

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date February 3, 1938.To Chairman EcclesSubject: Developments in connectionFrom Lauchlin Curriewith the railroad proposal*LAC*

The following are points supplementing my memorandum of January 31st:

1. The objection may be advanced that the needs of individual railroads for different types of freight cars differs so widely that a single corporation could not hope to meet these needs. Such an objection has little validity. 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. I am sure that better national estimates of the number of different types of freight cars and locomotives that a certain volume of traffic will require can be prepared than is possible in the case of individual roads.

2. I am told that a good deal of waste now results from the natural desire of the individual roads' car and locomotive shops to handle the largest possible volume of business. This takes the form of insisting upon the merits of individual quirks not incorporated in the standard models of the regular car and locomotive builders. In other words, economies would flow from greater standardization.

3. Considerable economies should flow from a steady and continuing program. Railroad equipment companies would save a lot on their taxes alone as contrasted with the present feast or famine characteristics of the industry. Numerous other economies could be derived from continuous work.

4. A single large corporation could afford to make far more generous provision for research than is now possible.

5. 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 decline in rental rates.

6. 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.

7. 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.

8. 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.

9. The merits of the proposal do not depend on what action is taken with regard to freight rates. From one point of view Government stimulation of railroad equipment buying may be more urgently needed if freight rates are advanced. This is 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.

If, however, the President were to intimate that other measures to help the railroads were under active consideration, this would influence the I. C. C. in the direction of granting less increases in rates than otherwise.

10. 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 by fixing rentals below the cost of maintenance of old cars so that scrappage would be accelerated. This, of course, assumes that railroads have good cost accounting in connection with maintenance, which apparently is open to question.

11. Various problems in connection with rental rates, seasonal peaks, empty cars, and storage will have to be studied by somebody familiar with this field. I can think of various possibilities but I don't know enough about the field to have much confidence in my suggestions here.

12. The drastic and harsh sound of prohibiting railroads from acquiring new equipment could be got around 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.

13. I am informed that the R. F. C. does not have the power to buy preferred stock of railroads.