

THE WALLACE TAX RECORD

<u>YEAR</u>	<u>DESCRIPTION OF TAX</u>	<u>ANNUAL DOLLAR INCREASE IN TAXES</u>
1963	DRIVER'S LICENSE TAX	\$ 1,500,000.00
1963	2¢ BEER TAX	6,000,000.00
1963	1¢ SALES TAX	35,000,000.00
1963	DISTILLER TAX	3,000,000.00
1965	1¢ TOBACCO TAX	3,000,000.00
1967	2¢ TOBACCO TAX	6,000,000.00
1967	1¢ TOBACCO TAX	3,000,000.00
1967	INCREASE IN AUTOMOBILE TAGS	13,000,000.00
TOTAL TAX INCREASE		\$ 70,500,000.00

* ON SEPTEMBER 30, 1969 OUR STATE HAD OUTSTANDING A TOTAL OF \$551,000,000.00 IN INDEBTEDNESS. OF THIS AMOUNT, \$473,000,000.00 HAD BEEN BORROWED BY WALLACE.

* FOUR OUT OF EVERY FIVE DOLLARS OWED BY THE STATE WAS BORROWED BY WALLACE.

* IT TAKES A TOTAL OF \$44,000,000.00 (44 MILLION DOLLARS) PER YEAR TO PAY THE INTEREST AND SERVICE THE WALLACE DEBT.

Childs Securities to Shun Alabama Bonds; Several Big Dealers Call Move Ill-Conceived

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Childs Securities Corp., a New York-based dealer in Government and municipal bonds, announced it would no longer buy or sell obligations of the state of Alabama or any of its cities or counties because of "credit considerations" arising out of the state's civil rights troubles.

In a letter to Gov. Wallace of Alabama, Donald E. Barnes, executive vice president of Childs, said the action was taken in view of "the failure of your administration to protect the citizens of Alabama in their exercise of Constitutional rights and from your hostility to the movement toward representative government in Alabama."

The Childs move brought a sharp reaction from several large bond traders. A Toledo bond dealer said, "This is going pretty far afield from what our business is. We're not set up to establish moral principles." A Boston banker agreed: "The motivation may be excellent, but the move is ill-conceived and immature."

"You can't in effect say because you disagree with some officials you should deny them the right to find a market for public securities to carry out needed improvements to benefit the entire community," Alan K. Browne, vice president of the Bank of America, said in San Francisco.

However, several bond houses conceded they have reduced their purchases of Southern municipal bonds in recent years because of doubts about their marketability as a result of civil rights strife.

Other Firms Approve

Wholehearted approval of the Childs position came from Baxter & Co., a Chicago bond dealer. A Baxter spokesman said, "We haven't bought or traded any Mississippi bonds for some time because of the moral issue involved in the civil rights problems there, and now we've added Alabama bonds to that list."

Roy Wilkins, executive director of the National Association for the Advancement of Colored People, also praised the Childs action. "This is the kind of economic sanctions against terroristic states that the NAACP believes will prove effective in bringing about long-overdue reforms. We urge other securities corporations and investment houses to do likewise."

There wasn't any comment from Gov. Wallace. His secretary said he hadn't seen the child's letter, although he acknowledged that it might be in a stack of mail awaiting inspection.

Southern bond traders generally minimized the impact of the Childs move. "I'd love to see all the Northern dealers quit bidding down here," said A. Duncan Williams, vice president of First National Bank of Memphis and manager of the bank's bond department.

Mr. Williams added, "I don't think it would affect the market much. Southern dealers can take care of the needs of the South. We sell 90% of our Alabama bonds right back into Alabama, anyway. And these people who claim they're being discriminated against don't buy any of our bonds."

continue dealing in Alabama securities as long as "the security is commensurate with the value," said Dave Arnsperger, vice president of the municipal bond department. "We have done a great deal of analysis on this situation," Mr. Arnsperger added, "and as far as we're concerned, Alabama's basic economy is healthy and sound, regardless of the racial unrest."

The official declared, "The only thing that has changed is the marketability of the securities." Because of the racial trouble, he said, Southern bonds carry slightly higher retail yields for investors, offering his firm the chance to "buy sound securities and attain a higher yield for our investors."

A vice president in the municipal bond department of Republic National Bank of Dallas called the Childs announcement "merely a public statement of what bond dealers across the country automatically take into account" when bidding on issues of areas having racial unrest. "If we think the racial trouble is going to affect the resale price, we simply lower our bid to reflect that."

Childs Termed Minor Factor

Childs Securities is, according to Donald Barnes, the firm's vice president who signed the letter to Gov. Wallace, "a minor factor in the municipal-bond business. We don't have many personnel in our tax-exempts section and don't deal in these securities to an appreciable degree," he added.

Childs Securities is a subsidiary of C. F. Childs & Co.

That firm, founded in 1911, is considered to be the oldest house in the country specializing in U.S. Government securities. It services more than 5,000 institutional customers and makes a market in all Federal agency obligations and in tax-exempt municipal bonds. Its staff of more than 30 salesmen in six cities handles both types of securities.

Alabama and all its counties, cities and other tax-exempt agencies issued a total of \$231,659,000 of bonds in 1964, up from \$142,365,000 in 1963.

Demonstrations and efforts to bring "moral pressure" against securities underwriters received real headway about three years ago when members of the Congress of Racial Equality set up picket lines in front of two municipal houses, Equitable Securities Corp. and John Nuveen & Co. CORE wanted these two houses to stop underwriting issues of Mississippi and Alabama because the organization felt that tax-exempt securities of these states were being used to promote racial segregation. CORE and the NAACP have also threatened suits to get rid of the tax-exempt privilege in these states.

Richard J. Cook, a partner in Ball, Burge & Kraus, Cleveland, said he doubts the Childs move will be copied widely. He said his firm has been adjusting its bids slightly on Southern issues recently. "In one group bid we made on March 24 with 13 other investment houses for \$3.5 million in road and bridge refunding bonds from Mobile County, Ala., we bid a 3.47% net interest cost, though we would probably have bid under 3.4% for this issue from a Northern city," Mr. Cook said. He said Merrill Lynch, Pierce, Fenner & Smith, Inc.—took the Mobile County issue, due from 1966 to 1984, with a 3.39% bid. "Apparently Merrill Lynch doesn't feel the same as we do," he said.

A spokesman for Merrill Lynch said it would probably comment on the Childs letter today.

West Coast Reaction

West Coast bond houses appear to have been avoiding Southern issues in recent years, particularly those of Alabama and Mississippi agencies, without making a formal declaration of policy about it.

"Florida is the only part of the South we deal in," said the municipal bond man in a Beverly Hills, Calif., firm that deals mostly in home-state issues but also in those of the Midwest and the East. The head of the municipals department of a large West Coast bank added, "No one else is making announcements like Childs did, but many reputable houses are staying away just the same."

Crocker-Citizens National Bank, San Francisco, has "just plain avoided Southern bonds for the past 5 or 10 years," said Wallace H. Meyer, vice president of the municipal bond department. "The South is an area that could blow up and cause trouble for the bonds."

Rowles, Winston & Co., Houston, plans to

Last year First National of Memphis increased its trading volume of Southern municipals to about \$100 million, up from \$50 million annually five years ago, Mr. Williams said.

The Childs letter to Gov. Wallace stated, "The use of brutally excessive restraints by Alabama State Police has brought to your state an atmosphere of violence and lawlessness, and you have added alarming statements to the effect that Alabama has insufficient funds for use in maintaining law and order. The prospects for industrial growth of the state thereby have been placed in doubt."

"Such discouragements to Alabama's economic future in our judgment will have grave effects upon the availability of credit to the state and to its municipalities, and the market for outstanding Alabama obligations inevitably will suffer, and perhaps severely. These considerations are not taken fully into account in the ordinary methods of 'rating' public debt obligations. Therefore, in protection of the interests of the financial institutions which look to Childs for counsel, we must take the action indicated above."

Civil Rights Impact Debated

In recent years, municipal bond experts have tried, without much unanimity of results, to evaluate the impact of civil rights disturbances on the prices of Southern state and city bonds. Many professionals note a pattern of slightly higher interest costs incurred by Southern agencies for their bonds; others argue that the increased rates stem from the narrowly based economy that characterizes many regions throughout the South and not from unfavorable civil rights publicity.

An officer of one of Chicago's largest bond firms said, "Southern bonds, particularly at the local level, are a little more difficult to place but not at the state level."

As an example, he cited the \$6 million Mississippi highway bonds that reached the market March 23 and "were one of last week's bonds were priced to give retail investors about \$6.50 per \$1,000 bond higher yield over an average 18-year maturity than comparably rated securities on the market last week."