

ROSS BEASON
266 West 35th Street
MIAMI BEACH, FLORIDA

PERSONAL

April 12, 1938

Mr. Marriner S. Eccles, Chairman
Board of Governors
Federal Reserve System
Washington, D. C.

Dear Marriner:

I am sorry that I had to rush away before you left Miami, but enjoyed the telephone talk with Larry and you, and upon my return find that you had gotten a lot of good rest, as well as having played some of the more spectacular courses, such as the Patio Moresque. I am sure the trip down here did you a great deal of good, and I am sure Larry, the caveman, was likewise benefited.

I suppose that never since you have been at Washington has anyone suggested to you how the problems of the government could be solved. Therefore, to break this record of non-suggestion I am offering you an idea.

This suggestion is brought about by a statement that you made to me that if the railroads could buy equipment in depression periods and lay out of the market in boom periods, the action would tend to lessen the dip and decrease the peak. The railroads themselves cannot buy equipment at this time, but my brother-in-law in Memphis, who is a yard foreman for the Illinois-Central, writes me that the only repairs that are being made are on loaded cars that become bad order under load. That any bad order cars not under load are simply shunted to a side track and left there, and that 1200 men have been laid off in the car repair division. Undoubtedly the repair on these cars, many of which are obsolete, is unduly high, as compared with interest and repairs on more modern cars. If this is true, the railroads, if they could finance new cars, would probably retire some of the existing equipment and purchase new cars, which in turn would help the general situation and would add to the national wealth and economy.

The January issue of "Fortune" had a story on Pullman, Inc., which you may have read, and which gave some interesting figures on railroad equipment. This article states that there are 1,750,000 freight cars owned by the

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railroads, of which about one-half are over 20 years old, and of which 20% are 25 years old or older. As to some of these cars, no part of the initial car is in existence today, but has been replaced through repairs from time to time.

The tendency of the railroads is toward light-weight construction in passenger cars, and doubtless will be in that direction in freight cars, because of the gross tonnage of a loaded car a higher percentage will be net revenue tonnage in a light-weight car.

I understand that freight cars on average cost around \$2,800--higher for some types and less for other types. I know that the Pressed Steel Car Company at one time took on an order for hopper cars at \$1716 per car, which represented a loss to them, but which permitted them to retain their forces during a slack period. Since then, wages have advanced, steel costs have advanced, and cars could probably not be built for less than \$2500 on average. However, if each of the car makers were assured of a steady volume of business for a period of months, they could turn this out much more economically, and the business would probably be attractive at \$2500 per car average.

Why not form National Car Corporation, which would sell these cars to railroads against equipment trust notes, and which would replevin cars which a given railroad could not service the debt on, and reassign to another railroad on another car trust. If we now ordered 1,000,000 cars with production scheduled over some reasonable period to be determined, it would involve a self-sustaining investment of about \$2,500,000,000, and the equipment trust notes of the national corporation could readily be sold to the public at a low interest rate. Without any new legislature the Reconstruction Finance Corporation could make a loan to such a government fostered institution. The government fostered institution, or the National Car Corporation, could issue equipment trust notes representing a first claim for 80% of the value of the equipment, and could itself take notes representing a second claim for 20% of the value of the equipment. The 80% of notes so taken could be

from whom?

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sold to the public; likewise, the 20% could be sold with recourse. Since equipment is mobile, and is more or less standard and can be sent from one road to another, the probability of a loss of as ~~much~~ as 2% or 3% is rather remote.

In order to get the railroads to utilize this new equipment, some plan might be worked out whereby they would be paid a flat sum for any freight car which they might turn in against a purchase of a new car. If this plan were worked out, it would rearrange the 80% and 20% first and second claims as outlined above. The advantage of offering the railroads something for their old equipment is two-fold: (1) it would get these old cars out of service and permit more uniformity of operation for the railroads, while at the same time it would furnish employment for the builders of new cars; and (2) the old cars could be concentrated at some central point and vital parts still in good condition, such as couplers and other iron and steel portions of the car, could be reutilized. If an existing railroad terminal, not now in use because of a lack of business, were utilized for dismantling these old cars, it is certain that couplers would fall into not more than 10 or 15 types, trucks the same, and other more or less standard parts of the equipment into a limited number of types. As the cars were dismantled, the portions to be salvaged could be moved into the stock piles arranged in advance for them. If they were not worth salvaging, they could, of course, be utilized as scrap iron and steel.

I think the inducement of offering a railroad, say, \$250 for a car for each new car which it purchased would be effective. The railroads would of course turn in their most worthless cars initially, but gradually they would begin to turn in better equipment as they had cheaper operating experience with new equipment requiring little for maintenance and a lesser cost per net ton mile hauled.

I could elaborate on this idea at length.

Congress could pass new legislation, if necessary, to accomplish this, and such new legislation would in itself be stimulating to the heavy industries and to the railroads, but without any new legislation the Reconstruction Finance Corporation, as I understand it, would

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now have power to make the necessary loans, and the executive arm of the government would have power to create the necessary agencies.

Assume that a railroad turns in an old freight car for \$250, it finds itself in possession of that much cash, which cash could be used to retire equipment trust notes, if any, against such equipment scrapped. If not, it could be used for other corporate purposes of the railroads and thereby reduce their necessity for loans from the R.F.C. and others. If the railroad had no equipment trust notes to retire and turned in a car, it would find itself in possession of \$250 in cash, and on the debit side would owe equipment trust notes for \$2,500, retireable, say, in 15 equal installments beginning five years from date of issue and bearing 2% or 3% interest. I am speculating, but I believe that even 3% interest on \$2,500, or \$75 per year, would be saved to the railroads in more efficient operation; and while there might be some lack of reemployment, due to lesser repairs being required, I believe it would be more than offset by the greater employment required to build the new cars. If the railroads should turn in a million cars, at \$250, it would be worth it to the economy as a whole, because the \$250,000,000 required for this would be more than offset by the gains in other directions. The equipment, incidentally, would cost the railroads, which in the final analysis means the country, less if manufactured in an orderly way than it would under the present situation.

I hope you have taken the time to wade through this letter.

Best regards,

Ross

RB/FR

April 19, 1938

Mr. Ross Beason
266 West 35th Street
Miami Beach, Florida

Dear Ross:

I was glad to have your letter of April 12 written after your return from Sarasota. I could see that you were feeling your old self, as you started right off with a good-natured thrust about the spectacular courses played during your absence, including the Patio Moresque. I sincerely trust that you will make your health the first consideration from now on and not let your affairs either in New York or at Sarasota tax your energies.

Your letter contained a very intelligent discussion of the general idea I suggested while there, of producing railroad equipment during a time such as the present and of leasing it to the railroads until such time as they might be in financial condition to acquire title. The particular plan you suggest, however, would not be feasible without some new legislation. The RFC is not the stumbling block, since it has ample authority to loan to or purchase securities of any business enterprise. The Administration, however, could not set up a "National Car Corporation" or any such federally-sponsored corporation without specific legislative authority, and with Congress bent on adjourning at an early date, there is no use in pursuing any plan which requires new legislation. Nor are the railroads in shape to form such a holding corporation themselves. The essence of the idea, however, is to provide the means for acquiring rolling stock over a period of say the next several years, on terms so favorable that the railroads will find it cheaper to buy or lease the equipment as against maintaining their present obsolete and delapidated equipment. I have been giving the matter further consideration and believe a plan could be worked out under which the railroads themselves might be

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able to purchase new equipment. This would be through the issue by the roads of relatively long-term equipment trust certificates at a very low interest rate. Such a certificate would not sell on the market at the present time, but as a part of the recovery program, the RFC could purchase them.

I am glad to see that you have such a broad view of the problem and I am only sorry that too many men in important business circles do not have the same vision. In fact, I rather think the railroad fraternity itself would resist the plan you propose, since they would feel that a mechanism such as your proposed "National Car Corporation" would be simply an entering wedge for ultimate government ownership. The surest way, however, to hasten government ownership is to have the railroad situation drift along from bad to worse instead of meeting it in a broad way, recognizing it as a part of the entire economic problem. And as I think you appreciate, our economy must be freed from the disastrous consequences of booms and depressions if democracy is to survive.

Although I mentioned it over the phone, I again want to thank you and Elvy for your generous hospitality and many other kindnesses.

Sincerely,

LC/fgr



ROSS BEASON
266 West 35th Street
MIAMI BEACH, FLORIDA

April 28, 1938

Beason

Dear Marriner:

We just returned from Sarasota last night, and the work over there is beginning to show. Elvy and I enjoyed a pleasant eight days on the place. We reverted and became regular Florida "crackers". Elvy leaves here Monday for California, and a few days later I will go back to Sarasota, where I will spend the balance of May before going North. I plan to go North by way of Culver and Chicago, and then go from Chicago to New York, although it is possible I will be routed through Washington, and if I am, I will, of course, look up Larry and yourself.

I am interested in your comment on the so-called National Car Corporation, and I plan to discuss this with some railroad friends of mine. It seems to me that the whole trick is to sell the second mortgage notes, because the other notes can be sold to the public. If the R.F.C. would buy second mortgage notes for 10% or 15% of the cost, and have these notes mature last, with the first mortgage notes maturing first, I think the first mortgage notes would be readily saleable to the public, and that the second mortgage notes with recourse might be readily saleable.

We are happy that you enjoyed your stay down here, and next time you are down I want you to see Sarasota, because I feel sure you will enjoy it there.

All join me in best to you.

Sincerely yours,

Ross Beason

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