

WORKS FINANCING ACT OF 1939

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

SEVENTY-SIXTH CONGRESS

FIRST SESSION

ON

S. 2759

A BILL TO PROVIDE FOR THE CONSTRUCTION AND
FINANCING OF SELF-LIQUIDATING PROJECTS,
AND FOR OTHER PURPOSES

JULY 12, 13, 14, 18, (19) AND 20, 1939

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WORKS FINANCING ACT OF 1939

WEDNESDAY, JULY 19, 1939

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The hearing was resumed at 10:30 a. m., pursuant to adjournment on Tuesday, July 18, 1939, in room 301, Senate Office Building, Senator Robert F. Wagner, chairman of the committee, presiding.

Present: Senators Wagner (chairman), Glass, Barkley, Byrnes, Bankhead, Adams, Maloney, Radcliffe, Hughes, Herring, Miller, Clark of Idaho, Frazier, Tobey, Danaher, and Taft.

The CHAIRMAN. The committee will come to order. Mr. Eccles, as you know, we are considering a bill introduced by Senator Barkley, Senate bill 2759. We should like very much to get the benefit of your views with reference to that proposed law. We are glad to hear you.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM; AND A MEMBER OF THE FISCAL AND MONETARY ADVISORY BOARD, WASHINGTON, D. C.

Mr. ECCLES. I was advised yesterday that I would be expected to appear here this morning, and I have undertaken since that time to prepare a brief statement. If the committee will permit me to do so, I should like to read that statement.

In appearing here this morning I wish to make it clear that I testify not in my capacity as Chairman of the Board of Governors of the Federal Reserve System but as a member of the Fiscal and Monetary Advisory Board which was consulted by the President when the program underlying this bill was formulated.

I should like to state very briefly my views as to the nature of our economic difficulties that make it necessary to undertake a program along the lines proposed in this bill at this time.

I am convinced on the basis of observation and a great deal of study that has been given to the problem that the present unsatisfactory economic condition of the country, with its large volume of unemployment, is not a passing stage in the so-called business cycle but has fundamental underlying causes that need to be remedied before we can hope to achieve a sustained adequate volume of employment, a reasonably satisfactory national income, and a reasonably stable degree of prosperity. The fundamental adjustment in our economic mechanism that is required is the establishment of a better equilibrium between the capacity of the country to consume

goods and services and its capacity to produce them. In the 1920's we had a fair degree of adjustment between consumption and production, but this adjustment was achieved through the existence of many outlets for investment which no longer exist at present. The automobile industry was rapidly expanding; States and municipalities were expending nearly a billion a year, in excess of tax receipts, much of it on roads, highways, and schools. There was a billion spent a year on commercial buildings, stores, offices, and hotels. Universities, hospitals, country clubs, and other nonprofit institutions were spending between one-half billion and a billion a year. A similar amount was annually lent abroad. There was a rapid growth of installment selling which increased the annual spending of the people in later twenties by nearly a billion a year. And, in addition to all this, we had a tremendous bull market in securities, which resulted in a large volume of luxury spending of profits made in the market.

Many of these factors, which helped to produce a consumer demand for goods that was sufficient to consume the products of industry, are not at present at work or in prospect. The rate of population growth is about one-half now of what it was in the twenties. This drastic slowing up in population growth, together with declines of property values, have resulted in a decline in State and municipal expenditures so that tax revenues have, since 1932, exceeded expenditures, thus resulting in an addition to funds available for investment instead of providing an outlet for such funds.

In other words, the municipalities have reduced their debts since 1932, whereas during the twenties they increased them nearly a billion dollars a year. So they have not been a potential absorber of idle funds.

There is no disposition to make private foreign loans at this time. Commercial and office buildings are still available in excess of the demand. Churches, clubs, and universities have reduced their capital outlays to a small figure. The automobile industry is no longer in the stage of rapid expansion. There is no prospect of the kind of source of spending power as grew out of the stock-market boom. And even residential construction, notwithstanding indispensable help from the Government, is below the level of the twenties.

The magnitude of the problem facing us is clear. From 1923 to 1929, outlays of the type that absorb capital funds averaged more than \$15,000,000,000 a year. Allowing for the increase in population as well as for technological advances that have taken place in the last decade, it would appear that comparable outlays today to insure reasonably full employment would have to be more than \$18,000,000,000 a year, provided there is no material change in the present division of the national income between consumption and new investment.

In view of our changed conditions one of three alternatives faces the country: (1) either an unforeseen and unforeseeable very large outlet for investment must develop in new or in old industries, or (2) a very considerable increase must be brought about in the proportion of the national income that goes into consumption, or (3) the Government must provide an outlet for idle funds through deficit financing of work relief, public works, armaments, and so forth, or, as

far as possible, through a program such as proposed in this bill for socially and economically desirable, nonprofit-making but largely self-liquidating investments. Unless some or all of these developments take place, we cannot escape continuous depression with its accompanying great unemployment. We can remove all the so-called deterrents to business and provide all the stimulus to business that we can contrive, and yet we shall still fall far short of the objective of full production and employment. It is only as adequate outlets are provided for our savings that the national income can rise to a satisfactory level, and it is only as the national income increases that tax revenue adequate to balance the budget can be achieved.

Of the solutions just indicated—the first is unpredictable, and we cannot wait in the hope that it will materialize sometime, somehow, although much more can and should be done to stimulate private activity in the field of housing to reach a much larger percentage of our population. The second—a larger proportion of the national income going into consumption—should be a major part of public policy, but it appears to be a slow process, and in the meantime, as an immediate approach, increased investment operations of the Government are the only direct, immediate, and feasible plan at our disposal for the achievement of badly needed improvement.

The present bill constitutes in part an attempt to develop a program of public investment of a self-liquidating nature. It is, I think, indispensable, in view of the proposed greatly reduced employment in W. P. A. and P. W. A. I am, however, forced to say that the annual expenditures that can be achieved under this program will make only a small contribution toward the solution of our basic problem. My own personal view is that the self-liquidating program, excellent as it is so far as it goes, should be supplemented by a continuing public-works program.

Even more basic, however, is the necessity of increasing the proportion of the national income that goes into consumption. The line of progress in this field is clear. It has been traveled ahead of us by many of the older countries. Old-age security provisions in European countries have been so designed as to increase consumption relative to income. In England only 60 percent of the cost of a national old-age pension scheme is met by pay-roll taxes; in Sweden only 22 percent. In our country, however, we will have, in the 3 years ending next December, taken out of consumption in the form of pay-roll taxes \$1,700,000,000 more than has been returned in old-age benefit payments. Payments under the old-age assistance part of the program have constituted only a minor offset to this withdrawal. In addition, we have increased national saving and decreased consumption through the operation of our unemployment-insurance program. The changes in our old-age security program now pending will alleviate this situation slightly. Even if pending amendments are passed, however, we will collect some three to four hundred million dollars more than we pay out in benefits next year. These provisions will have to be further revised. We shall also have to reconsider our entire tax structure, with a view to decreasing taxes on consumption and increasing taxes on income that would otherwise add to unused investment funds.

It is idle money, hoarded money in cash or in deposits, that obstructs the flow of the national income. Money that is saved and invested

continues to function, and we must find means both of increasing the proportion of the national income that is consumed and of providing investment outlets for the money that is saved. There is no other way to keep the economy going in a satisfactory manner.

This, then, is the situation in which the present bill must be viewed. If the various items in the bill are approved, and if the resulting programs are prosecuted with vigor, investment outlets for an additional portion of the mounting savings of the community will have been provided in useful self-liquidating projects which will not entail any charge on the Budget nor any increase in the public debt. There is little financial risk involved as compared with the social and economic gain. The present extremely low level of interest rates makes it possible to utilize a part of our vast volume of idle funds, to make some of them available to borrowers who could not afford to use them if the rates were higher, and thus to diminish the number of idle men.

The provision of certain transportation facilities on a toll basis will permit the construction of certain bypasses, tunnels, bridges, and so forth, whose cost should properly be borne by the user. The rural security loans will enable hundreds of thousands of farmers who now cannot support themselves and are a continuing charge on relief funds, to become self-supporting. Such an investment is one of the most desirable our country could possibly undertake. The rural electrification loans will bring the benefits of electricity to thousands of farmers and will provide markets for the private power companies and for the makers of appliances.

It is, however, of the section relating to railway equipment that I wish to speak particularly. I think the committee will be interested in the considerations that led to its inclusion in this program. We have, on the one hand, in the railroad-equipment industry, one of the most depressed of all our capital-goods industries. On the other hand, we have the railroads, with the supply of rolling stock rapidly declining in quantity and deteriorating in quality. Our supply of freight cars is back to the level of 1905. Well over 40 percent of the freight cars are 20 years of age or older. Over 70 percent of the steam locomotives are 20 years of age or older and only 3 percent are under 10 years of age. Some 13,000 locomotives of American railroads were built before 1910. Most of the machine-shop equipment of American railroads is universally acknowledged to be obsolete and in poor condition. Consequently, repair costs are high, both because of the age of the rolling stock and because of the character of the equipment of the machine shops. In no field, I believe, from the point of view of economy, recovery, or national defense, could the Government's credit be better used than in enabling the roads to modernize their equipment.

The success of this program depends upon low interest rates, long maturities, and no down payments, so that railroads can acquire new equipment at annual costs no greater and in some cases less than those arising out of the operation and maintenance of some of the present aged and obsolete equipment. The bill contemplates that the interest charged will be no higher than the cost of the money to the R. F. C. on like maturities and in no case more than the highest rate on long-term Government obligations.

The present bill proposes that, in addition to the existing loaning powers of the R. F. C. which have been used to a relatively small

extent by the railroads for new equipment, the railroads should be permitted to acquire equipment on a leasing basis. The Government will then be in a position to meet the needs of every type of railroad for every type of equipment. Many railroads will doubtless prefer to acquire equipment through the customary form of equipment trust certificates. Others, however, who are reluctant to increase their debt, will prefer to acquire equipment on the very favorable terms that will be possible through a leasing arrangement.

In fact, in certain cases, the leasing arrangement will make expenditures possible that would otherwise not be undertaken. Thus it will now become possible for the Government to finance a major rebuilding program, should this prove the economical thing for any railroad to undertake. The R. F. C. will be in a position to contract to purchase older equipment, to have it rebuilt in the shops of the railroad in question, and lease this equipment back to the railroad. Again, the purchase of machine shop equipment can be facilitated through a leasing arrangement, and the cash resources of railroads can be saved for urgently needed improvements on way and structures. Finally, the scrapping of obsolete equipment and the sale of used rolling stock to certain foreign countries that are badly in need of cheap equipment can be facilitated.

I have found in discussing this proposal with various men in the industry in recent days that a good deal of confusion and misunderstanding exists as to the nature of the leasing arrangement. Since it is proposed that the leasing arrangement should be used merely as a means of enabling railroads to acquire equipment, and that the R. F. C. should not purchase any equipment except upon the agreement to lease and upon the specifications of individual roads, I suggest that this be made perfectly clear through a rephrasing of paragraphs (b) and (c), under section 8.

I should also favor making this additional \$500,000,000 available for loans as well as leases, as the existing loaning power of the R. F. C. for railroad equipment is limited. Paragraph (a) could well be deleted, providing the specifications submitted by individual roads for rolling stock to be constructed and leased to them should be subject to the approval of the R. F. C. If these changes were made, they would meet the only objections that I, personally, have heard raised to this part of the self-liquidating bill.

Senator GLASS. This is altogether your personal statement, is it, Mr. Eccles?

Mr. ECCLES. I stated that, before you came in; and I shall reread that first paragraph which answers your question:

In appearing here this morning I wish to make it clear that I testify not in my capacity as Chairman of the Board of Governors of the Federal Reserve System but as a member of the Fiscal and Monetary Advisory Board which was consulted by the President when the program underlying this bill was formulated.

Senator ADAMS. Mr. Eccles, you do not have different opinions in those two different capacities, do you?

Mr. ECCLES. Oh, no; I could not do that.

Senator ADAMS. So the distinction really is not very great?

Mr. ECCLES. Except that I wanted to make it clear that I was brought into the program as a member of this committee. That was the point I wanted to make.

Senator ADAMS. And not binding the other members of the Federal Reserve Board?

Mr. ECCLES. That is correct. I did not want to appear to be speaking for the Federal Reserve System or the Federal Reserve Board, because the Board is not familiar with or advised regarding the program, and has taken no part in the program; and the only reason that I happen to be here, is that I have taken a part in the program—and that was only at the time when these general economic problems which I have mentioned here were being considered, and a general outline of the program was suggested as one means of meeting some of the problems.

Senator BYRNES. Did you ask to appear as Chairman of the Federal Reserve Board?

Mr. ECCLES. I did not ask to appear.

Senator BYRNES. You were asked to appear?

Mr. ECCLES. Yes; yesterday.

Senator GLASS. What prompted my inquiry was that it is clear that these are questions that the Federal Reserve System has nothing to do with.

Senator TOBEY. May I ask a question?

The CHAIRMAN. Yes.

Senator TOBEY. What is the genesis of this suggestion regarding railroad equipment? Did it come from you, or from whom did it come?

Mr. ECCLES. I do not know. The thing has been discussed by quite a number of people, and I would not say that it originated with anyone. I think it has been somewhat of a process of evolution. The R. F. C. has been doing some lending on equipment for some time; and in the making of the economic studies with reference to the question of housing, railroad equipment, the automobile industry, and the steel industry, these figures were gathered by people in the Division of Research and Statistics merely as economic information as to the state of the industry.

Senator TOBEY. And as a means to carry out the desired objective?

Mr. ECCLES. That is right. With that information, it appeared that here was a field where funds should be spent for the production of equipment which would seem to be preferable to other expenditures that were being made to create employment.

Senator TOBEY. Yesterday, when Mr. Pelley was testifying, he stated that he was not consulted, as representing the railroads of the country, as to the wisdom of this procedure; and his testimony—boiled down—was that he suggested the striking out of the entire section 8. Are you aware of that? Did you talk to Mr. Pelley at all?

Mr. ECCLES. No; I did not; I have not seen Mr. Pelley.

Senator TOBEY. Your idea is that this railroad-equipment plan is probably advisable solely on the ground that it would give a lower interest rate than is obtainable from private investment sources, that are glad to buy equipment certificates under the Philadelphia plan, like hot cakes, but could not compete with the Government interest rate? Is that it?

Mr. ECCLES. Well, for instance, the railroads are not going to buy new equipment unless the payments on that equipment are no greater than the cost of maintenance of the old equipment. After all, it is a

question of saving. It is like the situation in the housing field: The way a substantial expansion in housing was developed, under Federal housing, was when we completely changed the method of financing housing from a 20- to a 25-year lending basis, when the monthly cost, including the interest and the amortized payments, was no more than rent. Only in that way did that stimulate private housing. There is nothing new about it; foreign countries have been doing it for a long while, but we had never done it.

Now, we developed a very large amount of private activity in the housing field that could not and would not have developed without a complete reformation of the mortgage market under that plan, and without the insurance program that was set up.

The railroad field is similar, in a way. Without question, you could go along with the present railroad equipment, and they could repair it indefinitely, and possibly get along with the purchase of practically no or very little new equipment, just as we could get along with the present housing situation, and patch them up and go along for an indefinite period. We could go along with the present automobiles, and buy no new automobiles, and run the old ones for an indefinite period. However, you have got idle money to a very large extent. If some of that money can be siphoned into the construction of what later would be needed, by getting modernized equipment, lighter equipment, more efficient equipment, by the railroads' making monthly payments that would return to the F. R. C. the full principal payment together with the interest which they have to pay for money, then certainly that is a better type of expenditure than some other types that we might make to give employment.

Senator TAFT. Are you familiar with the fact that even bankrupt railroads today can borrow at a good deal less than 3 percent?

Mr. ECCLES. Yes, sir; but I am talking about a good deal less than three.

Senator TAFT. But here is a case where people can get private money at a very low rate of interest, and therefore it hardly seems to be a good field for the Government to step into, and to give them even a lower rate of interest.

Mr. ECCLES. It just depends on whether you want to get employment through the purchase of equipment.

Senator TAFT. Of course if you gave them the money, you could get even more employment.

Mr. ECCLES. That is correct, but there is no point in doing it. We are talking, here, of getting the return of the principal together with interest, and I shall give you some figures on that.

Senator MALONEY. Before that, may I point out that yesterday Mr. Pelley said that they had thousands of cars and engines in good repair, in storage, that they could not use until they had an increase of at least 25 percent in the railroad business; and that if there was an increase of 40 percent, they still had a sufficient amount of idle rolling stock, in good condition, which they could use.

Mr. ECCLES. Well, all I am basing it on is the age of the equipment and the estimated cost of repairs of equipment. I recognize that there would be no demand for a lot of new equipment if the roads have got to pay some of the equity—that is, if they borrowed only 80 percent. Private financing is on the basis of an 80 percent loan, and the railroads have to dig up 20 percent cash.

Senator TAFT. The R. F. C. could loan them that 20 percent, and they do that.

Mr. ECCLES. Yes; they can. I doubt if they have.

Senator TAFT. Yes; in effect they have; because with some of the roads, part of the R. F. C. loan has made possible the purchase of equipment.

Mr. ECCLES. That is right. They may have loaned it for other purposes, and part of it has made the purchase possible.

Of course a 20 percent payment would require some cash and many of the railroads have very little idle cash. Therefore it seems to me to be important that the full amount of the loan be made.

The average term of equipment loans is for 15 years, whereas the life of equipment is considerably longer than that. It would seem perfectly safe to make the loan or the leasing arrangement for 20 years instead of 15 years. The rate of interest on a 15-year, 80 percent loan is from 2½ to 3½ percent, depending upon the credit of the railroad. Those that can least afford to pay have the highest rate to pay; those that can best afford to pay have the lowest rate. Of course that is always true.

Now, here is a situation on a 100 percent loan for 15 years, with a 3 percent interest cost: The annual outlay would be approximately \$207, assuming a car that cost \$2,500. If that loan were made for 20 years, you would reduce that cost; and loaned at 2 percent, which is a quarter of 1 percent more than the average interest cost would be, the cost there would be \$151 a year. You have there a cost of less than 50 cents per day per car. The interest item and the length of time are the things that reduce the annual payment down to a point where the payment would be less than the maintenance on older equipment.

Senator MALONEY. May I interrupt, Mr. Chairman?

The CHAIRMAN. Yes.

Senator MALONEY. I think you made a fine statement, Governor; and for myself, I am pretty much in accord with what you say. However, I am disturbed about this railroad feature of the bill. You seem to be completely at odds with Mr. Pelley, who should be a real authority. You made a reference to the sale of old equipment to foreign countries. Mr. Pelley seemed to know nothing about that, and he told the committee definitely that the railroads preferred themselves to dispose of their old equipment. He indicated to the committee, it seemed to me, that there was no real desire on the part of the railroads to get new equipment.

Mr. ECCLES. There is a difference of opinion apparently, because I have talked to several railroad men, myself. Now, I know that there are some railroads that have an excess of equipment and that lease it to other railroads. I can well understand how some of the railroads that have always made a custom of leasing equipment at a dollar a day, because they have excess equipment, leased it to other roads, roads that have plenty of funds. So that the situation with all railroads is not the same. Some railroads are in a very different situation than other roads, and railroads have bought, in spite of the fact that they have been borrowing only 80 percent or 90 percent and that they have been paying as high as 4 percent, during the last 2 years, and in no case, as I understand, less than 3 percent, and

they have had no terms longer than 15 years. In spite of that, however, there has been a substantial amount of financing by the R. F. C. for railroad equipment.

Senator MALONEY. Mr. Pelley discussed all of those things—the interest rates and the other things that you have discussed. However, it seems to me that it would be too bad, in this effort to help the railroads, if after the bill is passed, as I assume it will be, the railroads do not cooperate and will not come in and take advantage of these opportunities that you are pointing out. In that case, everything will be lost.

Mr. ECCLES. Certainly it can do no harm, if it is offered.

Senator TAFT. Mr. Eastman's testimony was that two bankrupt railroads have been able to borrow at 2.75, and the Western Maryland has recently gotten an equipment trust loan at 1.75.

Mr. ECCLES. For what length of time?

Senator TAFT. I think it was 15 years, with 25 percent down payment.

Mr. ECCLES. I would doubt that.

The CHAIRMAN. I think it was 10 years, Senator.

Mr. ECCLES. Yes; I can understand a 10-year loan.

Senator TAFT. The two bankrupt roads borrowed at about 2.75 for 15 years.

Mr. ECCLES. But how much was the down payment?

Senator TAFT. Twenty percent in one case, and I think the other was 30 percent.

Mr. ECCLES. Yes. Well, you see, they had a substantial equity payment, and the average time the money was out would be 7½ years, on a 15-year loan.

Senator CLARK of Idaho. Mr. Eccles, my recollection of Mr. Pelley's testimony was as stated by Senator Maloney: That the railroads did not want the Government to buy this equipment and lease it to them. He said that despite the general surplus, nevertheless there were many roads which would buy equipment but that they wanted a very cheap money, by direct loan, to do it with. I think I am correct in that.

Senator MALONEY. No; that is not quite what he said.

Mr. ECCLES. Let me give some figures I have here on this thing, if you please. Of course I do not presume to be the authority that my friend, John Pelley, is.

The source of this information is the American Railroad Car Institute, and this is as of January 1, 1938, so the picture would be considerably worse now: The total of all freight cars was 1,729,000. Those over 25 years of age were 386,000, or about 23 percent. Those from 21 to 25 years of age were 341,000; those from 16 to 20 years of age were 306,000. For those 16 years or more, you have over 60 percent of the equipment.

It would seem that of these cars over 25 years—386,000 of them—a substantial portion might well be abandoned, that they could be scrapped. Possibly some of them are in better repair than others, naturally. There may be also some in the 21-to-25-year group that it would be economically cheaper to scrap.

Senator ADAMS. You stated that the figures for the present time would be worse. I heard yesterday the statement that the railroads in the reasonably recent past had disposed of some 600,000 of their

cars. I wondered whether since the date of those statistics there had not been a scrapping of old cars and a replacement with new cars, which would make those figures better.

Of course I know nothing about that.

Mr. ECCLES. It cannot have been. Here is a chart showing the average service of cars, the freight-car loadings, and the equipment expenditures. You notice that the equipment expenditures went up and then dropped down almost to nothing, in the middle of 1938. You will notice how high the surplus cars were, along at this period which is indicated on this chart, and how they dropped down, with the improvement in car loadings.

Senator TAFT. Mr. Eccles, let me ask you this question, please: If the railroads thought that the Federal Government is engaging in the construction of a Federal highway program and is proposing to spend \$750,000,000 in building superhighways, is any railroad man justified in buying new equipment? Must he not look forward to a reduction of traffic, which is going to make the buying of new equipment in the freight field, at least, entirely unwise?

Mr. ECCLES. I should like to answer that, Senator. However, before answering it, I should like to go back, if I may, to the point that Senator Clark was making, about this leasing of equipment: The suggested change—and I understand that there is one contemplated—about the R. F. C.'s purchasing no equipment whatever or leasing no equipment whatever except upon the order and specification of a lease arrangement with the railroad, prior to making such an arrangement. There was never a thought that the Government itself would go out or that the R. F. C. would go out and buy equipment with the expectation and hope that it would be able to lease it.

Senator ADAMS. It was not going into the merchandising business?

Mr. ECCLES. No; not at all.

The thought was that many of the railroads would prefer a leasing arrangement whereby they acquire title to the equipment after the expiration of the lease, rather than incur the debt obligation; and it was also with this thought in mind—and to what extent it would be useful, I do not know: that is, the supplying of equipment for shops, on the same kind of an arrangement, and the further supplying or further being able to finance roads for the rehabilitation of some of their older equipment, whereby they could sell it to the R. F. C., because it would be under their general mortgage, and the proceeds of the sale would have to apply or go to the trustee. The R. F. C. could then finance the rehabilitation of equipment and sell it back, under a lease arrangement.

For instance, as I understand it, the New York Central built some of its passenger cars for its streamlined trains by taking some of its equipment and completely remodeling it, at a cost of around \$30,000 a car, whereas if the New York Central had gone out and bought entirely new equipment, instead of rehabilitating their old equipment, it would have cost them twice that.

Now, to what extent more of that can be done by various railroads is questionable. There is a great deal of modernization of passenger equipment that it seems to me is going to be necessary on the roads if they are going to compete with various types of transportation; and the roads that do not have it are going to compete with the roads that do. It would be a shame to scrap considerable equipment that

has a good deal of life and that could be remodeled and rehabilitated; and under this leasing plan it could be financed. That was the thought in mind.

To the extent that this facility, here provided, is not used, certainly it is not going to do any harm.

Senator BYRNES. I wanted to ask you about that. I regret that I did not hear Mr. Pelley. However, there is nothing mandatory in this?

Mr. ECCLES. No.

Senator BYRNES. If the railroads do not want to use it, I do not see their interest in striking out that section. If one railroad wanted to use it and others did not, is there any objection to leaving the language there?

Senator TAFT. I might explain that the objection was to the language. Mr. Pelley's principal objection was to having the Government go out and build equipment which did not meet the railroads' specifications.

Senator BARKLEY. Senator Taft, I want to say that I have an amendment which will correct that situation.

Mr. ECCLES. I shall merely say, Senator, that the committee worked with reference to the general idea rather than the technical language of the bill, and the committee had no such thought in mind as apparently some people seem to think they had.

I agree with you that under the bill it might well be interpreted that they did have that intention, because certainly they have that power. That is why I suggested in this statement that certainly, inasmuch as there was no intention of using that power for the purpose of owning and buying equipment, it should be eliminated.

Senator BARKLEY. Let me suggest some language here that I think will correct that.

Before I do so, I wish to say that I regret very much that I was unable to be present yesterday when Mr. Pelley testified, because I am interested in this part of the bill. However, I had to be on the floor of the Senate, and I did not know Mr. Pelley was going to testify. Probably I could not have attended, anyhow.

As Senator Byrnes has suggested, and you have confirmed that suggestion, there is nothing in this bill that compels any railroad to borrow a dime or to lease a car or anything else in the way of equipment; and we might admit that the railroads' financial structure might not need any of this equipment. But if there are a substantial number of them that do need it and would take advantage of this method of financing, for the acquirement or use of the equipment, there does not seem to be any reason why those who do not need it would oppose its use by those who do. If no railroads would use this method, certainly there is no harm that can come, and there would not be a dollar spent under it. However, Mr. Jones, who has had a good deal of experience, feels that there are some; and I do not see why the stronger roads should insist that the whole thing be stricken out.

Senator TAFT. I think you have the wrong idea. Mr. Pelley says that any railroad would like to get money at 1 percent from the Government, instead of at 2 percent from the public. He is not opposing that idea, from the railroads' standpoint. It is our con-

sideration as to whether we ought to lend money to the railroads at 1 percent, when they can borrow it from the public at 2 percent.

Mr. ECCLES. Senator, there is no contemplation, as I understand, to loan the money at 1 percent.

Senator TAFT. I want to bring that out, if I may interrupt on that question.

Mr. ECCLES. Yes.

Senator TAFT. Suppose a loan were made for 5 years. What does Government money cost, now, for 5 years?

Mr. ECCLES. Well, for a 5-year loan it would be a little less than one.

Senator TAFT. And if you added this one-eighth, it might be 1 percent?

Mr. ECCLES. Yes.

Senator TAFT. I suppose you might make a 5-year loan, with the railroad obligated to buy at the end of 5 years, at 1 percent, under this bill, and then renew it at the end of 5 years, again?

Mr. ECCLES. Senator, it is the banks that are taking this paper.

Senator TAFT. I thought the Government was taking this paper.

Mr. ECCLES. No, the Government does not take the paper at all. The R. F. C. is a corporation that sells its debentures, like any other corporation. It sells its debentures in the market. The banks will be the purchasers of the paper, with the idle money they have, and for which they today are getting practically nothing. They are buying them; they are buying Government bills. Last week there were about three hundred millions of bank bids for Government bills, for \$100,000,000 of bills that were offered; and the return on those bills was sixteen one-thousandths of 1 percent per annum. That was the rate on Government bills that the banks offered last week.

Now, if the R. F. C. puts out two or three or four or five hundred million of paper for this purpose, it will be money that they now have, that otherwise they get nothing for.

Senator ADAMS. Mr. Eccles, the banks will take the notes of the R. F. C., and the R. F. C. will take the notes of the railroads?

Mr. ECCLES. That is correct. If the banks get paper that otherwise they would not get, and if car equipment is built and employment is given that otherwise would not develop, then I say it is perfectly sound.

Senator ADAMS. If there is any loss, it would be to the R. F. C. and not to the banks, because they have Government paper.

Mr. ECCLES. That is correct; and the loss to the R. F. C., under this equipment program, we all admit would be extremely small.

Senator TAFT. Of course, it would remove a number of possible sources of private investment, and it would further depress the rate of interest on private investment?

Mr. ECCLES. The rate of interest is going to continue to be depressed as long as there is a huge surplus of idle funds; and to the extent that these funds are used in this way, that otherwise would not be used, it would help the interest rate.

Senator ADAMS. Senator Barkley, did I not understand you to say that you had the perfect amendment that would meet this problem?

Senator BARKLEY. No; you did not understand any such thing. I said I thought I had an amendment that would correct at least some impressions here, that had been developed about this particular provision.

Senator ADAMS. Well, I am disappointed. I was most hopeful.

Senator BARKLEY. I would leave it to you to perfect it.

You see, on this point, and talking of the 1 percent, Senator Taft probably was confused by the testimony of Mr. Jones; and I should like to read the testimony of Mr. Jones, in answer to questions of Senator Adams, with reference to this leasing proposition. Mr. Jones said as follows, and it presents a little of the other side, with reference to what Mr. Pelley testified yesterday.

Senator Adams suggested that the process "would not be a self-liquidating process"?

Mr. JONES. It would be if you had an over-ride between what the interest cost the Government and what was added in to amortize in the rental. In other words, if we paid 1 percent for the money and add in 3 percent on the lease price for the equipment, we might make a profit sufficient to cover the cost or, rather, to cover the loss on the box car which you would scrap.

Senator ADAMS. It is rather highly problematical, is it not?

Mr. JONES. I do not think so at all, Senator. I think it is feasible.

He is talking about the loaning.

But it has got to have management; it has got to be done properly. It just won't do itself. But I think there is substance in that. I think there is an advantage. When you look over the life of railroad equipment we find a lot of it that is 25 years old or older. Obviously it is uneconomical. The railroad does not feel like scrapping it; it does not feel able to go in debt for new equipment; and I think we could do some good under that part of the bill.

In discussing this provision here, I should like to suggest the language of the amendment—probably a very imperfect amendment, but still an amendment—which I think probably will clarify what was really the purpose. I grant you that under the original language here, where the Corporation is empowered to prepare plans and designs for construction, rebuilding, or repair of railroad equipment, and then under (b) to enter into contracts for the construction, repair, rebuilding, or scrapping of any railroad equipment, it might be construed to mean that the R. F. C. could go out and build a shop somewhere and build some equipment in it, or that it could enter into private contracts with equipment factories, for the purpose of building this equipment for it.

Senator GLASS. Could not that be done under paragraph (d), on page 11?

Senator BARKLEY. No, I do not think so.

Senator GLASS. I think it is.

Senator BARKLEY. Here is the way I have redrawn this, and I should like to have you discuss it in that light, and I should like to have Mr. Pelley also give consideration to it.

This is the new language:

The Corporation shall have power to make contracts for—

Senator ADAMS (interposing). You are dropping out section (a)?

Senator BARKLEY. Yes.

The Corporation shall have power to make contracts for or aid in financing by loan, lease, or otherwise, the making of contracts by carriers by railroad for the construction, rebuilding, repairing, or scrapping of any material or railroad equipment, as defined in subdivision 8 of section 4 of this act, of such type and design specified by the carriers, with the approval of the Corporation, and upon such terms and conditions as may be agreed upon, pursuant to public bidding or private negotiation.

That simply authorizes the Corporation to enter into contracts with railroad companies for the loaning or leasing of equipment which is to be manufactured upon their own plans, and through their own negotiations, and does not in any way put the Government itself into the business of manufacturing equipment.

Senator TOBEY. On the initiative of the railroad?

Senator BARKLEY. Yes.

Senator BYRNES. Substitute that for what language?

Senator BARKLEY. Page 12, line 7, subsection (a), "To prepare plans and designs for the construction, rebuilding, or repair of railroad equipment."

Strike that out entirely; and it puts in the power to make contracts.

Senator BYRNES. How about subdivision (b)?

Senator BARKLEY. Subdivision (b) is changed in this way: It is stricken out and is combined with (a)—

making contracts by carriers by railroad for the construction, rebuilding, repairing, or scrapping of any material or railroad equipment as defined in subdivision 8 of section 4 of this act, of such type and design specified by such carriers, with the approval of the Corporation, and upon such terms and conditions as may be agreed upon, pursuant to public bidding or private negotiation.

That is all a new section (a), and the subsections are renamed. Subsection (b) follows, instead of (c). Subsection (b) would read:

To lease, with or without the option to purchase, or to sell or rent upon such terms or conditions as it shall prescribe, any railroad equipment constructed, rebuilt, or repaired under this section.

That is, it is equipment constructed, rebuilt, or repaired under the authority to contract with the railroad for the lease or the loaning of money for that purpose, so that it clearly takes the Government out of the construction business.

Senator TOBEY. What do you do with subsection (d)?

Senator BARKLEY. Subsection (d) is to be subsection (c):

To enter into contracts for the purchase of old railroad equipment for the purpose of lease or resale in its existing state or for the purpose of rebuilding, repairing, or scrapping the same.

That is left practically as it is.

Subsection (e), as it now exists, is entirely stricken out, and also subsection (f) is eliminated.

Senator DANAHER. Does the Senator understand that this language applies alike to streetcar traction companies?

Senator BARKLEY. Well, I do not think it is intended to apply.

Senator DANAHER. Is there any reason why it should not, if the plan and principle are to be applied at all? Is there any reason why it should not include traction equipment?

Senator BARKLEY. I think that is worth considering. It had not been understood that it would, but I think it ought to be given consideration.

The CHAIRMAN. As I understand, surface lines have not been, in law, designated as railroads. I think they are a special class. So, if you use the word "railroads," you would not include the surface lines.

Senator DANAHER. I expect so; but if the principle contended for is justifiable at all, it certainly ought to extend to that type of durable goods.

Senator BARKLEY. I doubt if the language, as it is now written, would include traction companies.

Senator TOBEY. You strike out paragraph (f) on page 13, and also paragraph (d) on page 11?

Senator BARKLEY. Yes.

Senator MALONEY. No; you just said you moved that section up.

Senator BARKLEY. No; section (e), as originally written in the bill, is stricken out, and (d) is made (c).

Senator MALONEY. I am sorry.

Senator BARKLEY. And (e) and (f) are both eliminated, on the bottom of page 12 and the top of page 13.

In view of that change, I thought you might make some comment, Mr. Eccles.

Mr. ECCLES. That was the change that I contemplated when I said it should be made perfectly clear, through a rephrasing of paragraphs (d) and (e) in section 8.

Senator HUGHES. Mr. Chairman, I should like to ask what you are doing with subdivision (f) on page 13.

Senator BYRNES. That is stricken out.

Senator HUGHES. That is cut out?

Senator BYRNES. Yes.

Senator HUGHES. It is difficult to hear, down here.

Mr. ECCLES. Senator Taft asked a question, and I asked to defer answering it.

Senator TAFT. That was relating to the effect of highways and the discouragement of railroads, through the construction of a Federal highway program.

Mr. ECCLES. Yes. This program contemplates only that type of highway construction that would be paid for by the user. It would seem to me that if there is a type of highway construction, bridges, or tunnels, that would facilitate transportation and would be sufficiently economical to be paid for by the user, then certainly it should be built, and it should in no way deter the railroads from keeping up to date and modernizing. As a matter of fact, it would seem to me that it would have the effect of causing them to reduce their expenses in every way possible; and if buying new equipment would be an economy, they would buy it. If it is not economy to do so, then I do not expect them to buy it, whether we build highway systems or not.

The idea of permitting the use of highways for commercial purposes, to the extent we do, without making any of the companies that use these highways pay more for their use, is one that demands serious consideration. Of course I can well agree with the railroads on that point; and as I travel over the highways and encounter the number of trucks that I do—and especially when going up a hill—I certainly feel that our highways are used excessively, at the expense of the railroads, without many of the trucking systems or companies that have their own trucks paying for the use of highways. That is the situation today.

However, this plan certainly is not nearly as much of an abuse of the system and would not be as bad for the railroads as the present situation. If we could build some kind of a bypass around Baltimore, over here—if any of you have driven to New York, you have realized the need of something of that sort—or if we could build bridges, something like the San Francisco Bridge, which is a case in point, that could not possibly be financed privately, and yet has been so successful that private capital has now purchased the bonds,

at a big profit, I understand, to the R. F. C., and they have been able to reduce the toll upon the bridge—whether they have done it or not, they feel that they can—and that the thing will pay off much sooner than they contemplated, of course all such enterprises would be tremendously helpful and worth while.

We have a lot of unemployment, a lot of idle facilities and a lot of idle money, and this is a field where we can use some money at a low rate, rather than to get no rate at all, and get that back with reasonable assurance of getting it back, over a long period of time; and if we can help to give employment and to give activity to business, it is not going to detract from what private business otherwise would do, because there are plenty of men, plenty of productive facilities, and plenty of money left over after all that can possibly be undertaken under this bill. As I tried to bring out in my statement, this is merely an incident in dealing with a big problem.

Senator TAFT. Perhaps the draftsman in this case went further than your idea, but it seems to me, as I read the program, to authorize the Federal Government to build a Federal highway system. Your idea as to this highway program is that it involves simply self-liquidating projects, or perhaps some lease arrangement with the roads. Is that it?

Mr. ECCLES. As I understood the program of the committee that discussed this matter, it was to do two things: First, it was to be a type of program that would not further bring about an unbalanced budget; we want to avoid that. It must be loans and investments in projects that would be expected to be self-liquidating. Secondly, that it would be projects that would be largely undertaken by existing agencies.

Now, as to the highway and transportation features, outside of the railroad, that is, tunnels and bridges and so forth, it was contemplated that only those would be undertaken where there was reasonable assurance that they would be self-liquidating or self-supporting.

Senator TAFT. That type of highways which were testified to here would be confined to a very few congested areas in the East, not at all a national proposition.

Mr. ECCLES. There may be bridges, there may be tunnels, and there may be other types of highway necessary. But, certainly, looking at the West—I am from the West—the West gets a good deal of highway money from the Federal Government for the construction of highways that are not toll roads. There is practically no prospect, in my opinion, in the South and West for toll roads. There may be a few cases of bridges, but there could not be very many, and probably no toll highways.

Senator TAFT. It seems to me, if you start off with a Federal highway requiring a toll, it would only be about a year before somebody would be here trying to take the toll off. If it is a loan to a municipality, it might be a different thing; but this bill authorizes the Federal Government to build roads.

The CHAIRMAN. Senator Taft, we have some toll roads in my State, and a number of toll bridges. There has never been an effort, where the toll was collected, to liquidate the debt.

Senator TAFT. Those local communities are responsible. They feel the necessity of balancing their budget, but down here we do not.

Senator BARKLEY. I have got to go to the floor of the Senate, and I wanted to ask Mr. Pelley a question. I have submitted to him the amendment that I have suggested, and I would like to ask him whether, if adopted, it would remove the objection that he expressed.

Mr. PELLEY. It does.

The CHAIRMAN. You are satisfied with it?

Mr. PELLEY. Yes. As I understand this amendment, it will be optional with the railroads to borrow; and certainly I have no objection to that. The real objection I had, and it was only a suggestion on my part, was that it would be a mistake for the Government to undertake to design and build a lot of railroad equipment with the idea of leasing it to the railroads, because I think I know it would not work that way; and my suggestion was that that be stricken out and that the simple and easy way to do it was simply to put the money in reach of the railroads on terms that would be satisfactory to them.

Senator BYRNES. This amendment is satisfactory to you, is it?

Mr. PELLEY. Yes, sir. If you want to put in a leasing provision which is optional with the railroads, I see no objection to that.

Senator BARKLEY. That is what the amendment does. Thank you very much.

I wish to state, before I leave, that I have gone through this bill, and there are a number of amendments that will be offered when we meet in executive session. For your information I might say that one of them will be to eliminate the creation of corporations, and one will eliminate the revolving fund feature with respect to the collection of interest and repayment on principal. It will be confined to the amounts stipulated in the bill, without any future revolving fund after those amounts are exhausted.

There are other technical amendments that will be discussed, but I thought you would be interested to know that.

Senator BYRNES. With reference to subparagraph (a) under highway improvements—

Senator BARKLEY. I would rather discuss that a little further, because, frankly, it was thought that there might be a short section in densely populated areas where the Federal Government might find it desirable to strike out through a new territory; that is, to buy completely a right-of-way and build one of these superhighways upon which tolls would be charged, in the event it was found desirable, and the modus operandi of complete integration and cooperation between the Federal Government and local authorities could not be brought about. But that is a matter that we can discuss later.

Senator TAFT. It could be leased to the State concerned?

Senator BARKLEY. Yes; a way might be found to do that.

Senator BYRNES. The language here would not require the collection of tolls at all.

Senator BARKLEY. We will discuss that a little later.

Senator TAFT. Is a substitute likely to be prepared for the whole bill?

Senator BARKLEY. I do not think so. I have some amendments.

Senator ADAMS. You have made great progress, sir.

Senator BARKLEY. I thank you for your cooperation.

Senator DANAHER. May I ask a question, Mr. Chairman?

The CHAIRMAN. Certainly, Senator.

Senator DANAHER. When the President addressed us earlier in the session with reference to national defense, he pointed out that one of the important things to be done was the relocation of key industries. Is it in any way contemplated by the committee which considered this legislation that this bill would authorize the relocation of industries?

Mr. ECCLES. No; it was not. There was no thought or discussion of such an idea; the whole thought being that the bill was to provide employment and to supplement private activity.

Senator DANAHER. Would there be objection to the inclusion of a clause that none of the Government funds, through any of its agencies, should be used to compete with private industry?

Mr. ECCLES. I would see no objection to that, personally, because certainly there was no contemplation of using funds for that purpose.

Senator BYRNES. What do you mean?

Senator DANAHER. For instance, to create power plants where none now are.

Senator BYRNES. Such projects as have been constructed under P. W. A.?

Senator DANAHER. Which, of course, have previously proceeded on a grant-and-aid basis.

Senator BYRNES. That is what I mean—that section of the bill?

Senator DANAHER. Yes.

The CHAIRMAN. Are there any further questions?

Senator TAFT. If I may ask one, Mr. Chairman. This advisory committee of which you speak; did they approve the general principle that none of these things to be constructed should compete with private industry?

Senator GLASS. The President's letter to Senator Byrnes said that.

Senator TAFT. That is why I ask whether that is part of the program.

Senator GLASS. The President's letter to Senator Byrnes disclaimed any such thing as that.

Mr. ECCLES. It was not a major part of the discussion, but certainly there was no thought in my mind and, so far as I know, in the mind of anybody else on the committee, that any part of this program would be used for any other purpose than to supplement and assist private activity. Certainly it could not do that and at the same time use any portion of it to compete with private industry.

Senator TAFT. As the bill is drafted there is nothing in it to prevent loans for competitive projects.

Mr. ECCLES. Well, there certainly was no intention to do that.

Senator TAFT. Would you see any objection to the inclusion of some such clause to carry out that idea?

Mr. ECCLES. I would see none, because I do not think it would be used for that purpose, and it is not contemplated.

Senator TAFT. Your own views are rather opposed to Federal loans for municipal purposes?

Mr. ECCLES. My own views have always been opposed to competitive projects.

Senator FRAZIER. I want to ask you if you think this low rate of interest could have the effect of lowering rates through other lending agencies, such as business loans.

Mr. ECCLES. I think rates are lowering and have been for some time. I think the effect of the excess idle funds, as well as the excess

reserves that the banks have is tending to force all types of interest rates down. Certainly that is true where there is sound and safe credit. Naturally where there is very questionable credit you cannot get money at any price, and to the extent that there is risk involved, even small risk, the rates are higher than they would be if there were no risk. With the Government guarantee it is like the insured mortgage loans: you get a long-term rate and you get a 90 percent loan that would be absolutely impossible without some assistance.

The CHAIRMAN. Are there any further questions of Chairman Eccles?

Senator MALONEY. Yes; I want to ask a question.

The CHAIRMAN. Very well.

Senator MALONEY. As I recall your testimony, you said you were hopeful that there would be a further extension of P. W. A. work.

Mr. ECCLES. That is my personal view that I expressed.

Senator MALONEY. I share the view. That is why I am trying to bring this into the hearing. I am wondering if you think it would be advisable for us to have a provision in the bill for continuing P. W. A. grants under this bill; and before you answer I would like to tell you why I ask that question. Secretary Morgenthau said yesterday it would not be possible under this bill that States or municipalities or subdivisions thereof could be made to assume the responsibility for any of these bonds; that in every instance the Federal Government would have to assume the responsibility.

You referred also to the creation of social values under this program. It seems to me we would guarantee, as nearly as a guaranty could be possible, the creation of better social values if we compel the States or subdivisions of States to make some contribution and that they would select with a greater degree of care the projects to be undertaken, that they could build more schoolhouses where they are necessary, and other public buildings of that sort. But to briefly come to a conclusion, I am wondering if you feel that we should do something about a continuation of the P. W. A. program under this bill.

Mr. ECCLES. I was not thinking of it from the standpoint of this bill. I was thinking of it from the standpoint of economic activity and employment, recognizing that during the next 8 or 10 months there will be a reduction in the people on W. P. A. from 3,000,000 down to 2,000,000. There is a reduction of 1,000,000 people on the W. P. A. After the end of this year their projects will drop very, very rapidly. The stimulation of employment directly and indirectly is very substantial, and this proposal will not commence to offset or to compensate for the great reduction in the W. P. A. and the P. W. A. together. There was over a billion dollars provided in grants a year ago.

Senator ADAMS. For the P. W. A.?

Mr. ECCLES. Yes. I think it was a billion dollars. That organization has, in my opinion, done an excellent job and has had a lot of experience over the last 3 or 4 years, both here and throughout the country; and to drop from a billion dollars down to nothing, just like that—

Senator ADAMS. They are not dropping "just like that." They have not reached the peak of expenditure, and won't for some months in the P. W. A. It is bound to taper down.

Mr. ECCLES. It takes 6 months to a year as we know from experience, when P. W. A. money is appropriated, to actually get the projects approved and under way and the money disbursed.

Senator ADAMS. We passed a bill in the last of June with a requirement that the projects must be under way by January 1. We only allowed 6 months on that to get it all under way.

Mr. ECCLES. That is right. But if nothing is done at this time, and the matter has to be done next spring, it would be another year; and in the meantime there will be a huge gap. In other words, we tend to create a boom and then a depression.

Senator BYRNES. Don't you think we have got to stop giving 45 percent grants?

Senator MALONEY. That is not my intention. The last P. W. A. proposal in the Senate was that the grants be in the amount of 30 percent. When this bill was first written about in the newspapers I gained the impression, and I think many others did, that the very low interest rate was going to make up to the municipalities and to the States the difference in the loss of the grants. Now, as the bill is drawn, I do not see that that is happening. As the bill is drawn, it seems to me that the Federal Government is going to be entirely responsible, and as the bill is drawn it seems to me that the States and municipalities are not going to have these projects. The only way we can get the projects is through the P. W. A. The only way we can get the better grade of social values through the projects is by giving the States and municipalities a stake and giving them the right to select what projects shall be undertaken. I have the notion that we can best serve the unemployment problem by continuation of the P. W. A.; and I would like to add, in connection with Governor Eccles' pointing out a gap that is created, that when it comes, as it is certain to come, it is going to have a very serious effect upon the entire economic structure and it is going to intensify unemployment.

Mr. ECCLES. There is a \$350,000,000 revolving fund that goes to P. W. A. now for 100 percent loans.

Senator TAFT. It just stopped revolving.

Mr. ECCLES. That is what Senator Barkley proposes. But there would be \$350,000,000 that could be loaned on non-Federal self-liquidating projects; the idea being that they would borrow 100 percent of the cost of the project and they would be given very favorable terms both as to interest and as to the maturity.

Senator BYRNES. If we do that, is not that equivalent to a grant?

Mr. ECCLES. I am not saying anything about the elimination of it. I say it will be helpful. When I suggest P. W. A. I certainly would not suggest the same amount as last year. But it does seem to me that with this \$350,000,000 it is not even contemplated that it will go out to the extent of more than \$100,000,000 to \$150,000,000 next year, and if that were supplemented with some direct P. W. A., I should agree with you that the idea of a constant 50 or 45 percent grant certainly does not seem right. But if it could be more gradually tapered off—

Senator BYRNES. Have you given consideration to the vastly increased expenditures on account of national defense?

Mr. ECCLES. Yes. They will not increase a great deal next year.

Senator BYRNES. Why not? I would be greatly disappointed, after all we have been told, if they are not going to get started in the next year.

The CHAIRMAN. I understand it takes almost a year to draft the plans, and all that, for a battleship.

Senator BYRNES. Oh. You are talking about a battleship?

The CHAIRMAN. What else have we got?

Senator BYRNES. We have certainly increased appropriations for the production of airplanes. So far as battleships are concerned, fortunately the designs are already under way, and with the increased amount of money that is available there will be increased expenditures on account of ship construction. But that is only one part of it.

The CHAIRMAN. May I interrupt there? I went over with one of the Treasury officials the rate of interest to be charged here for loans to municipalities for public works, and they figured out to a 22 percent grant as compared with what the municipalities are required to pay now.

Mr. ECCLES. Over what maturity? It depends on the maturity.

The CHAIRMAN. Over a period of 20 years.

Senator TAFF. As far as the immediate effect is concerned, the thing the Government money is spent for does not make a great deal of difference, does it, during the next 6 months? Of course this Congress will have appropriated over a billion dollars more than the last Congress did, even without this bill. So I would think there was no fear of a general falling off, except in particular fields.

Mr. ECCLES. I was merely thinking of the great gap that always happens between a public-works appropriation and the actual expenditure. The element of time is a factor; and unless by next year there is an expectation and a willingness to have a great decline in the—

Senator ADAMS. Mr. Eccles, do you not really think that we are going to have some measure of industrial recovery? We have not been going all this way hopelessly, have we? Are there not indications now of an up-raise? Government employment is a relatively small percentage of the number that must be employed. We are dealing with employment here of 40,000,000 to 50,000,000 employable people, and the amount of Government employment that is involved in this bill is relatively small. We have got to look to private employment, have we not?

Mr. ECCLES. Industry is producing everything it can sell today. Certainly it is not turning orders down. The industrial plant is being kept up in an efficient manner in order to be able to meet competition and to supply a market for purchasing. It is not adequate to take what can be produced. That is a fact.

Senator ADAMS. I do not agree with you at all. I think there is not only a capacity to consume, but there is an actual capacity to pay, once the people of this country are given the encouragement to feel that we are moving forward.

Mr. ECCLES. Senator, you say "capacity to consume"—

Senator ADAMS. I mean, capacity to pay for what is desired. The capacity to consume is unlimited.

Mr. ECCLES. That is right; but the capacity to buy is very limited.

Senator ADAMS. You told us about the vast fund of capital that has accumulated. That is all capacity to pay.

Mr. ECCLES. That is right, but not for consumers' goods. It is capacity for new investment for more producers' goods, plants, and facilities.

Senator ADAMS. You cannot separate one from the other or draw any hard and fast line.

Mr. ECCLES. We are really very short in the consumption field and not in the production field. The masses of the people do not save. Studies that the National Resources Committee made covering 1935 and 1936 would indicate that out of a national income, averaging for that period \$60,000,000,000, 59 percent of families got less than \$1,500 a year, and 38 percent from \$1,500 to \$5,000. The 59 percent as a class saved nothing. They actually spent a billion and a half dollars above their income which had to be supplied from loans or from private and public relief.

In the 38-percent class the saving was about \$2,800,000,000.

Senator TAFT. What year was that?

Mr. ECCLES. The average for 1935 and 1936.

Senator TAFT. What is your estimate of savings today? Can you form any accurate estimate?

Mr. ECCLES. The savings in that period individually—I am not speaking of corporate savings—is another matter. It is very important, as indicated by the huge idle balances of corporations, with no debt, as to many of them, taking more income in than they are disbursing. But the individual savings at that time ran about 10 percent, or to \$6,000,000,000 out of a total of 60 billion, it is estimated.

Senator TAFT. This year?

Mr. ECCLES. No. On the basis of \$60,000,000,000 national income.

Senator TAFT. Have you any figures showing what the actual savings were in 1938?

Mr. ECCLES. Yes. We had between six and seven billions, because the national income was between sixty and sixty-five billions.

Senator TAFT. I think you are assuming a program that does not work. Sometimes people do not save as much as they do at other times.

Mr. ECCLES. I am speaking of individual savings as against corporate savings, which are in addition to this.

Senator TAFT. How can you find out what the savings are? You have life insurance savings; that is one of the large items. That is about a billion and a half a year.

Mr. ECCLES. It is life insurance, trustee funds, mutual savings, savings in commercial banks, private investments—

Senator TAFT. Trustee funds are not necessarily savings, except to the extent that they are cash. Otherwise they are invested.

Mr. ECCLES. They are savings. Anything is savings that does not go into consumption.

Senator TAFT. What is put in trust may have been capital.

Mr. ECCLES. But I am distinguishing. The national income goes into consumers' goods and producers' goods. If too much of the national income is going into producers' goods there is a stoppage in the flow of money.

Senator TAFT. I think that happened in 1928 and 1929, but I do not think it has ever happened since; and in that I disagree entirely with Senator Downey as to its really going into savings. I think it has been under rather than over.

Mr. ECCLES. If there is too much, it is not invested; and the fact that it is not invested is because you have excess capacity and there is no profitable outlet for it.

Senator TAFT. It is because people are not willing, under present conditions, to invest their money.

Mr. ECCLES. Why?

Senator TAFT. Because the Government regulates them and fixes their prices and taxes them so that they cannot make any money.

Mr. ECCLES. I will take as an example an automobile corporation, one of the large ones. The first quarter of this year they had greater earnings than they had in any first quarter in their history. They increased their cash from \$70,000,000 to \$90,000,000 in one year. They doubled their business.

Senator TAFT. Over last year, but not over 2 years ago?

Mr. ECCLES. They doubled their business over last year. But the point I make is that even though they doubled their business—and you would have thought their cash would have decreased to carry that much more business—by being able to do twice the amount of business they actually increased their cash from \$70,000,000 to \$90,000,000. They have no debt. They had the biggest earnings they had ever had in any first quarter in their history. They took in \$20,000,000, and that money is idle. I can give you dozens of examples just like that.

Senator TAFT. You can give me examples, but I question whether, if you take all the industries of the country as a whole, you will find any such situation as that. Many people have less cash than they had a year ago.

Mr. ECCLES. Taking them as a whole, they have a great deal more cash.

Senator TAFT. We are getting into a theoretical discussion.

Mr. ECCLES. Yes. I did not mean to get into that.

The CHAIRMAN. The fact is that there are about 10,000,000 people unemployed, between eight million and ten million, anyway, and one of the immediate problems is to get those people back to work. One of the ways we have devised is that during the time when there is a slack in private industry, to have public works to help absorb a great many of these unemployed. That is one of the problems confronting us now. The use of public works is needed at a time when they would do most good to our economic structure. I am not talking about savings.

Mr. ECCLES. What we do is to have public investment in the absence of private investment, to use money, men, and materials.

The CHAIRMAN. Which, in turn, is used to buy goods that are being produced but are not being purchased now?

Mr. ECCLES. Foreign countries are meeting their problems by huge armament programs.

The CHAIRMAN. Which is not a very desirable way of absorbing unemployment.

Mr. ECCLES. It is all waste, complete waste.

The CHAIRMAN. And you pay for it sometime.

Mr. ECCLES. Yes.

Senator FRAZIER. In addition to what the chairman said, there are 30,000,000 farmers that are broke, too, that do not have any purchasing power. I cannot see how this bill is going to restore purchasing power to them.

The CHAIRMAN. I want to ask one question, because I am in sympathy with the public works program. In fact, I sponsored the first

large one of 1933. I want to ask you whether, if we sponsor a public works program, municipalities will utilize the provisions of this bill which provides for no grants at all. If you put a limit on the amount, would it nullify the other public works program?

Senator MALONEY. I think actually that would happen. I do not think they are going to take advantage of the situation, under this bill.

The CHAIRMAN. You are really advocating a substitute for the public works provision under this bill?

Senator MALONEY. Yes; because I do not think it will work.

Mr. ECCLES. There is provided a hundred-percent loan under this bill. You will find some projects, I think, that will be undertaken on a basis of revenue bonds because of the very low rate and because of the long term of payment. I think there are other projects that will not be undertaken under this bill that would be undertaken under the usual type of public works operation. I think one can be a supplement of the other, and between the two of them it would not bring about the drastic cut that will, in my opinion, develop next year.

I am expressing my personal view on the public works matter.

The CHAIRMAN. I will ask the members of the committee to stay for a short executive session.

Senator Townsend the other day requested the presence of Mr. Evans, of the Farm Credit Administration, because he desired to ask him some questions, and the Senator is unable to be here today. I explained to him yesterday that this was the day that we would have Mr. Evans present, and he said he could not be here, but he might speak to some of you gentlemen with reference to some questions that he would like to propound. Are any of you informed as to that?

Senator TAFT. I know something about what he would ask, I think.

The CHAIRMAN. Would you like to propound some questions to Mr. Evans?

Senator TAFT. I cannot possibly stay at this time. Can we not have one more hearing?

The CHAIRMAN. I do not know of anybody else who wants to be heard.

(Whereupon, at 12:25 p. m., the committee considered certain matters in executive session.)