

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date March 3, 1938.

To Chairman Eccles

Subject: \_\_\_\_\_

From Lauchlin Currie

*LBC.*

Attached is a tentative outline of the proposals suggested by Mr. Wright and Mr. White.

THE PURPOSE AND RESULTS OF A THREE YEAR PROGRAM  
OF LOANS OR CREDITS TO CLASS I RAILROADS OF  
\$600,000,000 PER ANNUM FOR MAINTENANCE AND NEW  
EQUIPMENT.

I. PURPOSE: The purpose of this three year program is to stabilize the railroad industry at 1936 levels so far as purchase and application of materials in maintenance and additions and betterments by railroad employees are concerned. It also proposes a three year program of retirement of obsolete equipment and construction of new railroad equipment in replacement thereof which will go a long way toward modernizing the railroad plant.

II. THE PROGRAM: The program is divided into two parts:

First- Maintenance and Additions and Betterments:

The maintenance program of 1936 will be continued for three years by the granting of government credits for an annual amount equal to the difference between expenditures for maintenance and for labor charged to capital account in 1936 and in 1933.

If the Class I. railroads avail themselves of the total amount of this credit for the three years, the loans to the railroads on this account will amount to \$1,095,000,000 or \$365,000,000 a year.

It is proposed to have these loans secured by an issue of 3% non-cumulative Preferred Stock of the borrowing railroad, junior to outstanding issues of Preferred Stock. The dividend will be paid each year to the extent earned. The stock will be retired over a period of 20 years beginning in 1941 in varying amounts each year on the basis of a percentage of the operating revenues.

Loans to roads in Receivership or Trusteeship will be secured by Junior Receivers' or Trustees' certificates.

Second - New Equipment:

As a condition of the extension of credit for maintenance loans as outlined above, each railroad will agree to join in a three year program of modernizing the equipment on the railroads. This program will consist of retiring an agreed proportion of obsolete or worn out equipment each year and replacing it with modern equipment to the extent required to handle traffic at 1937 levels.

It is estimated that this program will require purchases of new equipment costing \$300,000,000 per year or \$900,000,000 for the three year period.

This equipment will be purchased under equipment trusts of the individual railroads in the usual manner except that they will be 100% trusts and the terms of repayment will be similar to the maintenance loans. The government will loan the money to purchase the equipment from outside shops or build it in railroad shops and will take these equipment trusts as security. Title to the Equipment will not pass to the individual road until both maintenance and equipment loans have been paid in full, both principal and interest. The certificates would bear interest at two per cent and would be amortized in twenty years, both types of payment to start in 1941.

### III. SUMMARY

It is estimated that the above program will require maximum expenditures during the three year period of \$1,995,000,000 divided as follows:

	<u>3 years</u>	<u>Annual Average</u>
<u>Maintenance and A-B</u>		
<u>Maintenance:</u>		
Way and Structures . . . . .	\$396,000,000	\$132,000,000
Equipment . . . . .	570,000,000	190,000,000
Additions and Betterments- Labor. . . . .	<u>129,000,000</u>	<u>43,000,000</u>
Total Maintenance and A-B. . . . .	\$1,095,000,000	365,000,000
New Equipment . . . . .	<u>900,000,000</u>	<u>300,000,000</u>
Grand Total . . . . .	<u>\$1,995,000,000</u>	<u>\$665,000,000</u>

### MANHOURS:

It is estimated that this program will produce approximately 315,000,000 manhours per year of direct labor on the railroads or in the plants of the equipment manufacturers and a like amount of manhours of indirect labor in the plants of the manufacturers of material or equipment specialty a total of 630,000,000 manhours per year.

THREE YEAR MAINTENANCE AND EQUIPMENT PROGRAM

CLASS 1 RAILROADS

	<u>1933</u>	<u>1936</u>	<u>1937</u>	<u>Annual Program**</u>		<u>Total U. S. Funds</u>
	<u>(Millions)</u>	<u>(Millions)</u>	<u>(Millions)</u>	<u>R.R. Funds</u>	<u>U.S. Funds</u>	<u>3 Years</u>
				<u>(Millions)</u>	<u>(Millions)</u>	<u>(Millions)</u>
<u>Maintenance</u>						
Way and Structures . . . . .	\$322.	\$454.	\$496.	322.	132	396
Equipment (Excl. Dep'n. & Ret.) . .	399.	589.	630.	399	190	570
Depreciation and Retirements. . .	<u>200.</u>	<u>194.</u>	<u>197.</u>	<u>197</u>	-	
Total Maintenance	921.	1,237.	1323	918	322	966
<u>Capital Expenditures- Labor only</u>	<u>68.</u>	<u>111.</u>	<u>119*</u>	<u>68</u>	<u>43</u>	<u>129</u>
% of Maintenance excl. Dep'n. & Ret.	947.	10.6%	10.6%*			
Total	<u>989</u>	<u>1,348.</u>	<u>1442</u>	<u>986</u>	<u>365</u>	<u>1095</u>

New Equipment

			<u>Annual Program</u>		
Steam Locomotives	1,000 at \$110,000	-	110,000,000	110	330
Freight Train Cars	50,000 "	2,500	-	125,000,000	375
Passenger Train Cars	1,000 "	50,000	-	50,000,000	150
Other Equipment			<u>15,000,000</u>	<u>15</u>	<u>45</u>
			<u>300,000,000</u>	<u>300</u>	<u>900</u>
Total Requirements . . . . .				<u>665</u>	<u>1995</u>

\* Estimated on basis of 1936 percentage.

\*\* The annual program is based on 1936 expenditures of which the railroad will pay the amount spent in 1933 excluding depreciation and retirements plus the current charges for depreciation and retirements and the U. S. will furnish the balance if desired.

*Temo from  
White & Wright*

A three year program of loans and credits to Class 1  
Railroads for Maintenance and New Equipment.

The program is divided into two parts:

FIRST. Maintenance and additions and betterments -  
the work to be performed by railroad labor.

Amount of Credit Extended.

The maintenance and additions and betterments program of 1936 will be continued for three years: 1938-1939 and 1940 -by the granting of government credits to be available to the roads on signing contract with the government for an annual amount for each railroad equal to the increase in 1936 over 1935 of its expenditures for maintenance - labor and material - and for labor charged to additions and betterments.

If the Class 1 Railroads avail themselves of the total amount of this credit for the three years, the loans to railroads on this account will amount to \$555,000,000 or \$185,000,000 per year.

Security for loans.

It is proposed that these loans will be secured by the general credit of the railroad in the form of obligations junior to all mortgage bonds.

Terms of Loans.

The loans will be interest free until January 1, 1941. Interest on unpaid balances will accrue at the rate of 2 per cent per annum from that date. The first payment on principal will be due on February 1, 1941 and payments will be made semi-annually thereafter. The amount of these payments will vary in accordance with the operating revenues of the individual railroad during the previous semi-annual period. The basis of payment will result in the loan being paid off in 20 years if revenues equal 1936 levels; in less than 20 years if revenues average above 1936 levels and in more than 20 years if they average lower than 1936 levels.

Second. New Equipment.

As a condition of this contract under which these credits are made available to the roads on unusually liberal terms, the railroads will agree to purchase or build in their shops new equipment as part of a program of retiring obsolete and worn out equipment and replacing it to the extent required with modern equipment, assuming business stabilizes around 1936 levels.

It is estimated that equipment costing \$445,000,000 would be ordered under this program.

Security.

This equipment would be secured by individual equipment trusts in the usual manner except that the terms of repayment would be similar to those of the maintenance loans given above. The government would hold these individual equipment trusts as security and title to the equipment would not pass to the railroads until both maintenance and equipment loans have been paid in full, both principal and interest.

The maximum amount of loans required under this program if the railroads avail themselves of the full amount of the credit would be One billion dollars over the three year period. This would produce about 950,000,000 man hours, direct and indirect labor, or about 317,000,000 per annum.