

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 21, 1938.

To Chairman Eccles

Subject: Railroad equipment loans

From Lauchlin Currie



Attached is a revised draft of the loans for railroad equipment proposal.

## RAILROAD EQUIPMENT LOANS

### Proposal

The R.F.C. has the power to purchase adequately-secured equipment trust certificates upon such terms and conditions as it may determine. Loans made for maintenance or purchase of equipment need the approval of the I.C.C. as regards maturity, but do not require a certification by the I.C.C. that the railroad in question, on the basis of present and prospective earnings, may reasonably be expected to meet its fixed charges, as do loans to railroads for other purposes.

It is suggested that for a limited period the R.F.C. announce itself prepared to purchase new equipment trust certificates:

- (a) covering 100 per cent of the cost of new equipment,
- (b) maturing in twenty years in the case of freight cars, fifteen years in the case of steam locomotives and passenger cars, and ten years in the case of complete streamlined trains, and Diesel electric engines,
- (c) at a 2 per cent interest rate,
- (d) interest beginning one year after date of loan.

### Arguments in Support of Proposal

1. An offer on less favorable terms would not interest the better railroads that can now sell equipment trust certificates on a 4 per

cent basis or better. On an offer such as outlined above, they could hardly afford not to anticipate part of their future requirements.

2. In the present conditions of railroad finances, equipment trust certificates constitute the most secure type of loan that can be made to the roads.

3. In no other way could the Government induce as much total expenditure and employment at as little cost to itself. It has been carefully estimated that to handle the volume of traffic consequent upon full recovery in three years' time would necessitate the purchase of  $2\frac{1}{2}$  billion dollars worth of equipment.

4. Any anticipation of these requirements would provide both employment and buying power now, and help mitigate the almost inevitable bottlenecks in the future.

5. It is important to limit this offer to equipment purchased in the comparatively near future, as otherwise roads will hold back. The stipulation that the equipment must be contracted for in this calendar year to be delivered before June 30, 1939, in the case of freight cars, and September 30, 1939 in the case of locomotives and streamlined trains, appears to be reasonable. This type of work could be begun almost immediately, as contrasted with some other elements of the recovery program.

Dear \_\_\_\_\_:

In supplementing the recovery program recommended to the Congress, I am anxious that all the existing powers of Government be exerted to the full in arresting the deflation, and in laying the groundword for a vigorous upturn. In this connection, I should like to urge that the resources of the R.F.C. be used as far as possible in stimulating private employment and increasing consumer buying power and the demand for the products of industry.

Specifically, I want you to explore most carefully the feasibility of offering to purchase equipment trust certificates of railroads on most favorable terms for a limited period. The terms I have in mind are certificates covering 100 per cent of the cost of new equipment at 2 per cent interest, beginning a year after purchase, with maturities as long as can safely be made, having due regard to the probable life of different types of equipment. The offer, I think, should be limited to equipment contracted for in the present calendar year to be delivered before the middle of 1939. For certain types of equipment, the delivery date might be extended.

When the details of the offer have been worked out, I think it would be helpful, both from the point of view of securing a good response and a generally favorable psychological reaction, to afford full publicity to it.