

Philippine Railway Bonds

William P. Buckner who was in Manila a year ago trying to get the Commonwealth to buy the defaulted bonds of the Philippine Railway Company is afoul of the Federal government for misuse of the mails in connection with his effort. It seems he had organized a bondholders committee, made himself its chairman, raised funds among the members and came to Manila proposing that the Assembly approve purchase of the bonds at a figure far above their market price at that time. So far, nothing wrong, but there could be something more to the case if something passed in the mails that induced transactions in the bonds under the false encouragement that the Commonwealth really would buy them.

Numerous Hollywood movie stars have been cited as witnesses in the Buckner case. Assemblyman Felipe Buencamino, who was Buckner's lawyer here, has been cited from Manila and will go, President Quezon says, to New York to testify and cooperate in full with the Federal authorities. President Quezon himself is cooperating in the case, and has published correspondence showing Buencamino's position, for a while, as Buckner's counsel—a place he gave up after learning that the Commonwealth had no interest in the bonds, would not buy them at any price, nor pay more interest on them.

The Hollywood stars are among the bondholders, apparently. The total face of the bonds is ₱17,098,000. This is the road's main capital and the bonds are a first mortgage lien against the property. The sum of ₱10,000,000 common stock was also authorized by Congress. Presumably it was issued, but we learn of no dividends paid on it.

The term of 30 years during which the Philippines was obliged to meet interest deficits on the bonds expired June 30, 1937. On grounds of its equity at stake, or the sums it had laid out as bond interest, the Commonwealth then threw the road into bankruptcy by action in the local courts and had E. A. McCreary named receiver. (Mr. McCreary has long been an official of the road, and prior to that was fiscal officer of the Philippine government: at one time he was Lolo's provincial treasurer.) Main offices of the company are in New York. Directors meet there, including the two who represent the Commonwealth (or is it the Federal gov-

ernment, or just the Bureau of Insular Affairs as the Commonwealth's agency, or is it the War Department itself, of which the insular bureau is but a branch, though one that functions as an agency of the Commonwealth?). Bankers Trust, in New York, is the trustee for the bondholders, according to a provision of the bonds.

Three years ago the Directors were: Alexander Berger, Pierpont V. Davis, Major General Frank McIntyre, Colonel Donald C. McDonald, C. McKay Lewis, George N. Lindsay, Brigadier General Creed C. Cox, John H. Pardee, Cornelius Vanderbilt, and John H. Watkins. Brigadier General Charles Burnett, now head of the insular bureau vice General Cox who is an adviser at Malacañan to President Quezon, is a recent member of the board in General Cox's place. Death has taken others from the board, among them Mr. Pardee who was trying to get the Commonwealth to buy the bonds when he was in Manila, about three years ago, as was General McIntyre when he was here about the same time.

Governor Frank Murphy turned all such propositions down, by his own election as well as by counsel of his advisers and the auditor, J. Weldon Jones who is now Commissioner McNutt's financial adviser. President Quezon has followed Murphy's course, no doubt this has Commissioner McNutt's sanction though it may be a matter that does not touch his office directly.

It is popularly supposed that the Philippines always paid the full interest on the bonds, during the 30-year term of its obligation to do so if necessary, but this does not square with the figures. Apparently the road earned a good deal of the interest (₱683,920 a year), because all the Philippines paid was ₱12,943,696, while 30 times ₱683,920 is ₱20,517,600; the difference or ₱7,673,904 seems to have been earned and paid by the road. The government's largest payment was that of 1928, ₱621,000.

A fact to bear in mind is that the road still operates; it operates in the Philippines, at the Commonwealth's behest—indeed under its own receivership. Another fact is that some operating profit is now being made. Another is contingent: if Cebu Portland on the Cebu coast builds its own wharf as it probably should do, the Cebu railroad line will not pay and ought to cease operating. But it is possible that this road could be used elsewhere, taken to Panay, for instance, and laid in Antique province as a branch or branches of the Capiz-Iloilo line. Some critics suggest diesels for power, as cheaper than steam engines to repair and fuel and operate.

A view of all the facts does not persuade us that the bonds have been heard of for the last time. They will, we hazard, keep bobbing up in Philippine politics periodically, and one day the Commonwealth will buy them, or assume some obligation in them. *But bear in mind!* This is merely what we think, and we don't advise anybody either to buy or sell on the strength of it. We concede that the government's present attitude is all against it, as in the past. It's just a hunch of ours, wholly based in the facts just recited, and in what governments generally end up by doing in similar circumstances. However, when anything is done about these bonds, in view of the current scandal it is a fair guess that it will be done in the open.

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