

The Nation's Bankrupt Railroads

With the Bankruptcy Act Providing for the Overhauling of the Financial Structure of Common Carriers, a New Deal for Many Lines Which Have Not Paid Seems Possible

By RANDOLPH PHILLIPS

MORE than 10 per cent. of the country's total railroad mileage was forced into bankruptcy during the thunder-storm of the depression. An investment of \$1,500,000,000, shared by thou-

Signs of Railroad Betterment

For the first seven months of 1934, net income of Class I roads was \$261,024,805 or 1.99 per cent. on capital investment, as compared with \$219,481,527 or 1.66 per cent. in the same period of 1933.

In the first eight months of 1934, railroads ordered 22,998 new freight-cars as compared with 763 in the same months of 1933; 359 passenger-cars as compared with 8; and 88 locomotives as compared with 15.

sands of people, was affected. Scarcely an area of the nation went untouched, for tracks of the blighted properties stretch for 30,000 miles throughout the industrial and agricultural regions of the United States.

Thirty railroad companies were plunged into bankruptcy between the 1929 market collapse and the present. Shrinking revenues, top-heavy financial structures, and inability to borrow capital were the chief causes. Some major casualties were:

Chicago and Eastern Illinois Railway Company: Capitalization, \$81,000,000; trackage, 938 miles.

Chicago, Rock Island & Pacific Railway Company: Capitalization, \$443,000,000; trackage, 8,340 miles.

Missouri Pacific Railroad Company: Capitalization, \$568,000,000; trackage, 7,560 miles.

Mobile and Ohio Rail Road Company: Capitalization, \$44,000,000; trackage, 1,225 miles.

St. Louis-San Francisco Railway Company: Capitalization, \$404,000,000; trackage, 5,889 miles.

Seaboard Air Line Railway: Capitalization, \$190,000,000; trackage, 3,349 miles.

Wabash Railway Company: Capitalization, \$276,000,000; trackage, 2,502 miles.

The time has come for bringing these vast properties out of their plight, and for strengthening them against future economic assaults. Until recently this was impossible for three reasons:

(1) The original Securities Act paralyzed capital flotations because the underwriters of securities found its terms too stringent to chance sponsoring any bond issues; (2) No fresh money was available for railroad financing, except from the Government, and (3) doubt existed with respect to the permanence of the traffic revival stimulated by the inauguration of President Roosevelt.

The Securities Act has been amended to relax the severity of its demands upon the underwriting banks. So great has been the flood of capital seeking investment in the last year that bond prices have been forced to record highs, removing all doubts that sound securities might not find a market. Finally, railroad revenues have retained the advances which they made in 1933, and such action as the recent petition for increased freight rates make it reasonably certain that the roads have seen the worst.

Therefore, the stage at last has been set for the solution by the Recovery Administration of the complex rehabilitation problem presented by the bankrupt railroads.

There have been more than 1,000 railroad receiverships since 1870. From the standpoint of capitalization, the St. Paul's (1925) was the greatest bankruptcy in American history, for \$676,000,000 in bonds and stock, and 11,000 miles of railroad track were involved. The closest approach to it to-day is that of the Missouri Pacific Railroad, which went into bankruptcy early in 1933; a financial structure of \$568,000,000 was smashed, and 7,000 miles of track went into the hands of the trustees.

Costly Receiverships

The cost of reorganizing such corporate giants has been tremendous. More than \$5,000,000 was spent in the St. Paul receivership. Other expensive reorganizations have been that of the Wabash (1911) at a cost of \$3,449,500, and the Pere Marquette (1912) at \$2,679,000.

It was partly with a view to eliminating such huge tolls that the new bankruptcy laws were written. Section 77 of the Bankruptcy Act stipulates the procedure for refinancing the railroads.

Section 77 was designed to eliminate (1) the expense and delay of numerous subsidiary receiverships usually attendant on the equity receiverships of old; (2) the judicial sale of railroad properties; (3) the litigation inherent in attempts to determine the rights of non-assenting security holders, and (4) the banker-dominated reorganization plan.

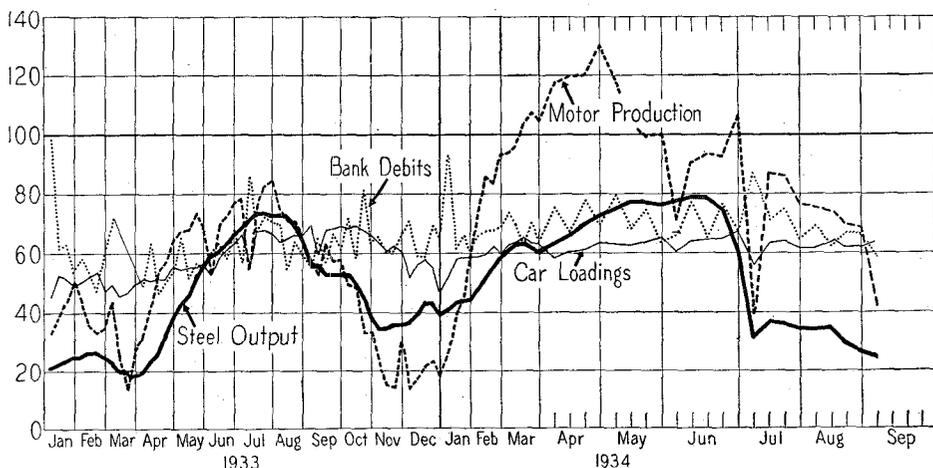
The most striking feature of the changed procedure is that any reorganization plan confirmed by the courts shall bind all security holders of each class, two-thirds of whom shall have accepted the plan. This forces minority security holders to accept the settlement agreed to by the majority.

Other features of the new procedure are that it allows creditors with claims amounting to 5 per cent. or more of the total indebtedness to invoke the aid of the Interstate Commerce Commission.

In addition, the ICC names a panel from which the courts are to select trustees to preserve and operate the properties during the period of bankruptcy. This limits a power previously exercised without limitation by the Federal judges.

Most striking of all the changes, perhaps, is the provision that the ICC must hold a public hearing at which creditors may criticize, amend, or uphold any reorganization plan presented. (Plans may only be presented by representatives of 10 per cent. or more of any class of security.)

When the commission has heard all sides of the case, it is to retire to digest the plan or plans presented, eventually—maybe months later—emerging with a recommended plan of its own, or an amended plan of the creditors. The resulting plan then is to be submitted to the creditors, and if two-thirds of them accept is to be declared operative and binding on all.



Four Indicators of Business Activity

This chart shows in percentage of deviation from the basis of weekly average for 1923-1925, inclusive, steel ingot production in percentage of total plant capacity, total freight car-loadings, bank debits outside New York City, and automobile production. It covers the week ending September 1

A Week in Finance

The Labor Day break made little change in market trends. Stocks remained dull. Persistent selling of government issues drove prices down for several days in succession, creating alarm in the financial district over the prospects for success of the Government's large September-October refunding operations. But this drop was checked when the Comptroller of the Currency ordered national banks to classify HOLC and Federal Farm Mortgage Corporation guaranteed bonds as government issues. This added to confidence in the guaranteed issues and strengthened the whole government list.



Aeme
Roy H. Faulkner

Another factor in the recovery of these issues was the Treasury activity in supporting the dollar on the foreign-exchange market, driving shorts to cover, and indicating that the Government would make full use of the stabilization fund to support its currency for some time to come.

In the transportation world rumors of mergers among the so-called independent motor companies continued. Roy H. Faulkner, widely-known motor executive, returned to Auburn as President, after a sojourn with Pierce-Arrow, causing talk of a new consolidation centering about Auburn.

Visits to Hyde Park by President John J. Pelley of the New Haven and Federal Coordinator Joseph B. Eastman gave rise to predictions that the Administration was considering taking important steps to help the roads. In the meantime, traffic reports were comparatively favorable, the Western lines doing particularly well.

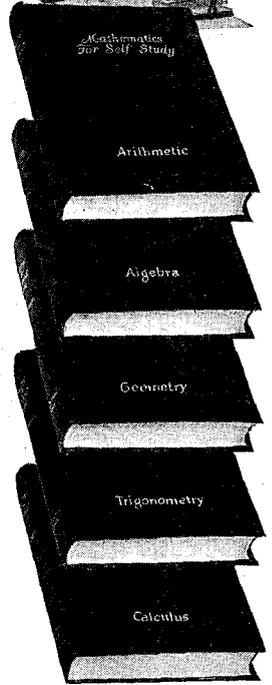
Food Prices Go Higher

Grains and cotton continued in demand and the prospects for much higher retail food prices became stronger than ever. Strike news added to business pessimism, but did not greatly affect the stock market.

In this country the Bell Telephone system reflected increased business activity by reporting a gain of 10,750 telephones in use in August as compared with a loss of 20,750 in August a year ago, and of 33,500 in July of this year. For the first eight months of this year, a gain of 165,000 telephones contrasted with a loss for the same period of 650,000 in 1933. But such fundamental indexes as steel production and power output showed continued declines.

Hopes for increased foreign-trade activity were strengthened by the quick response of Cuban trade to the newly-effective tariff reciprocity pact with the United States. But the debt negotiations with Russia came to a standstill. It was announced by the State Department that trade-pact negotiations would be initiated with Belgium, Colombia, Brazil, and Haiti.

THIS COMPLETE, SIMPLE, PRACTICAL COURSE FOR SELF-INSTRUCTION WILL QUICKLY GIVE YOU A Complete Mastery of MATHEMATICS



Prepare now to advance yourself to an important job by *Mathematics Training*. *Mathematics* is the foundation of all mechanical and scientific work, and of all business or industry based on science. Without this essential knowledge even the most capable man is left behind while others forge ahead to better jobs, bigger contracts, more money. You need mathematics to solve technical problems and to improve, speed up and check on your work and the work of others. Now you can learn mathematics by an easy, inexpensive and time-saving method. A very simple and extremely interesting course in book form has been prepared for you by an expert who has devoted a lifetime to teaching practical men the fundamentals of this important subject.

MATHEMATICS FOR SELF-STUDY
By J. E. Thompson, B.S., A.M., Dept. of Mathematics, Pratt Institute

A Complete Course and Reference Library in 5 Volumes
Arithmetic
Algebra
Geometry
Trigonometry
Calculus
1598 Pages
Illustrated

These books start right from the beginning with a review of arithmetic that gives you all special short-cuts and trick methods that save countless hours of your time. Then they go right into higher mathematics and show you how simple it is when an expert explains it for you. In no time at all you will be tackling with ease the most difficult questions on this subject.

An Expert's Simplified Methods

Mr. Thompson, the author of these books, has had many years' experience in mathematical training. He presents each practical method and problem in the clearest, simplest way. He gets right down to the kind of information that you need in your daily work.

Send No Money Mail This Coupon for FREE EXAMINATION

D. Van Nostrand Co., Inc.
250 Fourth Ave., New York

Send me MATHEMATICS FOR SELF-STUDY in 5 volumes. Within 10 days I will either return the books or send you \$2.95 as first payment and \$2.00 per month for 3 months—total \$8.95 (5% discount for cash). (L.D. 9-34)

Name
Address
City and State
Business Connection
Reference

Savings OF 300,000 INVESTORS Threatened

THE investments of thousands of ordinary working people are threatened, and national recovery is impeded by oppression of the utilities. There are more than 300,000 individual security-holders in the Associated Gas & Electric System, distributed over every state of the Union and thirty-three other countries.

- 45,000 Associated investors are manual laborers. through teaching or other professional services.
- 39,000 have supervisory positions, or are proprietors of small businesses. 32,000 are clerks, bookkeepers, agents or salesmen.
- 26,000 earn their living 107,000 are women—most of whom are housewives.

The Associated Gas and Electric Company Plan of Rearrangement of Debt Capitalization is designed to protect the interests of these security-holders.

Associated Gas & Electric System

61 BROADWAY, NEW YORK

