Where Are They Now?

The Syndicate of the Ford Motor Company Initial Public Offering of 1956

By Susie J. Pak

In the mid-20th century, there were hundreds of investment banks and brokerages houses across the United States. Starting in the 1960s, these firms began to disappear. This change has not gone unnoticed, particularly by members of the financial community, who experienced this change in their own lifetimes. In 2012, when *Barron's* published an article titled "Where Have You Gone, Blyth Eastman Dillon Paine Webber Kidder Peabody?," its sentiments echoed those of many, who felt as though they had lived through a "Darwinian evolution" of sorts.

Barron's point of reference for this change was the fate of the syndicate that underwrote the Ford Motor Company's historic initial public offering (IPO) in 1956 — a group of 205 top banks from the United States and Canada led by Goldman Sachs, whose senior partner, Sidney J. Weinberg, was the driving force behind the Ford deal. As the largest common stock IPO in American history until that time, the Ford IPO established Goldman Sachs's reputation as a leading investment bank. In her biography of the firm, Lisa Endlich writes that Goldman partner John Whitehead, who assisted Weinberg on the deal, proudly displayed the Ford tombstone in his office, framed but without glass. Over time, Whitehead also noticed the change in his community. As the ranks thinned, Endlich writes, he crossed names off the list with a red pen.

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Tombstone advertisement for the Ford Motor Company IPO, which was originally printed in *The Wall Street Journal* on January 18, 1956.

In 2016, the Museum of American Finance began a research project to investigate what happened to the firms of this historic syndicate. Starting with the 205 firms listed on the Ford Motor Company IPO tombstone, the project reconstructs a genealogy of each bank focusing on its origin and demise. Given that the majority of the syndicate participants were private partnerships, consistent comparative financial data is difficult to obtain, but other characteristics of the community can be analyzed from existing sources.

For instance, the project studies the social origins of the founders, when the family of the founders ceased to be members of the firm, when the firm became a corporation and/or went public, as well as when and why it disappeared. Aggregated, the individual narratives form an empirical dataset from which one can analyze certain overarching patterns regarding the consolidation and change in the American banking community in the 20th century.

In forthcoming issues of *Financial History*, we will present the genealogies of specific firms and the larger findings, but first, we revisit the history of the IPO itself. How did it come about and why did it happen when it did? Who were the main actors involved in the deal, and how did they come together? Why, for example, was San Francisco bank Blyth & Co. the manager of the syndicate, even though Goldman Sachs was the dealmaker? These are the questions to which we now turn.

The Ford Motor Company Initial Public Offering (1956)

In 1932, during the Great Depression, Congress passed the Revenue Act, which dramatically increased tax rates. Estate tax rates rose to 45% and exempt amounts were also reduced. In 1934, through an amendment proposed by Senator Robert La Follette (WI), Congress increased the estate tax again. For net estates more than $10 million, the tax levy became 60%. Lest wealthy individuals try to evade the tax, Congress also assessed high taxes on gifts. By 1935, the exemption for estate tax was cut again, and the top rate increased to 70%.

Knowing that their deaths would lead to substantial taxes, Henry Ford (1863–1947) and his only son, Edsel (1893–1943), created the Ford Foundation in 1936, endowing it with almost 90% of the Ford Motor Company's stock, or 3,089,908 shares of non-voting "A" stock. Voting rights resided "solely in 172,645 outstanding shares of "B" stock, all of which [were] owned by members of the Ford family and their interests."

Though the Ford Foundation was technically a philanthropic endeavor, the Fords also used it to safeguard family control of the Ford Motor Company. According to Dwight Macdonald, author of *Ford Foundation: The Men and the Millions*, "If Edsel and Henry Ford had left their Ford stock to Edsel's children instead of to the Ford Foundation, their heirs would have had to sell most of the shares they had inherited in order to pay the inheritance tax." Until the Revenue Act of 1950, the profits that went to the foundation were also tax-free.

When Edsel Ford died of stomach cancer in 1943 at the age of 49, his oldest son, Henry Ford II (1917–1987), inherited his position on the board of trustees of the Foundation. After a brief struggle over the leadership of the Ford Motor Company, Henry II also assumed presidency of the company in 1945. Two years later, Henry Ford passed away, and his remaining shares of Ford Motor Company stock were allocated to his family (voting) and to the Ford Foundation (non-voting). By that time, the Foundation's endowment was substantial, but its income was limited to the dividends from the Ford Motor Company's stock.

The Foundation was also never entirely sure if the dividends would deviate from expectations, which affected their ability to make grant promises and plan program activities. Wanting to access the principal of its capital, the Foundation decided to sell one-third of its company stock in 1954.

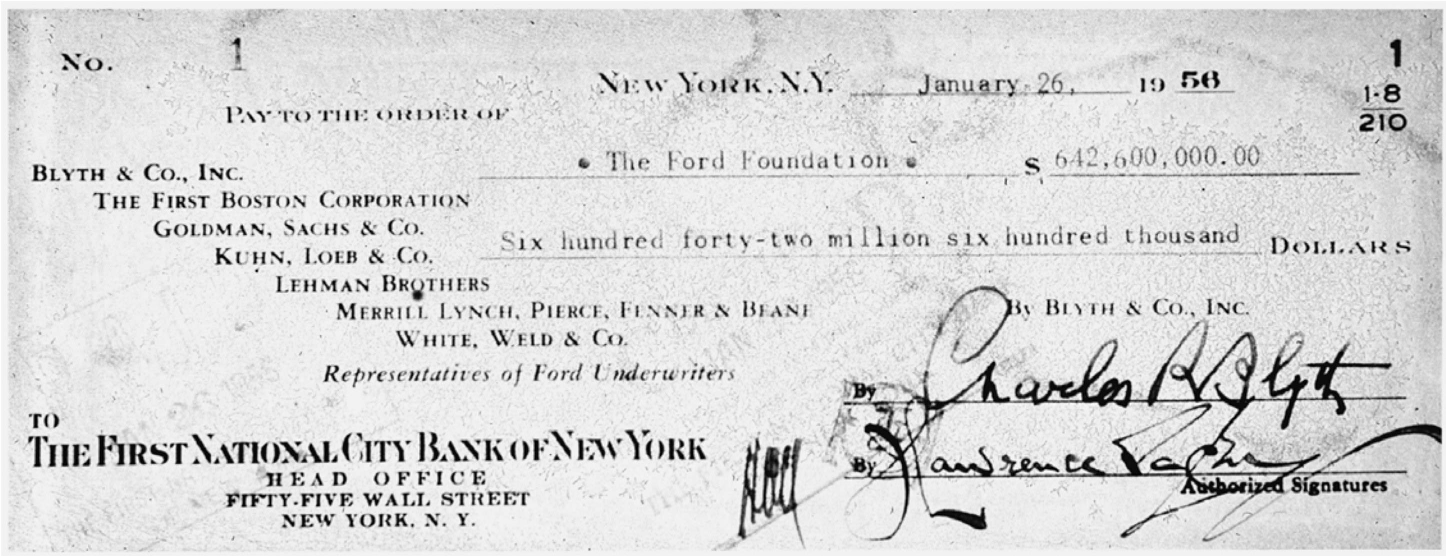
At that time, Ford Foundation's president was H. Rowan Gaither, Jr. (1909–1961). Born in Mississippi, Gaither grew up in Portland and San Francisco, where his father had been a bank examiner and a founder of a small regional bank called the Pacific National Bank. He attended the University of California as an undergraduate and law student. After practicing law in San Francisco, he worked for the Massachusetts Institute of Technology's Radiation Laboratory (1942–1945).

In 1948, Gaither became chairman of the Rand Corporation, a private organization created during World War II to further the research and development of military planning. While at Rand, he was introduced to Henry Ford II by Karl Compton, president of MIT, who was a trustee of the Ford Foundation. In 1948, Ford II asked him to lead an investigation on what the Foundation should do with its inheritance. In 1953, Ford II tapped Gaither to become president of the Ford Foundation, and by 1954, the Foundation began to investigate the possibilities of a stock sale.

A major issue with the sale had to do with voting rights. Gaither and the foundation felt that the stock could not be sold without voting rights, and so did the New York Stock Exchange. Without exclusivity, however, the family risked losing control over the company, so a compromise had to be made. In 1954, the finance committee of the foundation's board of trustees met almost 20 times to study how to sell the stock and determine how much the family would be compensated for giving up its exclusive rights.

At the time, the members of the finance committee included Gaither; James F. Brownlee, a partner in J.H. Whitney & Co. (a private bank founded by Whitney heir, Jock H. Whitney); John J. McCloy, former Assistant Secretary of War and chairman of Chase Manhattan Bank; and Charles Edward Wilson, former chairman of General Electric (GE) and chairman of W.R. Grace & Co. — a multi-national shipping and industrial manufacturer — who acted as chairman of the committee.

The son of a Protestant-Irish bookbinder, Charles Edward Wilson (1886–1972) was born in New York City and raised by his widowed mother. At the age of 12, he began working as an office boy at the Sprague Electrical Works, which became a subsidiary of GE in 1903. He became president of GE in 1939. Wilson's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New York, N.Y. January 26, 1956

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By Blyth & Co., Inc.

By

By

Authorized Signatures

To
The First National City Bank of New York
Head Office
Fifty-Five Wall Street
New York, N. Y.

Check from the Ford Motor Company IPO payable to The Ford Foundation for $642,600,000, dated January 26, 1956.

relationship with Sidney Weinberg dated back to World War II when he, Weinberg and Brownlee all served on the War Production Board (WPB). Chaired by Donald Nelson, who was then the vice president and chairman of the executive committee of Sears, Roebuck & Co., the WPB (1942–45) was created by President Franklin D. Roosevelt to coordinate war production activities across government agencies.

Weinberg, Goldman Sachs's senior partner who had campaigned for FDR in 1932 and 1936, was appointed to the WPB in 1942. His job was to find members of private industry for the board. Born in the Red Hook neighborhood of Brooklyn, New York, Weinberg was the son of a wholesale liquor dealer. One of 11 children, he had limited formal education and started working at a young age. In 1907 he got a job with Goldman Sachs, where partner Paul Sachs became a mentor to him and encouraged him to study, even paying for Weinberg to take classes at New York University. After serving in World War I, Weinberg returned to the firm and worked in the Bond Department. He made partner in 1927 and senior partner in 1930.

Weinberg was well-known for his ability to build relationships. President Roosevelt, whom Weinberg had known since Roosevelt was Governor of New York, dubbed him "The Politician." According to William D. Cohan, author of *Money and Power: How Goldman Sachs Came to Rule the World*, General Electric's Charles Wilson joined the WPB after Weinberg put the "heat" on him from behind the scenes to leave GE and move to Washington. Weinberg and Wilson became close friends, and their association continued well after World War II.

In 1945, Weinberg joined the board of directors of General Electric, no small feat given that GE was a long-time client of the Morgan banks [J.P. Morgan & Co. (f. 1895) and later Morgan Stanley & Co. (f. 1935)]. During the Korean War, when President Harry Truman appointed Wilson to head up the Office of Defense Mobilization, Weinberg served as Wilson's chief assistant.

Charles Wilson was not the only contact with the Ford Foundation and family that Weinberg made during his wartime service. The WPB also had an Automotive Branch, which was headed by Ernest Kanzler (1892–1967), Henry Ford II's uncle and adviser, who had been the production director of the Ford Motor Company. Kanzler was married to Henry Ford II's mother's sister. He became director general of the WPB in 1943. During the war, the WPB coordinated with the Automotive Council for War Production (ACWP, 1940–1945), a volunteer industry group that organized war production for the automobile industry. Its original board included Henry Ford II's father, Edsel. After Edsel died in 1943, Henry Ford II joined the board of the Automotive Council in May 1944, succeeding Charles Sorenson, vice president of the Ford Motor Company, who had taken Edsel's place.

Henry Ford II does not appear to have ever been a member of the WPB, as many sources suggest. Between 1941 and 1943, he was serving in the US Navy, and he left only when his father died, apparently with some strings being pulled by his uncle. According to William Cohan, as well as Judith Ramsey Ehrlich and Barry J. Rehfeld, co-authors of *The New Crowd: The Changing of the Jewish Guard on Wall Street*, Ford II and Weinberg met in January 1947 when Ford II "became a member of the Business Advisory Council (BAC) of the US Department of Commerce." Weinberg had helped to create the BAC in 1933 after, he said, "President Roosevelt complained he had no contact with business." (It met several times a year with the Commerce Secretary). Like Wilson, Ford II became close friends with Weinberg, and by the time the Ford Foundation and family were negotiating over the stock sale, Ford II tapped him to act as the family's adviser.

Even though Weinberg's friend was acting as the primary negotiator for the Foundation's board of trustees, and even though he had long-standing relationships with the primary players on both sides, the deal was not an easy one. Weinberg submitted more than 50 reorganization plans before finding an acceptable solution to both parties. The final agreement between the family and the foundation determined "the family [would] give up their exclusive right to vote in the affairs of management, and [would] transfer 60% of the voting rights to a new Common Stock." The deal created three types of

Cover of the January 30, 1956 edition of *Life* magazine featuring an article on the Ford Motor Company IPO.

stock and "a reclassification of the stock" of the company.

In return, E.J. Kahn Jr. observed, "The Ford family increased its equity in the company by 1.74% — which, reckoned in terms of the stock's value on the day it was marketed, amounted to a paper gain of nearly $60 million."

Before the Ford Foundation announced the stock sale on November 9, 1955, the underwriting community had been in suspense for more than a year, wondering which firms would be chosen to be the syndicate managers. In addition to Goldman Sachs, the top firms were: Blyth & Co.; First Boston Corporation; Kuhn, Loeb & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; and White, Weld & Co.

The Wall Street Journal commented that "a notable absentee is Morgan Stanley & Co., a house noted for its long-standing financing connection with General Motors Corp., Ford's principal competitor." The seven co-managers led an underwriting syndicate of 722 firms (205 on the tombstone) at $63 per share. Utilizing a network of 1,500 securities dealers, the largest to date, more than 10 million shares were offered to the public at $64.50 per share. In the end, the Ford Motor Company gained about 300,000 owners, and the foundation realized more than $640 million from the sale.

Like the Sears, Roebuck & Co. IPO almost 50 years earlier, which Goldman Sachs also underwrote, the Ford IPO was a major boon for philanthropy in education. The Foundation used its funds to give away approximately $500 million to colleges and universities, hospitals and medical schools. As for Goldman Sachs, the Ford IPO was also reminiscent of the Sears IPO in that it brought the firm an enhanced reputation and new prominence as an underwriter.

Blyth & Co., which had originated as a western regional house, was given the nominal honor as chairman of the managing committee, most likely because it was, according to *The Wall Street Journal*, "as well known on the West Coast as in the East," and the Foundation wanted "'to achieve the widest possible distribution of the shares to the public.'"

But from start to finish, Weinberg was generally acknowledged as having played the major role in organizing the Ford deal, cementing his place in financial history, where he came to be known as "Mr. Wall Street." In August 1956, he joined the board of the Ford Motor Company, where he remained a director until his death in 1969. $

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Read the full version of this article with footnotes here.