A. G. Becker & Co.

INVESTMENT BULLETIN

AUGUST 15, 1928

# Government Finances

*Current Income, Expenditures and Debt of the United States*

BECAUSE of the influence of Federal taxation and government fiscal policy on the general economic life of the nation, a brief review of the sources of national revenue, the nature of government expenditures and the course of the public debt will be of general interest to business men and investors.

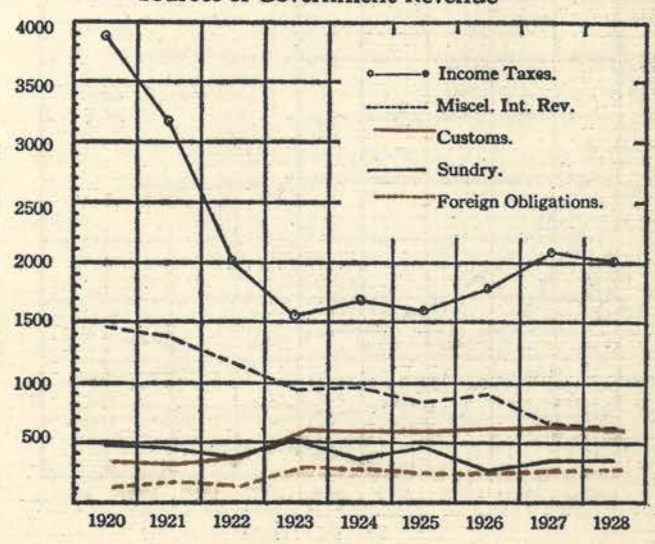
The subject is particularly timely since the Governmental year ends on June 30th, and a statement for the 1928 fiscal year is available. In presenting certain statistics from the Treasury report, we have made some minor changes which appear to us to be desirable in order to present a more accurate picture. In the figures as they are submitted by the Treasury Department, Internal Revenue and Customs refunds are shown as expenditures. This practice, in our opinion, serves to give an erroneous impression regarding the productivity of the income tax and customs duties as sources of revenue. It would seem more proper to apply refunds against the gross receipts, showing the one figure of net collections. Likewise, the Government statements show as revenues, collections on account of insurance premiums and other items which are immediately turned over to the trust funds to which they apply. It would be better to take these out of revenues and apply them to their respective trust funds. In making up our charts we have, accordingly, offset refunds and trust fund disbursements against the revenues which are shown in the statements furnished by the Treasury Department.

### *Sources of Government Revenue*

Chart I traces the course of the various sources of Government income since 1920, corrected in accordance with the views expressed above. Total revenues in the fiscal year 1920 were over six billion dollars, by far the largest ever obtained by our Government. The income fell off in 1921 and again in 1922, so that the total for the latter year was under four billion. Notwithstanding the subsequent changes in our revenue laws, it has remained remarkably near to the same level ever since.

Despite the lower rates of tax on individual incomes, the revenue from the income tax in

Sources of Government Revenue



the last fiscal year was as large as it was in 1922 and it continues to be by far the largest source of revenue. There has been but little change in customs receipts during the last six years, and the amount received from foreign obligations has not varied materially. Sundry revenues, however, have fluctuated considerably. Most of the taxes which proved so annoying have been repealed, so that miscellaneous internal revenues have fallen off greatly. At the present time the tax on tobacco is the only one of importance which remains.

For the last fiscal year the revenues of the government were made up as follows:

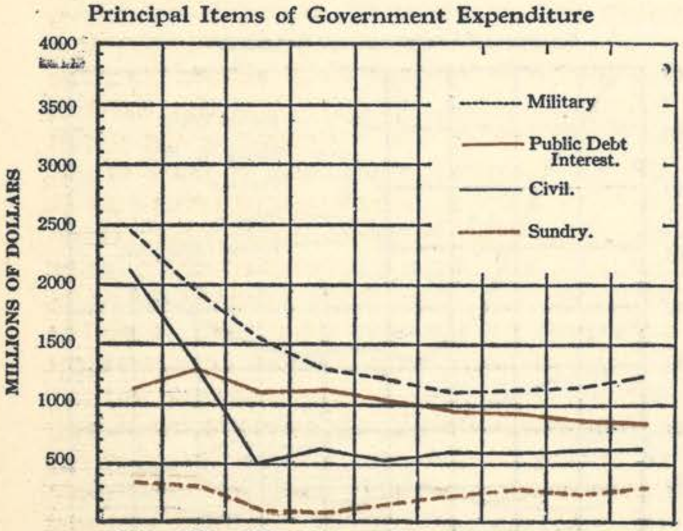
| | |
|---|---|
| Income Tax | 54% |
| Miscellaneous Internal Revenue | 17 |
| Customs | 15 |
| Foreign Obligations | 5 |
| Other | 9 |
| | 100% |

### *Government Expenditures*

The expenses of running our Government may be divided into four groups:

Ordinary Civil Functions
Military Functions
Interest on Public Debt
Sundry

Principal Items of Government Expenditure




In Chart II we show the amount of expenditures in each group for the fiscal years 1920-1928. Outlays for military purposes in 1928 were but half what they were in the fiscal year 1920, but they still remain by far the most important—in fact approximately twice the total for ordinary civil functions.

Interest on the public debt also takes more from the public treasury than do ordinary civil functions. The difference, however, is coming down rather rapidly as the debt outstanding becomes smaller and more of it is refunded with obligations carrying lower coupon rates.

Total expenses during the last fiscal year amounted to approximately $2,800,000,000, and the amount was divided as follows:

| | |
|---|---|
| Ordinary Civil Functions | 22% |
| Military Functions | 43 |
| Interest on Public Debt | 26 |
| Sundry | 9 |
| | 100% |

### *Creation of Public Debt*

During the war period it was utterly out of the question to raise sufficient revenues to defray the expenses of carrying on the war and to provide funds with which to make loans to foreign governments. As a natural result, borrowing on an extensive scale was necessary and in this way practically all of our public debt arose. Since the war the Government has been able to keep expenses well within its income so that a very substantial balance has resulted each year.

It would be natural to think of this excess as the Treasury Surplus. Actually the amount of "Surplus", as the term is used by Treasury Department, is quite a different figure. Congress has provided that the Treasury shall apply certain funds to the retirement of the public debt each year. Roughly the amount consists of the sum of:

(1) 2½% of the bonds outstanding July 1, 1920, minus the amount due from foreign governments,
(2) The saving in interest resulting from the retirement of debt,

(3) The receipts from foreign governments under debt settlements,

(4) Some miscellaneous receipts.

The debt retired by these means is considered as "chargeable against ordinary receipts" and the "Surplus" is what is left after such retirements.

### *Government Surplus*

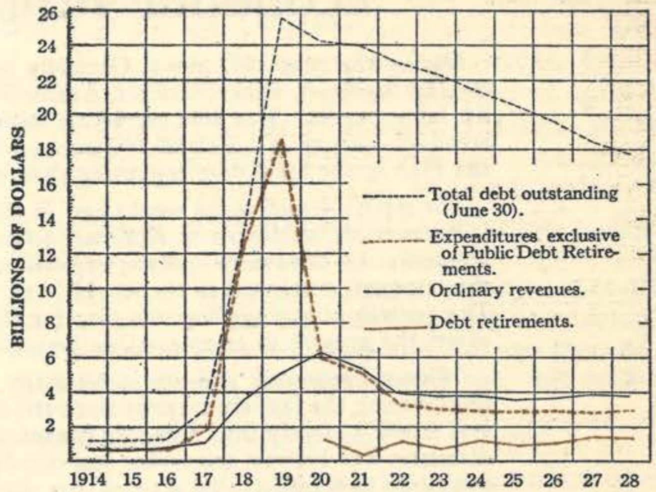
It would seem to us that the average business man is more interested in the total amount of public debt retired, irrespective of whether the retirement is made under an arbitrary legislative requirement or whether it is made from unused funds in the hands of the treasury. Actually the debt has been reduced from \$24,299,000,000 on June 30, 1920 to \$17,604,000,000 on June 30, 1928. The entire reduction of nearly seven billion dollars has come from the excess of receipts over expenses. Over \$900,000,000 was retired in the last fiscal year alone.

### *Retirement of Debt*

It is interesting to note the very considerable part that payments on account of debt principal and interest play in the fiscal operations of the government. Last year, interest paid amounted to \$732,000,000 and ordinary debt retirement was \$541,000,000, a total of \$1,273,000,000. As the surplus for the year of \$398,000,000 will also be applied to pay off debt, the total applied to principal and interest payments aggregates \$1,671,000,000, or more than 41% of the total receipts for the year. In other words more than 41 cents of every dollar collected by the federal government in taxes of one kind or another went for the service of the public debt.

Chart III brings together in one graph the essential features of recent Government finance. It shows the amount of debt outstanding during the past fourteen years, the course of total Government revenues and expenses, and the amount of debt retirement made possible each year through the excess of receipts over expenditures.

National Debt, Revenue and Expenditures




### *Debt Retirement and the Bond Market*

The steady and very substantial reduction in the amount of government securities outstanding and in the rate of interest paid by the government are influences of considerable import on the securities markets.

It is clear that \$900,000,000 released from investment in government bonds and notes in a single year and seeking investment in other channels introduces important buying power for securities of other kinds, entirely apart from ordinary capital accumulation. And if the present Treasury policy of retiring the public debt is continued, as is entirely likely, a very large amount of capital over the next few years will continue to be released for other investment. It is, of course, true that most of the funds used in the retirement of the public debt are obtained in the form of taxes of one kind and another, which might otherwise be employed by tax-payers for investment. However, it is undoubtedly true that a much larger percentage of such funds released by debt retirement will be reinvested than would be the case if taxes were reduced an equivalent amount. Notwithstanding the natural increase in profitable outlets for the employment of capital, the vast sum which will be released in the next few years through the debt retirement policy of the government is bound to exert a profound influence on the security market.

# Economic Progress in Germany

During the year 1927 alone, Germany accumulated a surplus of approximately 7,600,-000,000 marks, S. Parker Gilbert, Agent-General for Reparations Payments, points out in his latest report. This sum represents more than three times the amount of the so-called standard annuity of 2,500,000,000 marks which Germany will be called on to make under the Plan in the fiscal year beginning this September.

The report, issued some weeks ago, is the most optimistic one that has yet been issued. It notes many evidences of economic soundness in the growth of German industry, the accumulation of savings and the expansion of exports. The reichsmark is called "one of the strongest currencies in the world" and is said to satisfy all requirements for stability. The growth of savings deposits thus far in 1928, it is pointed out, has been considerably above the growth in corresponding periods of previous years.

"General economic activity in Germany," the report states, "has continued on a high level during the last six months since the last report. One year ago, German production was moving largely into domestic consumption and in the intervening months this characteristic had become somewhat less decided and the volume of German exports, largely composed of manufactured articles, has risen higher than at any time since the Plan went into effect."

The remarkable progress which German industry has made in the last few years has, of course, created many excellent investment opportunities for American capital. Seldom, however, has the market afforded an investment, in many ways so nearly unique, as the Koholyt Corporation First Closed Mortgage* 6½% Sinking Fund Gold Bonds due 1943 and currently priced at 97½ to yield 6.75%.

The Koholyt Corporation produces chemical wood pulp, used in the making of better grade paper, for which there is a very large and steadily growing demand. The concern is the largest of its kind in Germany and more than half of its production is exported to Great Britain, United States, France and Italy.

It is controlled through ownership of 70% of its common stock by one of the largest paper manufacturing concerns in Europe, the Inveresk Paper Company, Limited, a British corporation. Inveresk has paid-up capital, reserves, and surplus of over $19,000,000 and the approximate market value of its stock, on the basis of current quotations on the London Stock Exchange, is approximately $30,000,000. Koholyt is thus an important part of an immense international paper producing unit whose activities extend from the manufacture of raw pulp to the production and marketing of high grade newspapers and magazines. Some of the publications published by the Inveresk Paper Company, such as the Illustrated London News and the Graphic are familiar to readers of English all over the world, and its most important newspaper is the London Chronicle, one of the principal dailies in the British Isles.

*Subject to Dawes Plan Charges.

The Koholyt bond issue of $4,000,000 is secured by nortgage on properties valued at ıore than $11,500,000 and thus represents a loan of less than 37% of the appraised value of the security. The plants are designed and laid out on strictly modern and scientific lines, are equipped with the latest types of machinery, and are advantageously located with respect to transportation facilities and raw material supplies.

Even before the war, the Koholyt properties were regarded as among the more important pulp producing concerns of Germany and earnings ran well over half a million a year, or about twice interest charges on this issue. For the year ended June 30, 1927, however, Koholyt showed earnings after maintenance and liberal depreciation charges, of $1,262,545, considerably over twice the pre-war figure, and equal to 4.8 times interest requirements on this issue which is the Company's sole funded debt.

Several factors which contribute considerably to the soundness and attractiveness of these bonds as an investment are worth stressing. One of these is the large amount of foreign exchange the corporation automatically receives by disposing of half of its production in foreign markets. Another is the British ownership which gives the Company the sponsorship of one of the outstanding and most aggressive concerns in England.

In our opinion, these bonds are a desirable purchase for safe investment.

# Sound Stocks for Investment

*A strong investment preferred stock and a common stock with attractive possibilities. Investments in seasoned companies with valuable properties and established earning power.*

## Hammermill Paper Company

### *6% Cumulative Preferred Stock*

The Hammermill Paper Company was founded in 1898 by Ernst R. Behrend, who is still President and one of the leadi ig figures in the business. Mr. Behrend comes of a family of paper makers; his father had established a paper mill in Germany thirty years before, and Hammermill was built with the experience of a successful scientific process behind it, to utilize wood pulp as a new source of raw material for fine paper making.

The mill was located at Erie, Pennsylvania because of advantages which have increased with time. Situated on the shores of Lake Erie, it is assured an unfailing supply of fresh water, a consideration of the greatest importance. It is close to a great coal centre, and wood from the forests of Michigan, New York and Canada comes to it by water at low freight rates. Midway between New York and Chicago, it is near the population center of its trade territory.

Hammermill is a complete paper making unit. It is fully equipped to convert wood from its own timber into pulp and then into paper. It controls every step in the manufacture of its products. The value of this self-sufficiency, from a competitive standpoint, over those mills who buy their pulp or rags on the market, and they are in the majority, is obvious. Furthermore, an extensive advertising campaign has enabled Hammermill to market its paper along modern merchandising lines. While it produces approximately ten per cent of the fine paper made in the United States, the name of its principal product—"Hammermill Bond"—is known wherever paper is sold.

In view of these many favorable factors, it is not strange that the Company's annual reports for many years have shown a strong financial condition and an excellent record of earnings. There has not been a year in the last ten in which earnings, after Federal taxes, did not cover the dividend requirement of this stock. Average earnings for the past ten years were over $14.75 per share and in 1927 were over $18.00 per share of this Stock. For the first four months of 1928, earnings were approximately 20% ahead of the same period of 1927.

Latest balance sheet shows net tangible assets applicable to this issue of $11,907,482, equivalent to $216 per share of this Preferred Stock. Current assets were $3,821,048, of which $738,955 was cash, to pay current liabilities of $639,954.

We have been represented on the Board of Directors of the Company and have been identified with its financing for a number of years and, on the basis of our intimate knowledge of the business, recommend this stock unqualifiedly for conservative investment.

Price 100 and accrued dividend, to yield 6%.

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## Acme Steel Company

### *Common Stock*

We have none of this stock on our list at the present time, but because we regard it as an extremely attractive common stock, we recommend its purchase for investment and shall be glad to have orders for it executed on the Chicago Stock Exchange or the New York Curb.

The Company is primarily a producer of steel specialties which have wide distribution and an established market. It also manufactures a full line of hot and cold rolled strip steel for general manufacturing purposes and is the largest producer in the United States of hoop steel, both hot and cold rolled, for barrels, boxes, bales, buckets, tubs, etc. The Company has always sold its products direct to consumers through its own sales organization and its active customers at the present time number approximately 15,000, located in practically every state in the Union and in many foreign countries. The substantial diversification of the business, both as to products and sales outlets, is an important factor of strength.

Acme's earning record is exceptional. In every year since its inception in 1880 this business has earned a net profit and for over 30 years regular dividends have been paid without interruption on the common stock. The present net worth of approximately seven and three-quarter million has been built up practically entirely from earnings.

The present dividend rate is $5 a year, payable $1.25 quarterly and at current levels, around 92½, on the exchange, the stock yields about 5.40%.

Earnings last year were equivalent to $7.74 a share, and for the first six months of 1928, both sales and profits were reported at approximately 30% above those for the same period of 1927.

# We Recommend and Offer

## Griess-Pfleger Tanning Co.

***First Mortgage 5½% Bonds, due 1948***

The basis for the high standing of the Griess-Pfleger Company in its industry is not hard to find. Griess-Pfleger is a name that has been identified with the industry for fifty years. The principals in the business today are the sons of the founders and they have grown up with it. These men have an outstanding reputation for ability and integrity. The Company has an earning and dividend record, in the face of abnormal conditions, that speaks eloquently for the character of the management, for the position of the Company in the trade, and for the record of its products.

With the exception of two years, in which only stock dividends were declared, the present company has paid cash dividends in every year since its inception 20 years ago. In view of the unusually good showing made in the face of adverse conditions, it is reasonable to expect even better earnings now that the whole industry has much brighter prospects.

Latest balance sheet shows net tangible assets of $4,238 for each $1,000 bond, while earnings, after depreciation, cover interest requirements approximately three times. Earnings to date in 1928 are substantially larger than for the corresponding period of 1927.

Backed as these first mortgage bonds are by very ample assets and earning power, we strongly recommend them for conservative investment at the current price of 100 and interest, to yield 5½%.

## Weil-McLain Company

***5% Serial Gold Notes, due in 3 to 6 years***

Weil-McLain Company, an important manufacturer and wholesale distributor of heating and plumbing supplies, is very well known to us as it has been one of our commercial paper accounts for some time. The business is 37 years old and it has made money in every year of operation without exception, through periods of general prosperity and depression.

These notes are part of an issue of $1,000,000 principal amount, underwritten by us recently. This is a seven year issue, or, rather, the last maturity runs seven years. It is interesting, therefore, to note that in the last seven years, 1921-1927 inclusive, $2,242,814 or more than twice the amount of this issue was added to net worth out of earnings, after the payment of liberal dividends.

The balance sheet presents a strong picture. Net tangible assets are approximately 4½ times this issue and net current assets alone are over twice the issue. The current ratio is very satisfactory, being 7.6 to 1.

In no one of the past five years have earnings been less than 8 times the interest requirements of this issue, the Company's only funded debt.

These notes, which constitute the only funded debt of the Company, are recommended as high grade short term investments. Limited amounts are available at this time in the 1931 maturity at 100 and interest, to yield 5%; 1932 at 99⅝ and interest, to yield 5.10%; 1933 at 99⅛ and interest, to yield 5.20%, and 1934 at 98½ and interest, to yield 5.30%.

## The Steel Car Equipment Trust

***4½% Equipment Trust Certificates, Series B,***
***Due September 1, 1928 to 1938***

In the past twenty-five years, equipment trust obligations have justly attained a position among the very highest grade investment securities because of their impressive record of safety.

These certificates, limited to the authorized amount of $1,200,000, have been issued against 500 steel refrigerator cars costing in excess of $1,500,000, thus providing the usual margin of safety.

The equipment, which has been leased in the first instance to The Steel Car Equipment Co. for a period of ten years at a rental sufficient to provide for the serial maturities and dividends, will be operated under lease by trunk line railroads and other responsible users.

In addition to the specific security of the equipment, these certificates are backed by the guarantee of the Pressed Steel Car Co. whose latest balance sheet shows a net worth of over $44,000,000

We offer these certificates in the 1936 and 1937 maturities, at a price to yield 5%, an attractive return for this type of security.

# SOME ADDITIONAL OFFERINGS

*Representative of our current list*

## MUNICIPAL BONDS

***Exempt from all Federal Income Taxes***

| | Rate | Maturity | Basis Price |
|---|---|---|---|
| **Buffalo, N. Y., *Direct Obligation*** | $4\frac{1}{4}$% | 1931-1936 | 4.10% |
| **State of Illinois, Highway** | 4 % | 1949-1956 | 4.125% |
| **Bergen County, N. J., *Road & Bridge*** | $4\frac{1}{4}$% | 1936 | 4.15% |
| **State of South Dakota, *Refunding*** | 4.20% | 1948/33 | 4.15% |
| **Highland Park, Ill., *School District*** | $4\frac{1}{4}$% | 1932-1944 | 4.20% |
| **Charlotte, N. C., *Direct Obligation*** | $4\frac{1}{2}$% | 1945-1965 | 4.20% |
| **Montgomery County, Ohio, *Water Supply*** | 5 % | 1941 | 4.20% |
| **State of Louisiana, *Port Commission*** | 5 % | 1952-1969 | 4.25% |
| **Parkersburg, W. Va., *School District*** | 5 % | 1943-1945 | 4.25% |
| **Worth County, Iowa, *Primary Road*** | 5 % | 1933-1937 | 4.25% |
| **Libertyville, Ill., Waterworks** | $4\frac{1}{4}$% | 1930-1938 | 4.30% |

## CORPORATION BONDS AND NOTES

| | Rate | Maturity | Approx. Yield |
|---|---|---|---|
| **Duquesne Light Co., *1st Mtg.*** | $4\frac{1}{2}$% | 1967 | 4.55% |
| **Philadelphia Electric Co., *1st Lien & Ref.*** | $4\frac{1}{2}$% | 1967 | 4.55% |
| **Canadian National Ry. Co., 30-Year** | $4\frac{1}{2}$% | 1957 | 4.60% |
| **Commonwealth Edison Co., *1st Coll. Series "D"*** | $4\frac{1}{2}$% | 1957 | 4.68% |
| **Canadian Pacific Ry. Co., *20-Year Coll. Tr.*** | $4\frac{1}{2}$% | 1946 | 4.78% |
| **Baltimore & Ohio Ry. Co., *Southwestern Div. 1st*** | 5 % | 1950 | 4.84% |
| **Chicago Rock Island & Pacific Ry. Co., *Secured "A"*** | $4\frac{1}{2}$% | 1952 | 5.05% |
| **Missouri Pacific Railroad Co., *1st & Ref. Series "F"*** | 5 % | 1977 | 5.05% |
| **Kimberly-Clark Corp., *1st Mtg.*** | 5 % | 1943 | 5.05% |
| **Indiana Electric Co., *1st Mtg.*** | 5 % | 1951 | 5.18% |
| **W. A. Wieboldt & Co., *1st Mtg.*** | $5\frac{1}{2}$% | 1939 | 5.20% |
| **Foreman Bank Trustee, *1st Mtg. Part. Ctf.*** | $5\frac{1}{4}$% | 1938 | 5.25% |
| **Copley Press, *Serial Coll.*** | $5\frac{1}{2}$% | 1930-1932 | 5.50% |
| **Interstate Iron & Steel Co., *1st Mtg.*** | $5\frac{1}{2}$% | 1946 | 5.50% |
| **Albert Pick & Co., *Gold Deb.*** | 6 % | 1936 | 6.00% |

***All offerings are made subject to prior sale and change in price.***

# *A. G. Becker & Co.*

Underwriters and Distributors of

BONDS, SHORT TERM NOTES
INVESTMENT STOCKS
COMMERCIAL PAPER

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