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A RECOVERY PROGRAM AND THE RAILROAD PROBLEM

It appears feasible to work out a program that would meet the needs of the railroads, would further recovery now and would be conducive to longer-run economic stability.

The program suggested for consideration is in two parts, either of which might be adopted independently, or they could be worked together. The first, and more important part, is as follows:

Let the Government, through a Federal Railroad Equipment Corporation empowered to issue its own debentures, invite bids for the construction of freight cars and/or locomotives. When built, these would be available for hire by the railroads when and as needed. Various points bearing on this proposal are as follows:

1. Importance as a factor in recovery

It could result in immediate increased expenditures ranging between \$700 million and \$800 million a year. Mr. Terborgh, in his memorandum on the railroads, estimates that the railroads will regain the 1929 level of traffic when physical production is 15-20 per cent higher than 1929 and

that we can expect that level when we achieve a relatively normal volume of employment. If we set our objective of full employment at three years, this would call for 200,000 new freight cars a year, 1,750 freight locomotives a year, 450 passenger locomotives a year, and 1,000 switching locomotives a year. This would amount to an aggregate of nearly \$800 million a year for three years, allowing for 10 per cent lower cost per unit than present costs. This is exclusive of needed passenger train cars.

	Increase over present inventory needed for full recovery	Replacements needed in 3 year period	New units needed annually for recovery in 3 years	Cost per unit	Aggregate cost annually
Freight cars	300,000	300,000	200,000	2,430	486,000,000
Freight locomotives	2,200	3,000	1,750	112,500	196,875,000
Passenger locomotives	-	1,350	450	112,500	50,625,000
Switching locomotives	1,600	1,350	1,000	45,000	<u>45,000,000</u>
					778,500,000

Expenditures of this amount a year would create a large volume of employment in the railroad equipment industry, in the railroads' own car shops, in the steel and other industries, and would result in a considerable expansion of railroad traffic. It would be equivalent to the cost to the Federal Government of carrying 1,200,000 men on W.P.A. for a year.

This would be one of the most economically beneficial types of expenditures the economy could engage upon at this time. While W.P.A. projects are mostly economically and nearly all socially beneficial, many of them are in the nature of luxuries. On the whole they do not contribute as much to productive resources as private capital expenditures. We know that we will need additional railroad equipment aggregating billions of dollars to handle the volume of traffic consequent upon full recovery. While financial considerations prevent individual roads from anticipating these requirements, such considerations do not apply to the economy as a whole. From the community point of view, it would be most economical to use idle resources now to add to our productive equipment, rather than attempt to reequip ourselves all in a rush sometime in the future. This appears to be a unique case where the Government can initiate true capital expenditures with a minimum of competition or of subsidizing.

The merits of the proposal do not depend on what action is taken with regard to freight rates. From the railroad point of view, some form of assistance will be necessary if rates are not raised. From the recovery point of view, Government stimulation of railroad equipment buying may be more urgently needed if freight rates are advanced, because increased freight rates will not in themselves lead to increased equipment buying while they are likely to have an inhibitory effect on general business and construction activity.

2. Contribution to economic stability

Under this plan, equipment would be built at the order of the Federal Railroad Equipment Corporation rather than the individual railroads. Construction of equipment would no longer be dependent upon the traffic demands of the individual roads and their immediate ability to finance purchases. It is this factor that produces the present wide cyclical fluctuations in the equipment producing industries, and the change to a more rational system of ordering would eliminate the cyclical factor in this industry.

Ultimately, the plan might result in compensatory action over the railroad field as a whole. The Federal Corporation, through reductions in costs of materials in connection with mass buying, and through economies in providing a national pool of rolling stock, may be able to have rolling stock manufactured so cheaply and rent it at such low rates as to make private manufacture and ownership uneconomical. If this should happen, the Corporation would have title to the bulk of the rolling stock of the railroads within 10 to 20 years. Or the Government could prohibit railroads from acquiring new rolling equipment, except under permission of the I.C.C. We would thus gradually ease into ownership of the railroads and a large field would be available for flexible and compensatory spending of a most economic and generally approved nature. Sweden was greatly helped in the recent depression by being able to expand expenditures on the Government-owned railroads. This gradual easing into the picture by building and owning rolling

stock appears the only practical mode of procedure. Outright ownership of the railroads is not politically practicable and gradual ownership through acquiring the worst and most bankrupt roads is not desirable.

The drastic and harsh sound of prohibiting railroads from acquiring new equipment could be avoided by requiring that they secure approval of the I.C.C. in acquiring such equipment, the condition for approval being the demonstration that it is more economical for the road to acquire new equipment than to lease Corporation equipment, or simply that it is in the public interest.

Furthermore, the schedule of rental rates could be partly geared to changing business activity. Changing rentals, thus affecting the income of railroads, might be far less disturbing to business than freight rate changes, particularly when business activity was declining and the alternatives are an advance in freight rates or a reduction in rental rates.

In any case, the construction of additional rolling stock at this time would lessen the danger of bottle-necks developing in the future in various directions; (a) in the railroad equipment shops; (b) steel and machine tools; (c) in traffic movements. Bottle-necks in all these places would encourage forward buying and rising prices, which, as we have recently seen, can spread to other industries where physical shortages do not exist.

3. Efficiency promoted

The great bulk of the rolling stock of the roads is old and the maintenance costs are correspondingly high. Of some 44,000 locomotives, only about 3,000 have been built in the past 11 years, or less than 10 per cent. According to studies of the Baldwin Locomotive Works the maintenance cost of a freight locomotive increases from the first to the twentieth year at an annual rate of approximately 6.2 per cent. It seems highly probable that much of the rolling stock has exceeded its economic life and that the annual costs of repair and maintenance exceeds the savings effected in the amortization of the original equipment. Many roads that cannot afford high initial costs, could take advantage of reasonable rentals for the time new equipment actually is used.

Over a longer period of time large economies should be derived both from the standpoint of individual roads and nationally through a more intensive use of equipment possible through pooling. Instead of each road being compelled to have a lot of capital tied up in standby equipment, the Government corporation would hold the reserve supply. The Government corporation, in turn, would need to carry less than the aggregate now carried by individual roads.

The objection may be advanced that the needs of individual railroads for different types of freight cars differ so widely that a single corporation could not hope to meet these needs. Such an objection has little validity. Ordinary methods of inventory-control would indi-

cate true current needs in the absence of duplication. Future needs must be estimated in any case. A large study being conducted by the National Resources Committee indicates that it is possible to estimate very closely the production in individual lines, given a certain national income. Similar methods would undoubtedly give better national estimates of the number of different types of freight cars and locomotives that a certain volume of traffic will require than could possibly be arrived at as the sum of individual estimates made independently by the various roads. Moreover, action would be taken to meet all needs as they became known, and would not depend upon the immediate financial status of any single road.

This does not mean that all special demands for cars would be met by the Corporation. A good deal of waste now results from the desire of the individual road's car and locomotive shops to handle the largest possible volume of business. An effort is made to obtain work that might go to outside competition by insisting upon the merits of individual quirks not incorporated in the standard models of the regular car and locomotive builders. In many cases this argument is not justified, and economies would flow from greater standardization.

Furthermore, a single large corporation could afford to make far more generous provision for research than is now possible. The needs of the system as a whole for new equipment could be more accurately determined, and equipment could be designed to meet those needs more effectively. The various airlines now jointly pay the costs of

developing new types of planes.

Considerable economies would also flow from a steady and continuous program of equipment buying. The equipment companies could utilize their productive capacity more effectively and their personnel problem would be greatly reduced with a permanent, more efficient working force. The savings in taxes by these companies would also be considerable if the industry were to obtain a steady flow of income rather than its present feast or famine extremes.

4. Not in conflict with large existing interests

Railroad labor should be in favor of the proposal. Railroad managements might not be so favorable but they could see favorable aspects; many of them could make a profit in constructing rolling stock for the Corporation, they would receive increased freight traffic, and they could reduce current operating expenses. Railroad equipment and steel companies should favor the proposal.

If the Government corporation provided for all new additions to rolling stock, the railroads could gradually retire a substantial amount of debt or devote more money to improving their properties other than rolling stock.

The proposal could apply to all rolling stock or could be limited to certain kinds. The construction and operation of Pullman cars would presumably not come under the proposal. Some question would arise in the case of other leasing companies, such as the Pacific Fruit Express. (Initially, at least, it might be better not to infringe on

the field of such companies.) However, there is no reason why the Corporation should not lease cars to the leasing companies.

Under this proposal, roads could still be required to carry out running repairs on rental stock and the Corporation could have more fundamental reconditioning carried out by the railroad repair shops. Various problems in connection with rental rates, seasonal peaks, empty cars, and storage will be studied by the research staff of the Corporation with a view to determining the most efficient and equitable solutions.

5. Advantageous to Federal Government

The proposal fits in with the President's evident desire that new projects, as far as possible, be self-liquidating and not be a charge on the Federal budget.

An objection is that, if traffic does not recover in pace with the construction of new rolling stock, the Corporation's equipment will lie idle while the roads use their present equipment. A substantial portion of maintenance costs is attributable to weathering. This could be met, in so far as railroads have good cost accounting in connection with maintenance, by fixing rentals below the cost of maintenance of old cars, so that scrappage would be accelerated. This would of course represent a subsidy, but the Government could afford a small subsidy to obtain the various advantages of the proposal.

From a national defense point of view, it appears as vital to have a well-equipped railroad system as to have an auxiliary merchant

marine. We are now in a position where we could handle very little more traffic than in 1937. The traffic congestion during the war comes to mind. Any initial loss consequent upon the failure of rents to provide fully for amortization of equipment could be charged to national defense. We are subsidizing a merchant marine for this reason.