the first oil company to do this.

No one can predict freak cold snaps or the surprise hot spells that set in from time to time, and Texaco does not attempt to. It bases its formulas on studies, made by Company scientists beginning in 1936, of the average temperatures during the past 65 years in each of the 28 areas. Interestingly, those averages have not changed in more than half a century. No matter what old-timers say, Winters were no colder when they were kids than they are now. Automobile engines *have* changed, though, and the Company continues carefully to accumulate fresh data on car performance as it relates to weather.

Precisely blending the many components that go into gasoline to suit the special characteristics of each area is the only way to achieve the performance, power, and economy for which Sky Chief and Fire Chief have become known, the scientists say.

To prove that point, Texaco decided early this Spring to make comparative test runs from Denver to Miami.

Denver is a mile above sea level, Miami is right on the ocean — and in between the two cities, particularly in the Spring, variations in the weather can be wide. If two drivers were to take identical cars from Denver to Miami, one using gasoline manufactured for Denver-in-Winter throughout the trip (supplied by a Texaco tank truck going along on the trip) and the other using different, Climate-Controlled, Texaco fuels as he went from one area to another, there should be a difference in the two cars' performances. That was the reasoning behind the run, and it proved sound. A look at the logs kept by the two drivers shows these contrasts in their experiences on the way to Florida:

Both automobiles were in perfect shape as they left Denver. Both started easily and drove off, followed by the tank truck. They had 2,100 miles of driving ahead of them.

First leg of the trip was Denver-to-Kansas City, about 600 miles, and the first few hours took the drivers steadily downhill as they left the Rocky Mountains. First stop to refuel was Dodge City, Kansas, and there one driver got his gasoline from the tank truck while the other pulled into a Texaco service station. It was cold in Dodge City, and cold all the way to Kansas City; but the highways were clear and the team made good time. They were now about 4,000 feet lower than when they started.

Already a difference was noticeable to the driver still using Denver-tailored fuel: his engine had developed a ping that sounded as if it might soon become a knock.

Passing through Kansas City and St. Louis, heading for Memphis, the two continued to lose altitude — Memphis is only 300 feet above sea level. The weather now was much milder, and the effects of a temperature change began appearing in the engine of the car using Denver fuel. It was knocking badly. The other auto was performing perfectly.

The pair had passed through five climate zones. They would travel through three more before they hit Miami, with the temperature rising steadily.

As the team left Birmingham, the driver using regionally blended fuels was having no trouble at all, but annoyances were increasingly plaguing the driver using the Denver fuel. His engine had been knocking so long he was almost used to it, and now it had started to develop partial vapor locks. Denver-Winter gasoline was just too volatile for the mild Alabama weather.

By the time Texaco's team reached Florida, the days were very warm — although in March, the nights and early morning still were cool — and as they approached Daytona Beach, with the thermometer around 80 at noon, the car with Denver fuel in its tank simply died in traffic. Vapor lock. It had to be coasted off the highway, onto a shoulder. There was nothing to do but let the engine cool off until the bubble in the line collapsed.

Within a few miles, the Denver-fueled car had vapor lock trouble again and had to be pushed into a nearby Texaco station by the tank truck. It was clear that, at this rate, it might take a week to make the last 258 miles to Miami. The team called it quits.

The test run reaffirmed what Texaco has been telling motorists for years: Climate Control does make a difference in engine performance, and an important one. The Company's marketing people intend to take that message to the motoring public very aggressively again this Spring, as the touring season gets under way. Along with a heavy schedule of television commercials, magazine and newspaper advertising will be used to drive home the significance of the elaborate care Texaco puts into the refining of its gasolines to make sure they are suited to the weather in every part of the country, every month of the year.

Anyone left skeptical has the perfect way to test the Company's claims available to him at his nearest Texaco station. All he has to do is drive in, say "fill'er up," then get out on the road and see for himself the difference Climate Control makes in the performance of his automobile. •

Whatever the weather picture, Texaco's specially blended gasolines will give best engine performance.

THE CASE FOR FOREIGN INVESTMENTS

EVERY FEW YEARS since the oil industry became a force in this nation's economy, someone has come up with the alarmed announcement that this country would soon run out of oil. In recent months, a reminiscent cry has been heard: we are running out of gold. The new alarums are as baseless as the old.

There is no question that the United States has been operating on a balance-of-payments deficit since 1957, to the extent of about $4 to 5 billion a year; and it is a fact that the resulting outflow of gold has reduced our stocks from nearly $23 billion at the end of 1957 to well under $18 billion at the beginning of this year.

That is a huge loss, of course, and it cannot be allowed to continue. Major efforts will be needed — by our Government and by private industry and labor — to bring the problem under control. But that is no reason to panic. To abruptly restrict United States imports, to place controls on this country's investments overseas, or to make changes in our tax structure that would penalize American investments abroad, could do infinitely more harm than good in the current situation. The economic vitality of the free world requires an expansion of international trade, not a contraction of that trade.

In the past few months there has been a great deal of attention given by the press to what it has handily labeled the "dollar drain" or the "gold flow." Much of this press comment has suggested that American private overseas investment represents a continuing drain on our international payments position. This is not only untrue; it is quite the reverse of the truth. Two key facts must be remembered:

When American capital goes overseas, it almost invariably creates an intensified demand for our goods.

Investment overseas stimulates the economy of the host country and increases its purchasing power for American products. Even more directly, an American subsidiary or branch operating overseas normally purchases substantial volumes of United States equipment, supplies, and spares — and frequently uses American contracting and other services. These additional demands for the export of American goods and services substantially offset in the balance of payments the original outflow of capital.

Even more important, any private investment overseas usually is an *earning* asset.

In 1959, the outflow of direct investment from this country was $1.3 billion, but direct investment income — dividends and other earnings paid out from abroad to American-owned overseas operations — amounted to $2.2 billion. For 1960, preliminary estimates indicate about a $1.5 billion outflow and a $2.4 billion inflow. Even if all kinds of private United States investments overseas were considered (including short-term money and foreign bond flotations), the total outflow for 1960 will be just about balanced by income at about $3 billion each way.

A country like the United States, with steadily increasing requirements for foreign raw materials — including oil — must constantly work to build up earning assets abroad to help finance these necessary imports.

There is fairly general agreement among responsible authorities concerning the steps that might be taken to deal with the balance-of-payments problem. Although the situation has many ramifications, and no pat solutions are avail-

able, these main points have been made:

1. The Government and private business and labor must give the highest priority to avoiding any further inflation of American production costs. While it is true that our foreign trade is flourishing, with our 1960 exports close to an all-time high, our competitiveness as an exporting nation remains the key in our balance-of-payments position. Any progress made toward increasing productivity and reducing costs will help immeasurably to avoid a critical balance-of-payments situation. To maintain international confidence in the dollar, the Administration will have to move very thoughtfully regarding its budgetary programs and monetary policies.

2. Many of our Government's international programs involving economic aid and the strengthening of our allies' defenses were developed during the early postwar years. At that time there was a dollar shortage in much of the world, and many of these programs were deliberately designed to move dollars abroad. What we need now is decisive action in the re-evaluation of all those programs, to reduce the dollar outflow to a minimum while achieving our essential objectives. And we should make sure that our allies carry their full share of the load.

3. Finally, a good many of our allies still have, as a carryover from the days of the dollar shortage, various trade and financial controls aimed at minimizing the use of dollars. These should be immediately eliminated.

Prompt and vigorous action along those three lines should bring the balance-of-payments drain to an end and restore international confidence in the dollar.

It is important to remember that the United States is the strongest economy in the world, and that it still holds more than 40 per cent of the free world's gold. That those holdings have grown smaller in the postwar years is undeniable, and the loss should be a matter of real concern to every Texaco stockholder and employe — every citizen, for that matter. But 40 per cent is substantial, and the need now is for planning rather than panic in order to keep the advantage we enjoy. It is a need comparable to the one this country faced twice before in recent history, although the current situation is not nearly as urgent as the two earlier ones.

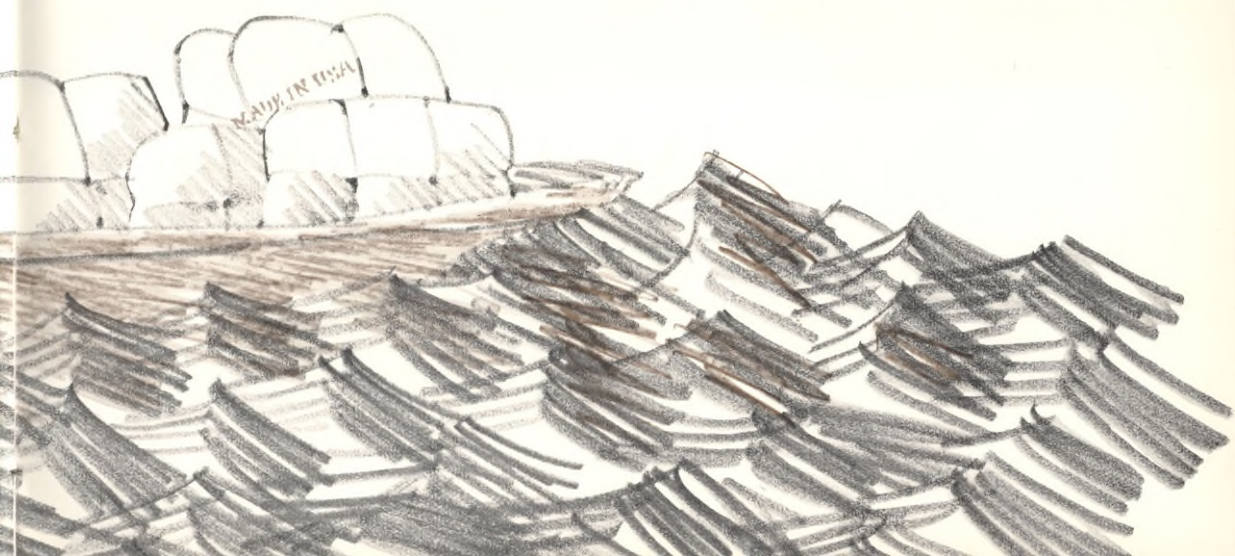
During the world-wide depression of the 1930s, and even more during the war years, a hopeless tangle of restrictions on international trade and investment was created. In the postwar period, however, a great deal of progress was made in clearing away many of those restrictions. It would be tragic if we have not learned a lesson from the two previous experiences, and were to lead the free world back toward economic barriers that would make it impossible to conduct international business on a flexible and efficient basis.

It has long been recognized that there is need for changes in our tax structure that would encourage American foreign investment and make it more competitive with that of other countries. And now, in the mistaken belief that they are offering a solution to the balance-of-payments problem, some individuals are proposing measures that would place even heavier tax burdens on income earned abroad. Changes in our tax laws that would penalize American investment abroad would not only aggravate instead of solve the balance-of-payments problem, but would be a great disservice to American business and to the entire free world.

Quite apart from any business consideration, moreover, it is unthinkable that the wealthier countries of the free world — countries like the United States — should in any way hamper the assistance that private investment can bring to less fortunate areas of the world.

It would seem to be a clearly defined matter of morality to do everything possible to help these under-developed nations move toward improved economic levels. American investments overseas have been accomplishing just that, for many years. Hopefully, they will be allowed to continue to. •

Investments abroad build prosperity for host countries, lead to increased purchases of American goods



Anything it can do

WHEN IS A MACHINE A BRAIN? NEVER. Not even when it, like the 7090 computer system shown here, can do 229,000 additions in a single second. The 7090 was installed recently in the Company's Houston computer center to relieve a slower, overworked 705 system that had been installed four years ago. The 7090 will handle more data processing faster — it will do in one day what the 705 took a week to do, and it will take on a considerably wider range of processing jobs. But it is no brain. It simply responds electronically, *at almost the speed of light*, to a carefully worked-out series of instructions prepared by Texaco employes trained in computer work. The 7090's talents as a mathematician are formidable, and its great calculating speed will produce solutions to complicated business problems in tempo

you can do better...except add

with management's decision-making needs. During the year, smaller computers—1401s—to replace equipment that has become outdated—will be installed in Los Angeles, New York, and Toronto (two already are at work in Houston). They will be used principally on payroll, inventory, and statistical and accounting chores that need fast and accurate calculation. Normally the 1401 systems in the regional offices will operate as independent computing units. For the more complicated applications, intermediate output from the 1401s will be captured on magnetic tape and sent to the Houston 7090 for consolidation and further analysis. The final output will then be dispatched back to the regions. This will present a complete picture of operations not heretofore available to the Company. •

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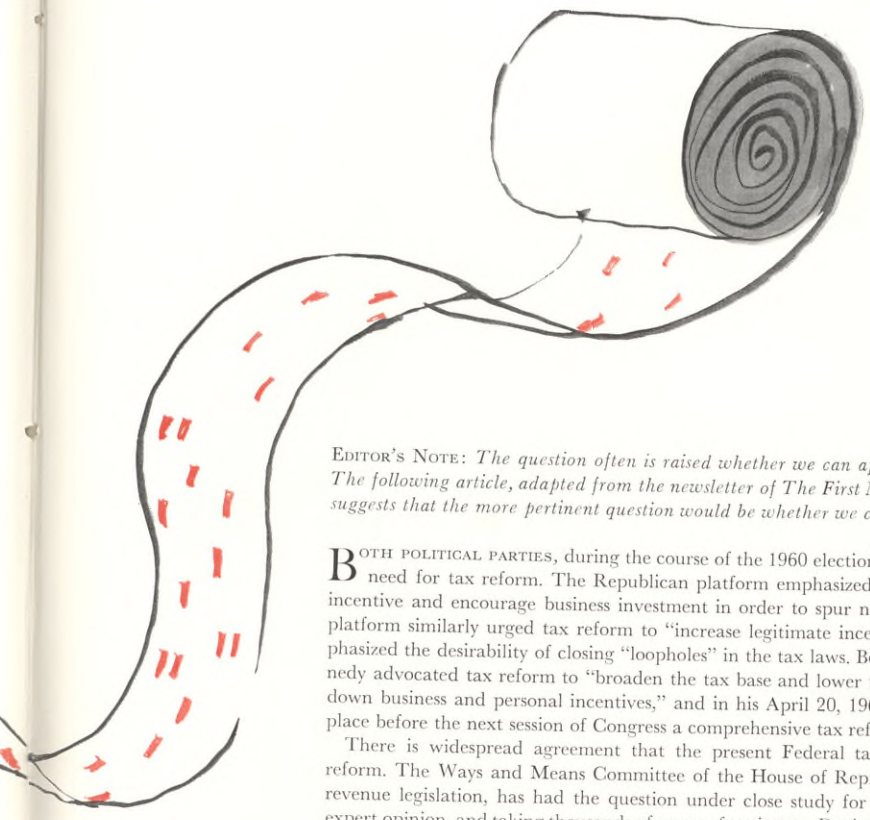
N AGENDA FOR TAX REFORM



EDITOR'S NOTE: *The question often is raised whether we can afford to reform our tax structure. The following article, adapted from the newsletter of The First National City Bank of New York, suggests that the more pertinent question would be whether we can afford* not *to.*

BOTH POLITICAL PARTIES, during the course of the 1960 election campaign, gave attention to the need for tax reform. The Republican platform emphasized changes to stimulate individual incentive and encourage business investment in order to spur national growth. The Democratic platform similarly urged tax reform to "increase legitimate incentives for growth" and also emphasized the desirability of closing "loopholes" in the tax laws. Before his election, President Kennedy advocated tax reform to "broaden the tax base and lower the extremely high rates that cut down business and personal incentives," and in his April 20, 1961, Tax Message he promised to place before the next session of Congress a comprehensive tax reform program.

There is widespread agreement that the present Federal tax system is urgently in need of reform. The Ways and Means Committee of the House of Representatives, which originates all revenue legislation, has had the question under close study for years, gathering data, soliciting expert opinion, and taking thousands of pages of testimony. During the 86th Congress, 1959-60, the Committee published 3,685 pages on the subject of broadening the tax base for the purpose of achieving lower income tax rates. Many well-thought-out proposals, like the Sadlak-Herlong and Herlong-Baker bills, have been offered for consideration. Business groups, such as Chambers of Commerce, the National Association of Manufacturers, and the Committee for Economic Development, have dealt with the subject, giving earnest attention to the revenue requirements of an expensive government machinery as well as to the need to lower tax impediments to economic progress. But nothing has been done save piecemeal revision, usually with the effect of making the tax laws even more complicated and increasing the backlog of tax cases awaiting court interpretations.

The Federal tax system is open to the following criticisms:

1. It is too complicated.
2. Federal taxes are concentrated too much on employment, the development of taxable income, and capital accumulation.
3. The progressive rates ascend to such heights as to defeat their purpose of raising revenue.

4. The income tax base is so narrowed by exemptions, allowances, and deductions that rates must be high.

These points are interrelated. Tax laws must be complicated — and exemptions, allowances, and deductions must be numerous — because the economy could not otherwise function under such a stiff rate structure.

In a day when we are concerned with a balance-of-payments problem, and the ability of American businesses to compete in world markets, it is vital to consider the disadvantages under which our U. S. businesses operate. One disadvantage, widely publicized, is the element of higher wage costs. A second disadvantage — much less widely understood — is the severity of our taxation on employment, income, and capital accumulation. Individual and corporate income taxes, estate and gift taxes, and employment taxes are relied on for 82 per cent of the total revenues of the Federal Government.

The core of the problem is the income tax rate structure. In fact, our corporate rates are often effectively higher than the nominal rate schedule, because of the inadequacy of capital consumption allowances. Bipartisan support has developed in favor of revision of depreciation rules.

Before his election, President Kennedy, discussing the balance-of-payments situation, said:

". . . we must stimulate plant modernization programs which are vital both to increased production and to building industrial facilities which can compete successfully with the modern plants of Europe and the Soviet Union. Wherever we are certain that tax revision — including accelerated depreciation — will stimulate investment in new plant and equipment, without damage to our principles of equity, we will proceed with such revision."

[In his February 3, 1961, Economic Message, President Kennedy reiterated this by saying that "expansion and modernization of the nation's productive plant is essential to accelerate economic growth and to improve the international competitive position of American industry." In his April 20, 1961, Tax Message to Congress, the President recommended enactment of an "investment tax incentive" in the form of a tax credit. In general, the credit (1) consists of stated percentages of new investment, but limited to 30 per cent of tax liability for the year before application of the credit, and (2) applies only with respect to investment in new plant and equipment located in the United States and having a life of six years or more.]

In this age of rapid technological change mixed with inflation, growing amounts of capital must be continuously poured into any business that wants to expand. Over the 13 years 1947-1959, the massive sum of $300 billion was expended by American corporations on plant and equipment and a further $168 billion was needed to cover increased working capital requirements.

If we are to speed our rate of progress, and put in place expensive plant and machinery to make efficient use of the growing labor force, even bigger sums will be needed in the years ahead. More flexible depreciation is one way of tackling this problem.

Governments in Western Europe allow faster write-off of new investment in tax accounting. Some European countries have permitted revaluation of asset values—and hence depreciation allowances — in recognition of the higher replacement costs resulting from inflation. Others grant investment allowances over and above original costs, thus permitting total deductions greater than the historical cost of a machine. More broadly, the acceleration of depreciation by special allowance is common practice. In some cases, these special provisions have permitted deductions in the year of investment approaching half the cost.

Even socialist governments have pursued liberal policies in the matter of depreciation charges. This was true under the former Labor Government of England, which introduced special allowances. Sweden has set some examples of the ultimate in liberality in depreciation allowances.

Reform in depreciation allowances that affects only the timing of tax liabilities is no substitute for income tax rate reform. Our highest rates of tax are on corporate profits paid out in dividends. The compounding of corporate and personal taxation, for example, gives a 62.6 per cent effective rate of tax for a person in the $4,000-to-$6,000 tax bracket, and the top comparable rate goes all the way up to 93.8 per cent. These calculations are after allowance for the limited four per cent dividends-received credit. Other nations go much further in crediting to shareholders taxes paid to government by corporations.

In light of the more liberal adjustments that other nations make to mitigate double taxation of corporate income distributed as dividends, it is ironic that our four per cent dividends-received credit has been under sharp attack as "an unjust loophole." In contrast to our four per cent, a 20 per cent credit is given in Canada while dividend recipients in the United Kingdom are credited with the 38.75 per cent standard tax rate already paid by the corporation. A dividend credit of 33.33 per cent is granted in the Union of South Africa to taxpayers with incomes beyond $6,440, scaled upward to 100 per cent credit for those with incomes below $3,640. [In his April 20, 1961, Tax Message, the President recommended repeal of the $50 dividend exclusion and the four per cent dividends-received credit.]

The U. S. Government is a majority shareholder in the profits of every substantial American corporation. The U. S. taxes corporate profits in excess of $25,000 at the rate of 52 per cent. This is higher than in any other leading industrial nation. The top rate in many countries abroad is well below 50 per cent, and, in the case of Belgium and Switzerland, the effective burden is even lighter than the stated rate indicates since taxes paid in one year are deductible from taxable income in the next.

Our 52 per cent general rate of corporate tax is supposed to come down to 47 per cent on June 30, 1961, but the President has recommended that Congress extend the 52 per cent rate "for another year." The 52 per cent temporary emergency rate has been extended from year to year ever since the Korean War. If the Congress wishes to energize the economy, it can by letting the corporate rate come down—increasing the opportunities of business to absorb rising cost pressures from other directions, shave prices to the benefit of everyone,

or enlarge the plow-back of profits to help build the equity capital base for a growing economy.

THE MOST widely condemned feature of our Federal tax system is the steepness of our progressive tax rates on personal income. An individual with taxable income of $16,000 finds that the Federal Government becomes an equal partner in any earnings beyond that amount. Beyond $50,000, the tax collector demands three quarters. Beyond $200,000 the taxpayer is called upon to pay 91 per cent. On top of the punishing Federal rates, many states (and some cities) levy income taxes that further cut the value of earning additional money.

The progressiveness of personal income taxation can be most simply measured by the top rate. Here we can lay claim to the highest rate in the world. The United Kingdom, former holder of this distinction, has been gradually shaving its rates and two years ago bequeathed us leadership in this department. (Denmark has a 110 per cent top rate but this is ineffective since income tax paid in one year is deductible from taxable income in the next.)

Practically every plan for tax reform includes topping off the personal income tax progression at 50, 60, or 70 per cent as opposed to 91 per cent. The revenue loss would not be significant, particularly since the main effect of present rates is to impel the taxpayer to seek income that is tax-exempt, or income on which the tax liability can be deferred or converted into the form of capital gains. The final escape, of course, is emigration of persons and income to friendlier tax climates abroad.

The Congress has attempted to take the curse off excessive rates by adding to the list of special relief provisions. The present situation was described by J. S. Seidman, past president of the American Institute of Certified Public Accountants, as follows:

"What are called 'loopholes' are often Congress' way of apologizing for the high tax rates. There are special provisions to afford some taxpayers relief. For example the average taxpayer gets sick-pay tax-free. Married people are taxed more lightly through split income. Executives get a break through stock options, and investors have the cushion of capital gains. In effect, Congress sets high rates and then tears down some of the rate structure by allowing special benefits for some taxpayers. The trouble is that other taxpayers, who feel that they are likewise entitled to relief, then start helping themselves with all sorts of gimmicks."

This shortsighted approach has drawn us into a tightening circle in which excessive rates lead to a shrinking tax base while the smaller tax base requires preservation of high rates to produce the needed revenue. Yet, we could achieve our revenue objectives at more reasonable rates if we broadened out the base. Chairman Wilbur D. Mills of the House Ways and Means Committee has calculated that:

"If all the exceptional provisions now in the law were eliminated; if a uniform tax base were provided, while maintaining the present system of personal exemptions, we could collect the same revenue we now get from the individual income tax with a rate schedule in which the first bracket was nine per cent and the top bracket was 41 per cent."

Unless this contracting circle is broken through tax rate reform, further erosion of the tax base must be expected.

The President recognizes the need for rate reform. In submitting his April 20, 1961, Tax Message to Congress, he referred to his specific proposals as "a first, though urgent, step along the road to constructive reform." He also informed Congress that he expects to submit to the next session of Congress a "comprehensive tax reform program" aimed at providing a broader and more uniform tax base and a more equitable rate structure.

When the Constitution was amended in 1913 to permit income taxation no limit was set on tax rates. The initial top rate of tax was set at seven per cent and the idea was ridiculed that "confiscatory" rates like 25 or 50 per cent might at some time be adopted. Nevertheless, we had rates as high as 77 per cent adopted in World War I and again as high as 94 per cent during World War II. But it is fair to say that confiscatory rates like these were never designed to be kept outside war emergencies.

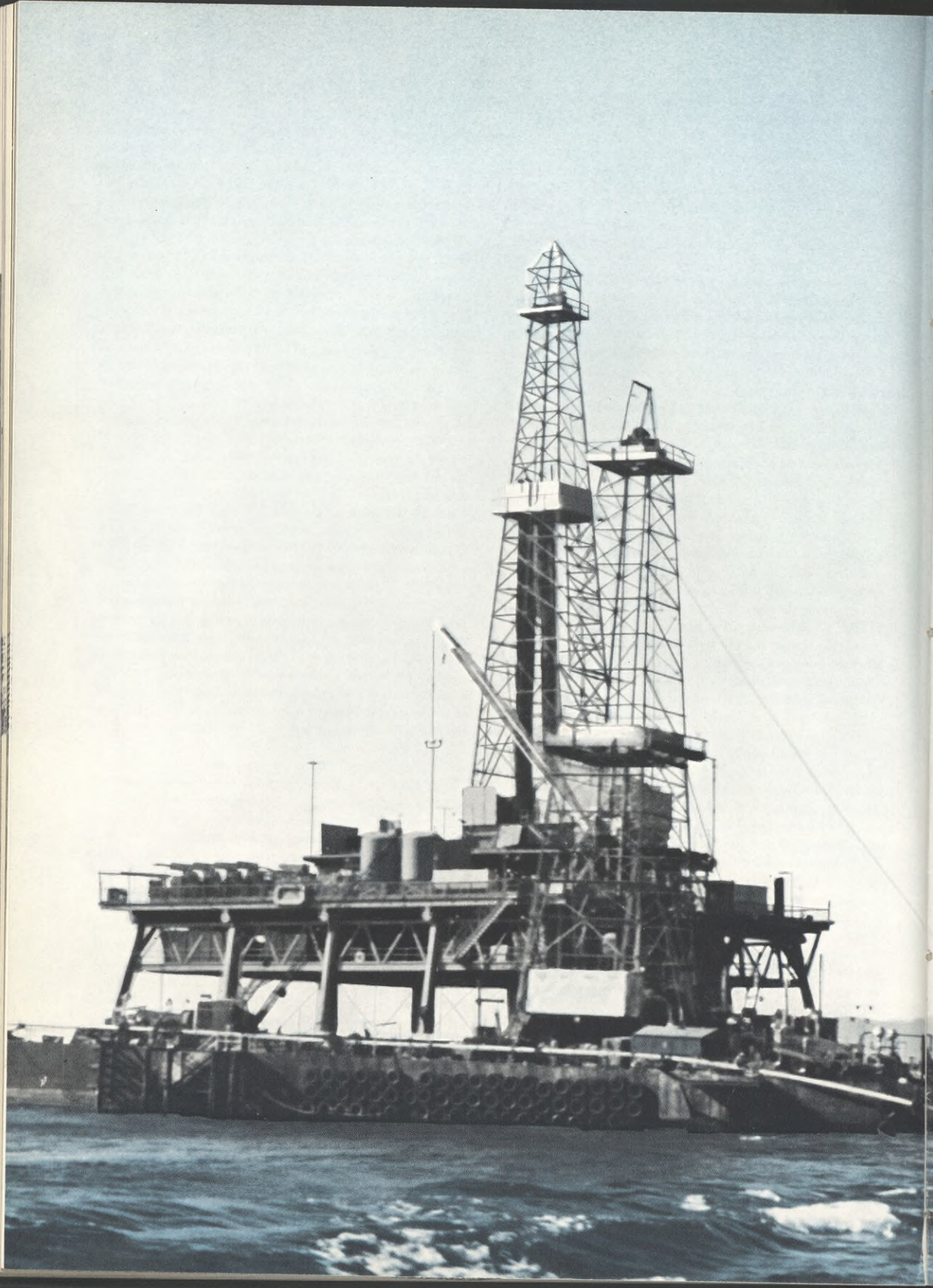
Failures of the American economy to function more effectively can be attributed to an overdose of the "heavy progressive or graduated income tax" that Karl Marx in the Communist Manifesto suggested as a means of making "despotic inroads on the rights of property, and on the conditions of bourgeois production." For all his errors, Marx assessed correctly what this kind of taxation could do to a capitalistic country. Meanwhile, Khrushchev's Russia plans to do away with income taxation entirely.

Our type of society is seriously vulnerable to taxation on capital because we rely on private capital formation for progress. The steeply progressive personal income tax is a levy on capital accumulation. We also have heavy taxes on accumulated capital—gift and inheritance taxes—which require people to sell capital assets to raise money that the Government proceeds to spend. Unlike most other countries we also tax capital gains, which are not income at all in the economic sense of the word.

A CLEAR starting point for tax reform in the present session of Congress is a scaling down of excessive rates that lead to pressures for special relief. If this is done boldly, consistent with revenue requirements, everyone can raise his estimate of the future of the U. S. economy.

There *is* a sound and reasonable plan for accomplishing tax rate reform. The Herlong-Baker bills (H. R. 2030 and H.R. 2031) again are pending before the Congress. These bills, by systematic rate reductions over a period of five years, would reduce rates in all individual income brackets, bringing the top rate down to 47 per cent and the lowest bracket rate of 20 per cent down to 15 per cent, with intervening bracket rates reduced accordingly. These bills would reduce the present 52 per cent corporate rate by one percentage point each year, bringing the rate down to 47 per cent.

Sponsors of the Herlong-Baker bills estimate that enactment would give everyone at least a 25 per cent cut in taxes — without shifting tax burdens from one taxpayer to another. Studies show that 60 per cent of the tax savings would go to taxpayers in the first three tax brackets (up to $6,000 taxable income) and 79 per cent to those in brackets up to $18,000. •



OUT TO SEA FOR OIL

WHEN CALIFORNIA CONTRACTORS took on the construction of a drilling platform and allied facilities for Texaco last year, they had to agree to comply with the Longshoremen's and Harbor Workers' Act, the Outer Continental Shelf Act, and the Death on the High Seas Act. They also had to promise to watch out for cattle.

Usually, none of these would be a consideration; but the platform being built was *Helen,* the Company's first deep-water producing venture on the California coast (in partnership with Newmont Oil Company). *Helen* was to stand one-and-a-half miles off the Southern California shore, about 30 miles west of Santa Barbara. Pipe lines running from her to storage tanks on shore were to cross a large ranch, which explains the concern for the cattle.

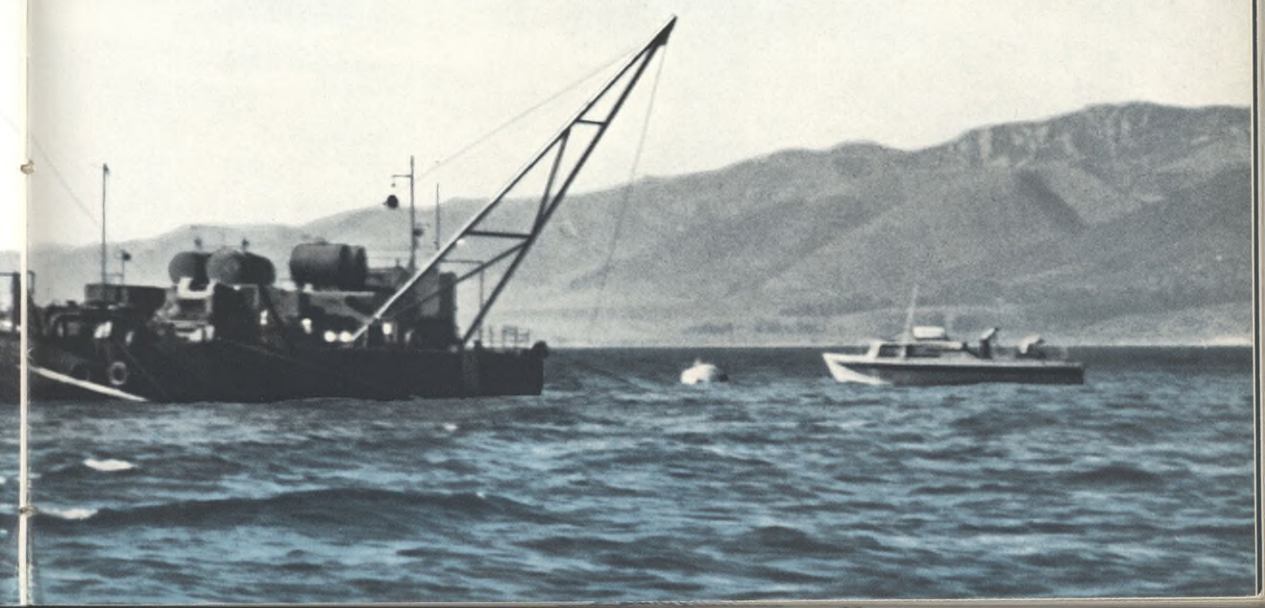
The contractor's problems were extraordinary because *Helen* (she is shown here with her crew laying pipe) is no ordinary rig. She is a double-deck platform, designed to accommodate as many as 28 wells, supported by 20 steel legs that keep her wading comfortably in almost 100 feet of water. It is 226 feet from her derrick's crown block to the water's surface; and her upper drilling deck, which measures 130 by 138 feet, sits slightly more than 50 feet above the sea. She is a "she," incidentally, because Coast Guard regulations required that she be named as a ship is.

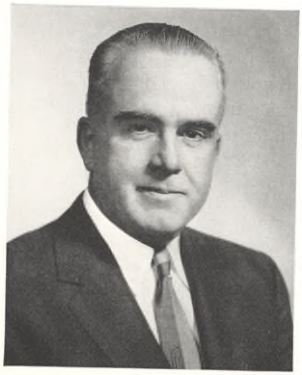
Helen was built in two parts—understructure and superstructure—and the decks that make up the superstructure had to be fabricated in Houston and towed 4,500 miles on a barge through the Panama Canal, around the tip of Baja California, and up the California coast. The understructure was constructed in a Long Beach shipyard.

Construction was finished late last Summer, and the first well was spudded in in September. Today *Helen* is producing both crude oil and natural gas. The gas is processed at an onshore gasoline plant to remove liquids and is then piped into lines for commercial sales.

There is no part of the drilling operations that is not influenced in some way by the ocean, in all its moods, as the work goes on from day to day and through the nights. The Pacific winds and the silent surging strength of the Pacific swells curling along the coast created special installation problems, and continue to demand skills and operating techniques not needed on land. In case of heavy seas that would make it dangerous to move crews, emergency quarters have been built on the upper platform. They have not been used.

Offshore drilling is nothing new, of course: Texaco has been producing for years on the Gulf Coast. But drilling off the California coast is relatively new, and there is just a handful of platforms like *Helen* in those waters. In any case, going to sea for oil is a fresh experience for our California producing men. The prospects are it will be an exciting one. •





W. Henry Ryer

NEW VICE PRESIDENT IS ELECTED

The election of W. Henry Ryer as Vice President in charge of the Company's Foreign Operations Department (Western Hemisphere and West Africa) was announced on March 6.

Mr. Ryer had been Manager of Foreign Crude Oil Purchases and Sales, and succeeds Landon B. Derby. Mr. Derby has been transferred to London as General Manager of Texaco Iran Ltd.

Mr. Ryer joined Texaco in 1923 and served with the Export Department in New York until 1929, when he was assigned to the Dominican Republic as Assistant to the Manager. He subsequently was assigned to Puerto Rico, and was promoted to Manager at Cristobal, Canal Zone, in 1935. He became General Manager of the Foreign Sales Department in New York in 1953, and was named Manager of the Foreign Crude Oil Purchases and Sales Division in 1956.

FIVE TANKERS ORDERED FOR COASTWISE USE

Late in March, Texaco awarded contracts for construction of five 25,300-deadweight-ton tankers to be used principally for coastwise shipments from the Company's Port Arthur, Texas, refinery to ports north of Cape Hatteras. Delivery of the first vessel is scheduled to be made in the second half of 1962.

The five tankers will enter service as replacements for Texaco ships in the 16,000-ton class built during World War II, and will greatly increase the carrying capacity and tonnage of Texaco's fleet.

Each of the new vessels will have an over-all length of 605 feet, and a cargo capacity equivalent to 212,425 barrels of gasoline.

NAMED ASSISTANT TO PRESIDENT

H. H. Chandler, formerly General Manager of Texaco Iran Ltd., has been named Assistant to the President of Texaco Inc.

Mr. Chandler joined Texaco at the Port Arthur refinery in 1932. He held various assignments there until 1954, when he was assigned to the Westville, New Jersey, refinery as Assistant Superintendent. He became Superintendent of that refinery in 1955, and in 1957 was assigned to the London offices as Deputy Shareholders' Representative. He was made General Manager of Texaco Iran Ltd. in 1959.

H. H. Chandler

TEXACO PROGRAMS WIN PEABODY AWARDS

Texaco recently became the first sponsor ever to win two George Foster Peabody Awards for the same year. The purpose of these awards is "to recognize distinguished achievement and the most meritorious public service rendered each year by radio and television."

The Texaco Huntley-Brinkley Report received the 1960 prize for Television News, and the Texaco-Metropolitan Opera Radio Network won the award for Radio Public Service.

Presentations were made on April 18 at a meeting of the Radio and Television Executives Society in New York City. The programs are selected by a board of radio and TV editors and critics, businessmen, and educational leaders.

"GAS" TAX REDUCTION IN DANGER OF DEFAULT

In February, President Kennedy in his message to the Congress said that in order to complete the Federal interstate highway program by 1972, the present four-cents-a-gallon Federal gasoline tax would have to be retained, and that it might be necessary to raise it to 4.5 cents if his proposal to tax the trucking industry at a higher level is not adopted.

In setting forth the Administration's program, the President thus gives notice to the motorist that the promised expiration on June 30 of the temporary one-cent-a-gallon Federal gasoline tax enacted in 1959 is in danger of default.

Texaco naturally favors the building of a highway system necessary to the future development and security of the country. But it cannot agree with the statement that continuation of the four-cent Federal gasoline tax is necessary to provide the revenue needed to meet rising construction costs. As a matter of fact, in almost the same breath in which it declared pay-as-you-go financing to be "in peril," the Administration proposal called on Congress to divert some

$800 million in highway-user taxes into the Treasury's general fund. Under present law, these funds have been earmarked for the Highway Trust Fund when the temporary one-cent tax expires this June.

It is unfair to ask the motorist to pay such a high tax when more than 40 cents out of every automotive tax dollar he currently is paying to the Federal Government is used for purposes that have nothing to do with road building.

There would be ample funds to finance the interstate highway program without raising more taxes if all Federal automotive taxes collected were devoted exclusively to road building. They are not. Between 1957 and 1960, for instance, $6.2 *billion* out of the $14.3 billion — or more than 40 per cent of all the automotive taxes collected by the Federal Government —were spent for non-road purposes. Earmarking this money for road building would give the Government sufficient funds to pay for the highway system without raising the tax on gasoline. Motorists, who bear the brunt of the tax burden for highway improvements — improvements that benefit the entire population and are vital to national defense — have a right to expect that their taxes be used for road building.

MOHOLE, THE MOON, AND TEXACO

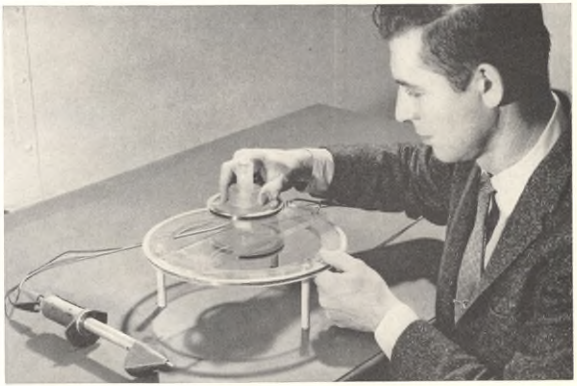
Texaco's Bellaire Research Laboratories in Texas recently have been involved in two spectacular projects.

Off the western coast of Mexico, a Texaco petroleum engineer, C. Don Woodward, supervised the recently completed preliminary stages of the Mohole drilling operation. This project's ultimate aim is to bore through the earth's crust and into the mantle below; and the attempt, sponsored by the National Science Foundation, should greatly enhance this country's knowledge of the earth's formation and history and the origin of life itself.

At the same time, a group of Texaco scientists at Bellaire is designing a set of instruments they hope will be landed on the moon to survey its surface and radio back information concerning the moon's geology and physical properties.

The Mohole project was carried out in water nearly two-and-a-half miles deep. The earth's crust is thinnest in certain suboceanic areas— among them the Pacific coast of Mexico — and this was the area chosen for the drilling. Offshore drilling had never been attempted in water over 400 feet, and the Mohole effort presented some impressive technical problems. The 260-foot drilling ship was not moored. It held position using four diesel steering motors mounted at its corners. The ship's pilot was guided by sonar readings taken from buoys surrounding the vessel and anchored 200 feet below the surface. Both the drill pipe and the ship were subject to severe stresses, and the Texaco representative made the critical decisions regarding the drilling risks taken throughout the operations. First phase of the project has been completed successfully, and core samples that provide scientists with valuable new information have been brought to the surface.

The lunar study is part of a long-range program administered by Caltech's Jet Propulsion Laboratory under contract from the National Aeronautics and Space Administration. NASA expects to land the instruments on the moon by 1963; and remote as the moon may seem from a terrestrial oil business, techniques for the study of the lunar sphere, its geology, and its physical properties probably are more advanced in the petroleum industry than in any other. As a longtime leader in the field of petroleum research, Texaco was a logical choice for the instrumentation design work.



Drilling at unprecedented ocean depths, barge CUSS-I, left, *has completed first phase of Mohole studies. A Texaco production employe supervised drilling job.* Above, *the heart of remote-control instrument package designed to be landed on the moon's surface is displayed by a Texaco scientist.*

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Most Americans have never seen their state flags. It certainly is an extraordinary citizen who knows his state motto. Even more unusual is the motorist who hasn't seen Texaco's red star and green "T," and who doesn't know the "Buy the Best — Buy Texaco" slogan. The Texaco trade-mark is a familiar one all over country; in fact, it's the only oil company trade-mark displayed at service stations in all 50 states. This Summer, motorists will welcome it once again as they tour the nation: they know they are buying the best when they buy Texaco.

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