

# Business-Finance

 Edited By *Robert Seltzer* 

## Eaton, Otis & Co. Aid Railroad Modernization

By ROBERT SELTZER

Clevelanders are taking an active part in the campaign of Robert R. Young, chairman of Alleghany Corp. and the Chesapeake & Ohio Lines, to modernize the railroads through competitive bidding at low interest rates for serial equipment trust certificates.

In the forefront of the campaign are the Cleveland firm of Otis & Co., Ohio's largest underwriter of investment securities, crusader against the eastern banking monopoly, staunch advocate of competitive bidding, and Cyrus S. Eaton, Cleveland financier, associated with Otis.

Offered today by banking syndicates headed by Halsey, Stuart & Co. Inc., Chicago, and Otis & Co. are equipment trust certificates of \$14,970,000 for the Pennsylvania Railroad; \$1,700,000 for the Cincinnati, New Orleans & Texas Pacific, and \$1,520,000 for the Alabama Great Southern.

Halsey, Stuart, without Otis & Co. participation, offered \$2,300,000 of Chesapeake & Ohio equipment trusts. Otis did not participate in this issue because Eaton, a friend of the Halsey, Stuart group, is a director of Young's C. & O.

Award of all the issues offered today is subject to approval of the Interstate Commerce Commission. The four total \$20,490,000. There were 21 bids from syndicates headed by 10 different managers.

Otis & Co. believes the bond market will firm up, that improved railroad service will help the system of free enterprise and raise the standard of living, that modernization will bolster the carriers in competitive travel and give the passenger better service for his money.

Last year Otis & Co. participated in underwriting of \$47,810,000 equipment trust certificates, including an issue of \$20,000,000 for the New York Central. Also, in 1946, Halsey, Stuart underwrote \$3,250,000 of C. & O. equipment trusts.

Young, whose advertising campaign brought about coast-to-coast sleeper service and ended the black market in Pullman tickets, and who inaugurated no-tipping diner service, said recently:

"I am not at all optimistic about the future of the railroads unless there is a 100 per cent replacement

of rolling equipment. It's imperative that every one of the 47,000 Pullmans, day coaches, diners and baggage cars in use today be replaced with new equipment in the next few years."

And did Young practice what he preached? He did. Last Nov. 20 his C. & O. placed orders for replacement of every passenger car on the C. & O. Lines—sleepers, parlor cars and coaches. It was complete modernization, the most ambitious ever undertaken in the railroad industry. Expenditure will be about \$26,000,000. And the new equipment is being financed through equipment trust certificates at an interest cost of less than 2 per cent.

Riled at statistics which showed that only 40,000 cars actually were built during the 35 years prior to 1946, Young said modernization of existing equipment and an aggressive travel promotion program should create such a travel demand that 100,000 cars instead of only 47,000 will be needed.

"Even bankrupt railroads can buy equipment today at interest costs below 2 per cent a year and borrow nearly 100 per cent of the cost of new equipment," Young said in a recent interview.

Young contends that by issuing equipment trust certificates any railroad can obtain the money it needs, since such certificates become the senior obligation of any road and each certificate is backed up by the value of the piece of equipment it is used to purchase.

Young introduced his Pere Marquette Streamliners, as modern as tomorrow, last August. His new C. & O. Streamliners, to be inaugurated this spring between Washington and Cincinnati, will feature movies (already shown on current trains), nurseries, spacious lounges in each coach, glass-covered vista dome platforms, news tickers, art and industrial exhibits, library service, curved aisles, telephones. Trains will be all-coach with no extra fare.