

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date March 9, 1938.To Chairman EcclesSubject: Messrs. Wright and White andFrom Lauchlin Currie  
*LAC*the Railroad Proposal.

Messrs. Wright and White left the attached memorandum with me yesterday. The issue on the equipment-buying proposal finally came down to this. They thought that the technical difficulties could be overcome but that the insuperable difficulty would be the opposition of the railroads on the ground that this points toward eventual government ownership. Mr. White also left me a memorandum bearing on the pertinent facts of the conditions under which loans may be made by the R. F. C. and P. W. A. to roads. I said I would apprise you of their position and also that I wanted to go over the whole thing again with Mr. Eastman. They left me their addresses and said they would be glad to be called in on consultation again if we wished it.

On the matter of remuneration Mr. White stated that on other jobs he got fifty dollars a day. I said that in the case of other consultants we paid twenty-five dollars a day plus expenses, and he said this would be perfectly agreeable to him. I haven't got his bill as yet, but I think it might be advisable to set in motion the necessary steps to get authorization from the Board to pay it.

March 8, 1938

ARGUMENTS FOR AND AGAINST A FEDERAL RAILROAD  
EQUIPMENT CORPORATION.

FOR

1. It would create substantial employment immediately in railroad and outside car and locomotive shops and would furnish a substantial volume of business to steel, lumber and other capital goods industries.
2. It would initiate a long range program of modernizing the railroads' equipment plant at reasonable costs of construction. This would put the railroads in position to handle traffic at 1929 levels without the necessity of rushing into the market after business had picked up and prices for new equipment had increased.
3. It would reduce railroad maintenance of equipment costs by replacing obsolete and worn out locomotives and cars with modern equipment.
4. It eventually would reduce the total equipment required to operate the railroads because a smaller amount of surplus equipment owned by the government, would protect peak traffic movements than when each individual railroad had to own surplus equipment to protect its peak traffic movements.
5. The loss to the Government through carrying the burden of surplus equipment through slack periods might be charged to National Defense, on the theory it would insure a well equipped railway system in case of a national emergency. Previous war experience in 1917 under private operation prior to the period of federal control questions the advisability of increasing in such a situation the total equipment available. That experience indicated that the main difficulty was the lack of coordination of the use of the cars, the failure to properly dispatch to proper destination, load and unload promptly, and resulted in car shortage and congestion at vital points at both origin and destination. Therefore, although National Defense might be charged with this cost, it should not be so charged unless Federal control during war periods was assured.

ARGUMENTS FOR AND AGAINST A FEDERAL RAILROAD  
EQUIPMENT CORPORATION.

AGAINST

LOCOMOTIVES.

1. If 70 car limit bill is passed, heavy locomotives of the most modern type would not be required on many railroads and an extensive locomotive building program would not be justified at this time. The same would be true if there were substantial consolidations of the railroads into a few large systems.
2. If locomotives were built to a few types with standard specifications, there would be a substantial delay in establishing these standards as well as difficulty in getting individual railroads to lease locomotives with standards different from their own.
3. Day to day leases of locomotives terminable at will by the railroads as business fell off would be difficult to administer and probably would not be acceptable either to the government or to the railroads.

PASSENGER CARS

4. Paragraphs 2 and 3 would apply with equal force to passenger cars.

FREIGHT CARS

5. An extensive organization would be required to administer a Federal Railroad Equipment Corporation with respect to -
  - A - Purchasing
  - B - Leasing
  - C - Car accounting records when  
the cars were in service
  - D - Policing the cars while in storage

- (a) Under each of these captions independent organizations would have to be maintained, which would be a duplication of organizations already existing in the carriers and would be, in a sense, an economic waste, and a burden on the project.

It would not be advisable to utilize any carrier's organization for any of these functions even if they were inclined to agree to serve in this capacity and, therefore, these administrative and policing operations would be continuous and would require a high degree of special skill.

- (b) As in 5 (A) separate and extensive organization would be required to administer a Federal ownership of cars in their maintenance and movement. It might be necessary, particularly in times of peak traffic, to resort to building outside repair facilities, wholly owned by the Government, because the car builders' and the railroads' facilities are then taxed to their utmost; and if such were required to administer this equipment for heavy repairs such facilities would be of no value outside of the duration of the peak load, and like the cars, would be idle investment.
- (c) In (a), (b) and (c), whatever might be required under such a pool arrangement, so far as the operations and car accounting work is concerned, this could not be centralized at one point but should be separated regionally in order to be sufficiently close to the railroads, and the location of the equipment to give expeditious and prompt supervision.
6. Storage tracks for these government cars in slack periods would be required at traffic centers throughout the country. To accommodate the 600,000 cars suggested by the plan would require about 6,000 miles of storage tracks at periods of slack business.
7. Assuming that a large number of these cars would be built for the peak load of traffic, a study of the previous peaks indicates that they are of relatively short duration. To illustrate: in '29 such ownership of pool would only find its market for a period of not to exceed eight months, as illustrated by the diagram showing the period of peak loading in 1929. It, therefore, becomes apparent that this pool, with the usual time periods of cycles, would in a maximum operation but a very short time, and in normal or sub-normal times would be largely idle at continuing expense, depreciation, insurance and accumulating obsolescence.

8. It may seem simple under any plan to lay out a program to protect peak loading for each class of car, and under those classes for a few types of different capacities. In all probability, however, when the peak load of transportation is reached, the carriers affected by the peak load, so far as an equipment shortage is concerned, might desire and actually need a type and capacity that was not available although there was a surplus of other types. The idle time of some equipment therefore might extend even through a period of peak business.

#### CONCLUSION

Reviewing the arguments for and against the plan as stated above, we have reached the conclusion that there is one basic objection which makes the plan impracticable under present conditions.

This basic objection is that a Federal Railroad Equipment Corporation cannot be successful without either the whole hearted support and cooperation of the railroads under the present system of private operation, or by government ownership or control of those railroads.

When the program is completed perpetual title to about one-third of the railroads freight car equipment and to a substantial quantity of their locomotives and passenger train cars will be in the hands of the government and the railroads rightly will feel that government ownership is inevitable. Consequently, they now can hardly be expected to support the plan voluntarily.

Frank C. Wright

Joseph L. White

DRAFT  
March 7, 1938

The purpose of the proposed Federal Railroad Equipment Corporation is two fold:

FIRST: To institute at once an extensive program of railroad equipment construction which will relieve unemployment in large measure in railroad shops and in outside equipment manufacturing plants, and will furnish substantial orders to the steel, lumber and other capital goods industries.

SECOND: To work out a long range program of railroad equipment construction which can be used to stabilize employment in the capital goods industry.

It is proposed to initiate this program under the following assumptions and conditions:

1. The present system of private operation of the railroads by a large number of systems may continue indefinitely.
2. The proposed construction program will not be based on an individual program of retirements of obsolete or worn out equipment and the replacement thereof by new equipment for each railroad, but will be based on a general program of additional equipment required by the railroads as a whole to handle traffic at 1929 levels.
3. This railroad equipment will be leased to individual railroads as and when each road desires it without the railroads making any commitment in advance as to what equipment they would take or for what periods, the general theory being that this government-owned equipment will take care of the peak periods in any one year and will then be stored at government expense until the next peak period, title to the equipment remaining at all times in the government.

Under these assumptions and conditions the following procedure and organization would be necessary to put the plan into effect:

The program would consist of two parts, first, the construction of the equipment by railroad shops or outside shops. Second, the leasing and maintenance of the equipment after it had been constructed.

1. CONSTRUCTION PROGRAM.

While it is not proposed to base the quantity of the equipment to be purchased on the commitments of the individual railroads to take their requirements, it will be necessary in order to formulate an intelligent purchasing program to secure from each road a complete analysis of the present condition of its equipment and its requirements to handle traffic at different levels, particularly with respect to the fluctuations in traffic within any given year.

The purchasing program then would be divided as between motive power, freight cars and passenger cars as the conditions under which this Equipment Pool would be operated would vary greatly with respect to these three classes of equipment. Before asking for any bids on equipment, it would be necessary to establish standard types for each of the three classes of equipment which would be generally acceptable to all railroads so that the equipment could be moved from one railroad to another without too many complications. For this purpose a standardization committee composed of representatives of the equipment builders, the

railroads (Association of American Railroads) and the Government should be formed similar to the committee formed during the period of Federal Control of Railroads. This committee could be working on standards while the information was being developed as to the condition of equipment and requirements of the individual railroads as outlined above. The standards established by the Committee should be adopted by the Association of American Railroads. When these standards had been established and the requirements of the railroads at different traffic levels had been determined (assuming a continuation of private operation by the present systems) then the purchasing program for the next few years could be developed and the actual purchasing of the equipment begun.

The purchase of the equipment should be in the hands of government purchasing board. With the primary idea of relieving unemployment as widely as possible, the business should be divided equitably between various manufacturing plants and the shops of the individual railroads equipped to do the work on some sort of cost-plus basis under which the manufacturers would make a moderate profit and the railroad shops would be reimbursed for actual expenditures for labor and material including shop overhead and supervision.

**Comment:** It seems proper to point out at this point that all this standardization will take time to effect and will certainly delay the beginning of the program as compared with purchase by individual railroads in accordance with their own plans and specifications under the individual equipment trust procedure.

2. LEASING PROGRAM.

After the equipment had been constructed and delivered to the government, or if possible prior thereto, contracts would be made with each individual railroad following a standard form as to terms under which the equipment would be leased. It would be advisable to have this contract provide for as long a minimum period of rental as possible for locomotives and passenger cars. As to freight cars, it probably would be possible to lease the cars on a daily basis by establishing storage yards in various parts of the country from which these government-owned cars could be drawn and to which the cars could be delivered by a using railroad when no longer required. Under those conditions, however, it would be necessary to keep a complete record of the daily location of each individual freight car duplicating in many respects the expensive records now kept by the individual railroads. The rental charged the railroads under this plan would cover only the days that cars were actually located on any railroad, the cost of idle time when the car was at the government storage yards would be absorbed by the government.

3. MAINTENANCE PROGRAM.

The question of proper maintenance of freight cars under the proposed plan of intermittent rental is quite complicated because under usual practices the owner of the car is responsible for all repairs

except those due to rough handling. It is very difficult to check the honesty of running repairs which are made for the account of the owner such as changing brasses, couplers and other repairs to the running gear. Probably the simplest way to handle the matter would be to have the usual rental of \$1.00 per day reduced by the cost of running repair which would then be made by the using railroad at its expense.

ESTIMATED REQUIREMENTS FOR ADDITIONAL FREIGHT  
CARS TO HANDLE TRAFFIC AT 1929 LEVELS.

The weeks high record of car loading in 1929 was in September when 1,203,139 cars were loaded. This was slightly under the high record for all time of 1,208,878 cars in October 1926.

The railroads handled this peak loading in 1929 without car shortage (in fact with a surplus of 119,000 cars) with an ownership of 2,220,000 cars. The bad order cars were down to 134,000 or 6% of total on line (about normal) so that the available car supply was 2,086,000 cars.

Assuming 15% increased efficiency of car movement and distribution it would require 85% of 2,086,000 or 1,773,000 serviceable cars to handle traffic at 1929 levels. Allowing for 6% bad order would make a total of 1,890,000 cars to protect 1929 traffic.

In October 1937 the peak of car loading since 1930 was reached with 847,245 cars. The surplus cars were down to 101,630 slightly below

the 1929 level at peak loading period. Under present methods of equipment ownership and distribution shortages begin to develop when surplus gets below 100,000 cars.

To handle the 1937 peak traffic which was done without shortage the railroads had 1,705,000 cars. Bad orders however were 11% of total with 188,000 cars awaiting repairs so that serviceable cars with which the traffic was handled were 1,517,000 cars. On the basis of 6% bad order the total ownership to protect 1,517,000 serviceable cars would be 1,614,000 cars.

The increase in total car supply therefore to handle the peak load of 1929 over that required to handle the peak load of 1937 would be 1,890,000 cars minus 1,614,000 cars or 276,000 cars.