March 23, 1938.

Dear Governor:

Enclosed is a batch of material I got together rather hastily this afternoon. I called Eastman and told him of your strong feeling of the desirability of securing some actual expenditures by the railroads and your concern lest the Committee confine itself to bailing out and longer-term recommendations. I mentioned specifically the desirability of securing additional maintenance and equipment expenditures through the purchase of non-cumulative preferred stock, and Eastman replied "We've kept that in mind and we're working on it". I sent him a brief statement on these proposals. I'll call LaFollette tomorrow about the other matter.

I hope you are getting a good rest and are not worrying too much over things in general. I'm afraid you'll have enough to worry about when you come back.

My preliminary figure of net federal contributions to community expenditures was minus $78 million in February and it will probably be negative in March and April also. I'm working on a more extended and documented statement of the causes of the recession and the lessons to be learned therefrom.

Cordially,

LBC.

P. S. The figure for building permits for February on page 2 of the memorandum on housing will not be officially released until Saturday, March 26th.

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February 11, 1938

A RECOVERY PROGRAM AND THE RAILROAD PROBLEM

It appears feasible to work out a program that would meet the needs of the railroads, would further recovery now and would be conducive to longer-run economic stability.

The program suggested for consideration is in two parts, either of which might be adopted independently, or they could be worked together. The first, and more important part, is as follows:

Let the Government, through a Federal Railroad Equipment Corporation empowered to issue its own debentures, invite bids for the construction of freight cars and/or locomotives. When built, these would be available for hire by the railroads when and as needed. Various points bearing on this proposal are as follows:

1. Importance as a factor in recovery

It could result in immediate increased expenditures ranging between $700 million and $800 million a year. Mr. Terborgh, in his memorandum on the railroads, estimates that the railroads will regain the 1929 level of traffic when physical production is 15-20 per cent higher than 1929 and

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that we can expect that level when we achieve a relatively normal volume of employment. If we set our objective of full employment at three years, this would call for 200,000 new freight cars a year, 1,750 freight locomotives a year, 450 passenger locomotives a year, and 1,000 switching locomotives a year. This would amount to an aggregate of nearly $800 million a year for three years, allowing for 10 per cent lower cost per unit than present costs. This is exclusive of needed passenger train cars.

	Increase over present inventory needed for full recovery	Replacements needed in 3 year period	New units needed annually for recovery in 3 years	Cost per unit	Aggregate cost annually
Freight cars	300,000	300,000	200,000	2,430	486,000,000
Freight locomotives	2,200	3,000	1,750	112,500	196,875,000
Passenger locomotives	-	1,350	450	112,500	50,625,000
Switching locomotives	1,600	1,350	1,000	45,000	45,000,000
					778,500,000

Expenditures of this amount a year would create a large volume of employment in the railroad equipment industry, in the railroads' own car shops, in the steel and other industries, and would result in a considerable expansion of railroad traffic. It would be equivalent to the cost to the Federal Government of carrying 1,200,000 men on W.P.A. for a year.

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This would be one of the most economically beneficial types of expenditures the economy could engage upon at this time. While W.P.A. projects are mostly economically and nearly all socially beneficial, many of them are in the nature of luxuries. On the whole they do not contribute as much to productive resources as private capital expenditures. We know that we will need additional railroad equipment aggregating billions of dollars to handle the volume of traffic consequent upon full recovery. While financial considerations prevent individual roads from anticipating these requirements, such considerations do not apply to the economy as a whole. From the community point of view, it would be most economical to use idle resources now to add to our productive equipment, rather than attempt to reequip ourselves all in a rush sometime in the future. This appears to be a unique case where the Government can initiate true capital expenditures with a minimum of competition or of subsidizing.

The merits of the proposal do not depend on what action is taken with regard to freight rates. From the railroad point of view, some form of assistance will be necessary if rates are not raised. From the recovery point of view, Government stimulation of railroad equipment buying may be more urgently needed if freight rates are advanced, 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.

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2. <u>Contribution to economic stability</u>

Under this plan, equipment would be built at the order of the Federal Railroad Equipment Corporation rather than the individual railroads. Construction of equipment would no longer be dependent upon the traffic demands of the individual roads and their immediate ability to finance purchases. It is this factor that produces the present wide cyclical fluctuations in the equipment producing industries, and the change to a more rational system of ordering would eliminate the cyclical factor in this industry.

Ultimately, the plan might result in compensatory action over the railroad field as a whole. The Federal Corporation, through reductions in costs of materials in connection with mass buying, and through economies in providing a national pool of rolling stock, may be able to have rolling stock manufactured so cheaply and rent it at such low rates as to make private manufacture and ownership uneconomical. If this should happen, the Corporation would have title to the bulk of the rolling stock of the railroads within 10 to 20 years. Or the Government could prohibit railroads from acquiring new rolling equipment, except under permission of the I.C.C. We would thus gradually ease into ownership of the railroads and a large field would be available for flexible and compensatory spending of a most economic and generally approved nature. Sweden was greatly helped in the recent depression by being able to expand expenditures on the Government-owned railroads. This gradual easing into the picture by building and owning rolling

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stock appears the only practical mode of procedure. Outright ownership of the railroads is not politically practicable and gradual ownership through acquiring the worst and most bankrupt roads is not desirable.

The drastic and harsh sound of prohibiting railroads from acquiring new equipment could be avoided 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, or simply that it is in the public interest.

Furthermore, 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 reduction in rental rates.

In any case, 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.

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3. Efficiency promoted

The great bulk of the rolling stock of the roads is old and the maintenance costs are correspondingly high. Of some 44,000 locomotives, only about 3,000 have been built in the past 11 years, or less than 10 per cent. According to studies of the Baldwin Locomotive Works the maintenance cost of a freight locomotive increases from the first to the twentieth year at an annual rate of approximately 6.2 per cent. It seems highly probable that much of the rolling stock has exceeded its economic life and that the annual costs of repair and maintenance exceeds the savings effected in the amortization of the original equipment. Many roads that cannot afford high initial costs, could take advantage of reasonable rentals for the time new equipment actually is used.

Over a longer period of time large economies should be derived both from the standpoint of individual roads and nationally through a more intensive use of equipment possible through pooling. Instead of each road being compelled to have a lot of capital tied up in standby equipment, the Government corporation would hold the reserve supply. The Government corporation, in turn, would need to carry less than the aggregate now carried by individual roads.

The objection may be advanced that the needs of individual railroads for different types of freight cars differ so widely that a single corporation could not hope to meet these needs. Such an objection has little validity. Ordinary methods of inventory-control would indi-

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cate true current needs in the absence of duplication. Future needs must be estimated in any case. 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. Similar methods would undoubtedly give better national estimates of the number of different types of freight cars and locomotives that a certain volume of traffic will require than could possibly be arrived at as the sum of individual estimates made independently by the various roads. Moreover, action would be taken to meet all needs as they became known, and would not depend upon the immediate financial status of any single road.

This does not mean that all special demands for cars would be met by the Corporation. A good deal of waste now results from the desire of the individual road's car and locomotive shops to handle the largest possible volume of business. An effort is made to obtain work that might go to outside competition by insisting upon the merits of individual quirks not incorporated in the standard models of the regular car and locomotive builders. In many cases this argument is not justified, and economies would flow from greater standardization.

Furthermore, a single large corporation could afford to make far more generous provision for research than is now possible. The needs of the system as a whole for new equipment could be more accurately determined, and equipment could be designed to meet those needs more effectively. The various airlines now jointly pay the costs of

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developing new types of planes.

Considerable economies would also flow from a steady and continuous program of equipment buying. The equipment companies could utilize their productive capacity more effectively and their personnel problem would be greatly reduced with a permanent, more efficient working force. The savings in taxes by these companies would also be considerable if the industry were to obtain a steady flow of income rather than its present feast or famine extremes.

4. <u>Not in conflict with large existing interests</u>

Railroad labor should be in favor of the proposal. Railroad managements might not be so favorable but they could see favorable aspects; many of them could make a profit in constructing rolling stock for the Corporation, they would receive increased freight traffic, and they could reduce current operating expenses. Railroad equipment and steel companies should favor the proposal.

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.

The proposal could apply to all rolling stock or could be limited to certain kinds. 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

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the field of such companies.) However, there is no reason why the Corporation should not lease cars to the leasing companies.

Under this proposal, roads could still be required to carry out running repairs on rental stock and the Corporation could have more fundamental reconditioning carried out by the railroad repair shops. Various problems in connection with rental rates, seasonal peaks, empty cars, and storage will be studied by the research staff of the Corporation with a view to determining the most efficient and equitable solutions.

5. Advantageous to Federal Government

The proposal fits in with the President's evident desire that new projects, as far as possible, be self-liquidating and not be a charge on the Federal budget.

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, in so far as railroads have good cost accounting in connection with maintenance, by fixing rentals below the cost of maintenance of old cars, so that scrappage would be accelerated. This would of course represent a subsidy, but the Government could afford a small subsidy to obtain the various advantages of the proposal.

From a national defense point of view, it appears as vital to have a well-equipped railroad system as to have an auxiliary merchant

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marine. We are now in a position where we could handle very little more traffic than in 1937. The traffic congestion during the war comes to mind. Any initial loss consequent upon the failure of rents to provide fully for amortization of equipment could be charged to national defense. We are subsidizing a merchant marine for this reason.

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A NATIONAL HEALTH PROGRAM

America has lagged behind in the provision of adequate medical care for a large portion of the people. There has recently been un upsurge of interest and concern in this problem. This is evidenced not only by an outpouring of speeches, books and articles but also by the remarkable growth in the number of persons participating in purely voluntary group hospital insurance. The number of such persons increased from 300,000 in April 1937 to 1,000,000 in December. A survey just concluded has brought to light the wide prevalence of chronic sickness. Conditions in the South are particularly shocking. There must be hundreds of thousands of cases where a simple operation, say, for hernia, would make people self-sustaining who are now dependent. There is a deficiency of 400,000 hospital beds, ($1.2 billion) in relation to 1929, when the number was admittedly inadequate. The rehabilitation and conservation of our human resources should certainly come before the rehabilitation and conservation of our physical resources.

Specific Proposals

(a) Increase expenditure for maternal, child and general public health work provided for in Titles 5 and 6 of the Social Security Act. ($40 million).

(b) Make Federal grants-in-aid to assist states to provide general medical care to needy poor and to others, otherwise self-sustaining, unable to obtain medical care. Such grants would be conditioned on an equal sum being appropriated by states and local bodies. The Federal grant-in-aid could amount to between $50 and $100 in the next fiscal year and amount ulti-

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mately to between $100 million and $150 million.

Proposals (a) and (b) would ensure an additional combined Federal, state and local expenditure of $150 million- $250 million in the next fiscal year.

(c) Hospitals. In addition to the deficiency of $1.2 billion just mentioned, I am informed that $600 million should be spent for special hospitals for the chronic sick, plus another $250 million for modernization and needed outpatient clinics of existing hospitals. A program to make up at least a part of this deficiency (which is currently still growing) should be inaugurated immediately. Both W. P. A. and P. W. A. have acquired experience in this special type of work. A formula can be devised of varying the Federal contribution according to need so that, on the average, states and local bodies will contribute about as much as the Federal Government. The Public Health Service could be brought in to provide standards of specification. It is estimated that local bodies could be induced to match $100 million of Federal money during 1939.

The combined health program would result in an expenditure of Federal funds of between $200 million and $250 million next year, which, with local contributions, would result in a total expenditure of between $350 million and $400 million.

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March 23, 1938.

HOUSING

It is difficult to get a clear picture of what is currently happening in housing construction. The F. W. Dodge figures of residential construction contracts awarded are available for January, February, and the first half of March. The comparison is as follows:

Residential Contracts Awarded (37 States) (in millions of dollars)

	1937	1938
January	78	36
February	63	40
March 1-15	42	36

The coverage of this series on small buildings is not considered good and it omits the Pacific Coast completely, where building is reputedly making more favorable comparisons with last year than in the rest of the country. However, the figures indicate a progressively less unfavorable comparison with 1937. The March 1938 figures were aided by the inclusion of several large-scale housing developments.

The record of home mortgages selected for appraisal is as follows:

	1938		1937	
By Weeks	No.	Amount	No.	Amount
Jan. 8	1,256	$ 5,483,184	1,967	$ 8,565,650
" 15	1,504	6,531,200	2,286	9,556,860
" 22	1,711	7,299,975	2,167	9,447,127
" 29	1,888	8,150,840	2,272	10,091,713
Feb. 5	1,982	8,571,895	2,306	9,721,165
" 12	1,988	8,787,105	2,701	11,068,008
" 19	2,219	10,025,800	2,765	11,764,089
" 26	2,775	13,100,250	2,835	11,747,954
Mar. 5	3,899	17,613,402	3,244	13,683,500
" 12	4,470	20,386,711	3,405	14,176,560
" 19	4,697	21,293,061	4,085	16,879,710

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Rental Housing Projects- Commitments Issued

	No.	Amt.
1938 - through February 28th	18	$10,460,100
Corresponding Period 1937	3	2,515,000
1938 - through March 19th	24	13,999,300
Corresponding Period 1937	4	4,165,000

In interpreting these figures it should be borne in mind (a) that they include mortgages on existing homes as well as on new homes. In recent weeks about 35 per cent covered existing homes. (b) That it is quite possible a larger percentage of total building this year is being financed on F. H. A. mortgages than last year. There are various indications that this is the case, so that comparisons with last year's figures are unreliable as indications of the trend of total building, (c) that through administrative action mortgages on large-scale subdivisions must be submitted this year in advance of the initiation of the project, rather than after construction is well advanced. This affects the seasonal movement of the series in the two years. (d) That the rapid increase up to March 12th may reflect in part projects delayed until after the passage of the new Act.

The figures for building permits issued for identical cities, excluding New York, are as follows:

	1937	1938	
January	36,200,000	24,000,000	-33.7%
February	41,982,000	30,774,000	-26.7%

Figures for New York are excluded because of the distortion occasioned by the rush to file building permits in January before a new building code went into effect. The revised figures for building permits suggest that the F. H. A. figures for mortgages selected for appraisal are not reliable as a measure of the volume of building in comparison with 1937.

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The course of the National Industrial Conference Board Index of New Rents since its high point in October is as follows:

1937	October	89.2	1938	January	88.2
	November	89.1		February	87.8
	December	88.7			

Although the trend is downward, the decline as yet has been very modest. The rent-cost relationship is unquestionably more favorable than in the early summer of 1937.

Dr. Fisher, of F. H. A., believes that the volume of residential building for the first half of 1938 will equal the volume in the first half of 1937. Mr. Holden , of the F. W. Dodge Corporation, believes that the volume of residential building in 1938 will be 10 per cent above 1937. However, in view of (a) the substantial lag in January and February, (b) the sharply unfavorable comparisons for industrial cities like Detroit, (c) the gradual worsening of the general economic situation, I question very much whether these forecasts will be borne out.

In any case, even if residential building should equal the volume in 1937, this would amount only to \$1½ billion. Against this stimulating force must be offset the many currently deflationary forces. The decline in inventories alone this year will probably be considerably in excess of \$1 billion and the process of reducing inventories reduces the monetary circulation just as new building expenditures increase it. In other words, \$1½ billion of new residential construction this year, assuming we should get that much, would not be sufficient in itself to turn the tide.

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The most feasible way of securing a vitally necessary addition to residential building is to grant an outright cash subsidy of 10 per cent of the appraised cost less ten per c ent of homes costing $6,000 or less, and new apartments appraised at $1,000 a room or less. This subsidy would be available to either an individual home builder or speculative builder. It would apply to all eligible homes the contracts for which were awarded subsequent to the date of the introduction of legislation up to December 31, 1938.

On $2 billion of new building the cost to the Government would be only $200 million. This amount should be more than saved in reduced W. P. A. expenditures resulting from the increased private employment of people in building and allied industries.

The proposal would be simple, speedy, effective, popular, socially and economically beneficial, and would entail little, if any, net cost to the Government. It was arrived at after considering and discarding on various grounds a multitude of more complex and less effective proposals relating to the stimulation of housing. It is not inconsistent with either F. H. A. or U. S. H. A., which are permanent. It is a temporary device for getting housing and economic recovery under way.

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OUTLINE OF SUGGESTED PROGRAM

III. Toll projects

1. Create a Federal Toll Authority, with adequate capital stock furnished by the Federal Government and power to issue debentures to finance its operations up to a total amount of billion dollars, or up to an amount of hundred million debentures issued in any one year.

2. Direct this Authority to build under agreements with state or local authorities, toll facilities, including tunnels or elevated structures through congested traffic areas, parking garages or facilities in congested sections, bridges, and toll roads where traffic congestion justifies.

3. Give this Authority the right to condemn land where needed, both land needed for the physical structure and adjoining land whose valuation will be greatly increased as a result of the creation of the structures. Direct the courts in such condemnation procedure to value the land on the basis of its value if the structures were not built, without taking into account the increase in value which will result (or has resulted) from the proposed expenditure of funds.

4. Give the Authority power also to negotiate for and purchase land through private sale wherever the negotiated price seems to be reasonable as compared with the price which presumably could be attained under condemnation. Should have power to start operations on private property without waiting for condemnation proceedings to be completed, the amounts to be paid private persons to be determined by court procedure as outlined.

5. Authorize the Authority to build not only the facilities themselves, such as bridges, tunnels, and roads, but also to construct suitable buildings or other structures on the adjacent property acquired for sale, rent, or lease in ways most advantageous, and in such a way as to secure from them a proper share of the income resulting from the increased value of the property.

6. Authorize Authority to charge tolls for the use of the bridges, roads, tunnels, or other traffic facilities sufficient to amortize that portion of the cost to be paid for by tolls within a reasonable number of years--not over 50, so that thereafter the use of these facilities may be free, and the income from it thereafter will be dependent on the income from the increased value of the adjoining property, which income can be used in liquidating the balance of the debt created by the construction.

7. Authorize the Authority to carry on the physical construction either directly itself or in cooperation with federal, state, local, or other engineering departments.

8. Locate the Authority in the Bureau of Roads and make the chief of the Bureau of Roads and the Chief of the Army Engineers ex-officio members of the board of directors in authority over it.

A number of bills are now pending in Congress along this general line, including the following: S. 3451 for construction of overhead or elevated railways, S. 3428 for financing self-liquidating national highways.

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THE STIMULATION OF EXPENDITURES ON RAILROAD WAY AND EQUIPMENT

In order to aid recovery and to rehabilitate the railroad system it is proposed that the Government provide new money for the roads at such terms and on such conditions as will ensure its being availed of.

1. Maintenance and the Betterment of Way and Structure of Solvent Railroads

The R. F. C. shall be empowered to buy three per cent non-cumulative preferred stock of railroads to finance (a) maintenance expenditures equal to the difference between such expenditures in 1936 and 1933, (b) new additions and betterments to way and structures not charged to maintenance account. Dividend payments will be scheduled to begin two years after the issue of the stock and will be payable thereafter to the extent earned. The stock will be retired over a period of twenty years, beginning two years after issue, in varying amounts each year on the basis of a percentage of the operating revenues. Authority to buy such stock for such purposes shall expire two years after the date of the passage of the Act.

2. Equipment of Solvent Railroads

The purchase of equipment by the railroads shall likewise be financed through the purchase by the R. F. C. of non-cumulative preferred stock on the same terms and conditions as above, with the addition that title to the equipment shall remain vested in the R. F. C. until the preferred stock shall have been retired.

3. Maintenance, Betterments and Equipment of Insolvent Railroads.

The R. F. C. shall be authorized to purchase junior receivership certificates of insolvent railroads to finance maintenance expenditures

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equal to the difference between such expenditures in 1936 and 1933, to finance betterments and additions to way and structure not charged to maintenance account, and to finance the purchase of new equipment. The title of new equipment acquired through the sale of junior receivership certificates to the R. F. C. shall remain vested in the R. F. C. until the certificates, or equivalent succeeding obligations, shall have been retired. The certificates shall bear interest at three per cent, starting two years after the date of the loan, and thereafter shall be payable only if earned. The maturity shall be twenty years, with the rate of retirement, beginning two years after the date of the loan, being a percentage of operating revenues. In the event that the insolvent road is reorganized and discharged from receivership, the receivership certificates issued to the R. F. C. shall be senior to all obligations except senior receivership certificates as to principal, but junior to all fixed interest obligations as to interest.

Alternative Suggestions

1. Authorize the R. F. C. to advance to the railroads, under equipment trust certificates, 100 per cent of the cost of new equipment. The certificates would bear interest at two per cent beginning two years after the date of the loan. The maturity of the certificates would be twenty years, the rate of retirement varying with the operating revenues of the road in question. Title to the equipment would remain vested in the R. F. C., the trustee, until interest and principal is repaid in full. Authority to loan on equipment trust certificates on the above terms shall be limited to two years after the date of passage of this act.

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Letter White House 3/8/38 1st 3 pages left with President

3/8/38

In the statement I presented to you last October I took the position that we could have a really serious depression and that the chances of a "natural" upturn were remote. Events since then have only served to confirm this feeling. There are many deflationary forces at work and it is difficult to find any place apart from Governmental action where an impetus of sufficient magnitude will arise to turn the tide. This view is based on the following line of reasoning:

1. A sustained upturn cannot get under way unless consumer demand stops declining and turns upward.

2. Increased consumer demands can come only (a) through increased consumer borrowing, or (b) through increased capital expenditures, or (c) increased Governmental expenditures.

3. Consumer debt is being liquidated rather than increased on balance. The prospects for automobile sales are black and the payments out of current income for last year's cars will be a deflationary factor operating throughout the year. Housing costs have declined very little in comparison with the shrinkage of consumer incomes.

4. With excess capacity increasing daily and profits dwindling capital expenditures will continue to decline and will not increase until after a considerable expansion of consumer demand has taken place.

5. The situation abroad is worsening and a decline in our exports is to be anticipated.

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6. Stock market prices are discounting a spring rise in business. If it does not materialize stock prices can go much lower and this will have bad psychological repercussions.

7. Inventories are still generally high in relation to current sales trends. The process of reducing inventories is deflationary.

8. As inventories decline bank loans will be paid off, and this will result in a continued decline of deposits.

9. The proposed virtual repeal of the undistributed profits tax will be conducive to a deflationary hoarding of funds by corporations.

10. The Federal Government is making a negligible contribution to community buying power in comparison with 1934-1935.

In short, we appear to be launched on a severe depression of considerable duration. If this is allowed to happen the New Deal and all it stands for is in danger of being discredited. Alibis will not be accepted. The only final test of success is success. Big business is utilizing the opportunity to drive for repeal and inaction. Actually it will not go ahead until orders materialize from consumers. The lessons of 1929-32 in this respect must not be forgotten.

The conciliatory attitude adopted by the Administration has borne no fruits either in dollar terms or in goodwill. By the nature of the

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case leadership can come neither from business nor from Congress. It is the responsibility of the Administration.

The greatest threat to democracy today lies in the growing conviction that it cannot work. The growing strength of Fascism lies in its strong leadership. Democracy must likewise have strong leadership if it is to meet the challenge of Fascism. I urge that you provide the democratic leadership that will make our system function. Only in that way can the growing threat of Fascism be overcome.

Congress should be provided with a reflation program now. To permit it to adjourn without adopting vigorous remedial measures is to waste precious time and to court the dangers of a 1931-32 winter. The stresses and strains, frictions and conflicts that would result from another year of deepening depression would make our system even more difficult to work in the future.

There is, in my opinion, nothing to lose and much to gain politically by your sponsorship of such a program. If rejected by Congress your supporters will have a fighting program to go to the country on. If passed, the resulting upswing can be credited to your aggressive leadership. You have always been stronger on the offensive than on the defensive. The recent policy of comparative inaction has, to be frank, been harmful to the morale of your adherents, both within and outside the Administration. It has given a new lease of life to the reactionaries. They see both you and the New Deal discredited.

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The program I respectfully suggest for your consideration is as follows:

1. <u>Housing.</u> Proclaim a bargain year for low-cost housing by granting a cash subsidy of ten per cent on all new houses constructed that are appraised at $6,000 or less, and new apartments appraised at $1,000 a room or less. This subsidy would apply to all new houses started this year from the date of the introduction of the bill. This would prevent the postponement of building until the fate of the bill was known. In 1939 the subsidy could be reduced to 5 per cent and in 1940 eliminated. It could be coupled with provisions restricting the subsidy to houses built at materials and equipment costs, and hourly building wage rates no higher than prevailed in, say, March 1938. In order to ensure that the ten per cent subsidy would not be used as a down payment, the 90 per cent mortgage could apply to the appraised cost <u>less</u> the subsidy.

Assuming at the maximum that 400,000 low-cost housing units were undertaken in the remainder of the year at an average cost of $4,500, the total cost to the Government of stimulating $1.8 billion of building would be $180 million. This amount should be more than saved in reduced W. P. A. expenditures resulting from the increased private employment of people in building and allied industries.

The proposal would be simple, speedy, effective, popular, socially and economically beneficial, and would entail little, if any, net cost

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to the Government. It was arrived at after considering and discarding on various grounds a multitude of more complex and less effective proposals relating to the stimulation of housing. It is not inconsistent with either F. H. A. or U. S. H. A., which are permanent. It is a temporary device for getting housing and economic recovery under way.

2. Railroad Expenditures.

(a) Establish a Federal Railroad Equipment Corporation which would invite bids for the construction of rolling stock and will lease such rolling stock when completed to the railroads. Its capital would be supplied by the Government and its operations would be financed through the sale of its debentures to the public. Arguments in support of this proposal are as follows:

(1) Careful studies indicate that if full recovery were achieved in three years the roads would need $2.5 billion of additional equipment. Transferring some of this expenditure from the peak to the trough of business activity would be a major contribution to stability now and later.

(2) The roads either will not or cannot anticipate these requirements themselves.

(3) Large economies would flow from continuity of orders, greater standardization, mass buying and greater provision for research.

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(4) Rentals on Corporation equipment could be varied according to railroad earnings and this would lessen the need in the future for disturbing general changes in freight rates.

(5) In the course of time the Corporation would own the bulk of the rolling stock and individual roads could reduce their fixed charges as they retire their old equipment.

(6) A large amount of immediate expenditures would result with little charge on the Federal budget.

(7) The proposal has been broached informally to certain people associated with the regulation of railroads and, in their opinion, is perfectly practicable.

(b) Secure authority for the R. F. C. to buy non-cumulative preferred stock of certain railroads for certain purposes and to a certain amount. These roads would be those that can make satisfactory earnings on a 1936 volume of traffic. The purpose would be to enable them to keep up their maintenance expenditures. The amount would be limited to the difference between their maintenance expenditures in 1933 and 1936.

3. Loans to small businesses.

A plan has been worked out to remedy the present gap in the facilities for long-term financing of small businesses, whereby the Government would assume the liability of losses up to 20 per cent of the aggregate of such loans made by banks. These loans could be used for

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the payment of creditors other than the loaning bank. The plan would save thousands of small businesses from bankruptcy and hence would be a powerful anti-deflationary influence at the present time.

4. An effort should be made to secure some stimulus in return for the concessions being made in connection with the undistributed profits tax. This could take the form of permitting exemption only on condition that retained profits were actually used for expenditures in excess of expenditures equal to depreciation. Earnings used to retire debt should be strictly limited to a percentage of the debt outstanding and should carry a low rate of tax, say 5 per cent.

44
3
13.2

2.5
44
110
150

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5. Provision should be made now for starting payments on old-age-insurance account in 1939 instead of in 1941. It is my understanding that detailed calculations on this matter have been prepared by the Social Security Board.

6. The field of public health is rapidly coming to the fore and has not yet been exploited. If legislation were enacted at this session for increased grants-in-aid for general medical care and for hospitals, a National Health Program could be got under way in 1939.

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January 31, 1938.

Chairman Eccles

Lauchlin Currie

A recovery program and the railroad problem

It appears feasible to work out a program that would meet the needs of the railroads, would further recovery now and would be conducive to longer-run economic stability. The solution to the railroad problem that is under consideration -- freight rate advances -- would be of dubious help to the railroads, would be positively detrimental to recovery, and might eventually result in excessive returns and investment in some roads.

The program suggested for consideration is in two parts, either of which might be adopted independently, or they could be worked together. The first, and more important part, is as follows:

Let the Government, through a Federal Railroad Equipment Corporation empowered to issue its own debentures, invite bids for the construction of freight cars and/or locomotives. When built, these would be available for hire by the railroads when and as needed. It would be preferable to prohibit roads from building or buying freight cars and/or locomotives in the future.

The arguments in support of this proposal are as follows:

1. It could result in immediate increased expenditures ranging up to $1 billion a year. Mr. Terborgh, in his memorandum on the railroads, estimates that the railroads will regain the 1929 level of traffic

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when physical production is 15-20 percent higher than 1929 and that we can expect that level when we achieve a relatively normal volume of employment. If we set our objective of full employment at three years, this would call for 200,000 new freight cars a year, 1,750 freight locomotives a year, 2,600 passenger train cars a year, 450 passenger locomotives a year, and 1,000 switching locomotives a year. This would amount to an aggregate of $928 million a year for three years.

	Increase over present inventory needed	Re-placements needed	New units needed annually for recovery in 3 years	Cost per unit	Aggregate cost annually
Freight cars	300,000	100,000	200,000	2,700	540,000,000
Freight locomotives	2,200	1,000	1,750	125,000	218,750,000
Passenger train cars	1,000	2,250	2,600	25,000	65,000,000
Passenger locomotives	—	450	450	125,000	55,000,000
Switching locomotives	1,600	450	1,000	50,000	50,000,000
					928,750,000

2. Expenditures of upwards a billion dollars a year would create a large volume of employment in the railroad equipment industry, in the railroads' own car shops, in the steel and other industries, and would result in a considerable expansion of railroad traffic.

3. Reduction in railroad costs. The great bulk of the rolling stock of the roads is old and the maintenance costs are correspondingly high. Of some 44,000 locomotives, only about 3,000 have been built in the past 11 years, or less than 10 percent. According to studies of the Baldwin

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Locomotive Works the maintenance cost of a freight locomotive increases from the first to the twentieth year at an annual rate of approximately 6.2 per cent. It seems highly probable that much of the rolling stock has exceeded its economic life and that the annual costs of repair and maintenance exceeds the savings effected in the amortization of the original equipment. Many roads that cannot afford high initial costs, could take advantage of reasonable rentals for the time new equipment actually is used.

Over a longer period of time large economies should be derived both from the standpoint of individual roads and nationally through a more intensive use of equipment possible through pooling. Instead of each road being compelled to have a lot of capital tied up in standby equipment, the Government corporation would hold the reserve supply. The Government corporation, in turn, would need to carry less than the aggregate now carried by individual roads. Much more accurate estimates of the national peck requirements can be made than of individual roads' peak requirements.

4. This would be one of the most economically beneficial types of expenditures the economy could engage upon at this time. While W. P. A. projects are mostly beonomically and nearly all socially beneficial, many of them are in the nature of luxuries. On the whole they do not contribute as much to productive resources as private capital expenditures. We know that we will need additional railroad equipment

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aggregating billions of dollars to handle the volume of traffic consequent upon full recovery. While financial considerations prevent individual roads from anticipating these requirements, such considerations do not apply to the economy as a whole. From the community point of view, it would be most economical to use idle resources now to add to our productive equipment, rather than attempt to reequip ourselves all in a rush sometime in the future. This appears to be a unique case where the Government can initiate capital expenditures with a minimum of competition or of subsidizing.

5. From a national defense point of view, it appears almost as vital to have a well-equipped railroad system as to have an army. We are now in a position where we could handle very little more traffic than in 1937. The traffic congestion during the war comes to mind. Any initial loss consequent upon the failure of rents to provide fully for amortization of equipment could be charged to national defense. We are subsidizing a merchant marine for this reason.

6. The Federal Railroad Equipment Corporation, through reductions in costs of materials in connection with mass buying, and through economies in providing a national pool of rolling stock, may be able to have rolling stock manufactured so cheaply and rent it at such low rates as to make private manufacture and ownership uneconomical. If this should happen, the Corporation would have title to the bulk of the rolling stock of the railroads within 10 to 20 years. Or the

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Government could prohibit railroads from acquiring new rolling equipment. We would thus gradually ease into ownership of the railroads and a large field would be available for flexible and compensatory spending of a most economic and generally approved nature. Sweden was greatly helped in the recent depression by being able to expand expenditures on the Government-owned railroads. This gradual easing into the picture by building and owning rolling stock appears the only practical mode of procedure. Outright ownership of the railroads is not politically practicable and gradual ownership through acquiring the worst and most bankrupt roads is not desirable.

7. The proposal could apply to all rolling stock or be restricted to freight cars. Personally I should like to apply it to all rolling stock. I understand that roads now carry out running repairs on rental stock. Under the present proposal this could still be required and the Corporation could have more fundamental reconditioning carried out by the railroad repair shops. Railroad labor should be in favor of the proposal. Railroad managements might not be so favorable but they could see favorable aspects as many of them could make a profit in constructing rolling stock for the corporation, they would receive increased freight traffic, and they could reduce current operating expenses.

The second part of the program contemplates the purchase, by a Government corporation, of non-cumulative preferred stock of certain railroads for certain purposes.

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The roads would neither be the financially strongest nor the financially weakest, but, rather, such roads as in the judgment of the I. C. C., (1) cannot, on the basis of present traffic, cover their fixed charges without an advance in freight rates and (2) are capable of covering their fixed charges with the volume of traffic they may anticipate with relatively full employment and the reduction in costs possible with modern equipment and better plant and way.

The purpose of the loans would be (1) to rehabilitate the poorer part of our railroad network to handle the volume of traffic that will result from a restoration of full employment, at the lowest possible cost, (2) obviate the necessity of a general freight rate advance, (3) maintain railroad and other employment.

If the first proposal above is adopted, expenditures under this plan of what amounts to an interest subsidy would be restricted to the elimination of curves, grades, etc. (By straightening out curves and installing stream line trains the time between New York and Washington could be cut to two hours, ten minutes.)

If the first proposal is not adopted, expenditures could be applied, subject to the approval of the I. C. C., to both the roadbed and the equipment.

A general freight rate advance in so far as it resulted in increased revenues would benefit many strong roads which do not need help. It would, however, result in a general advance in costs, would

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result in increased losses of various businesses, would be particularly disastrous in the building field, and would probably result in a diminution of freight traffic. It appears far the better course both for the railroads concerned and the economy as a whole to afford government assistance in lowering the costs and increasing the efficiency of the weaker roads.

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Copy for Miss Egbert

February 3, 1938.

Chairman Eccles — Developments in connection

Lauchlin Currie — with the railroad proposal

The following are points supplementing my memorandum of January 31:

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.

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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.

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

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Copy for Miss Egbert

February 5, 1938.

Chairman Eccles

Railroads and recovery

Lauchlin Currie

1. Freight rate increases in building

The Association of American Railroads quotes a Mr. Palmer, Vice President of the Associated General Contractors, to the effect that "A house which would cost $5,000 under existing freight rates will cost only $43 more if this increase be granted". The F. H. A. analysis for a typical house costing $5,000 with the land is as follows:

Total cost of materials	$1,800
Total cost of heating, plumbing and electrical equipment	1,000
Labor	1,200
Land	500
Profit	500
	$5,000

They estimate the total freight on materials to be $360, on which a 15 per cent advance in freight rates would amount to $54. On the face of it, this checks closely with Mr. Palmer's figure, especially as the F. H. A. considers its figure an outside one. However, several qualifications should be made.

(a) This freight increase is calculated on materials alone. If related to the cost of materials, it amounts to 3 per cent. A 3 per cent advance in the prices of building materials at a time when prices are already too high and rents are declining cannot be considered a negligible item.

(b) To this figure should be added something for additional freight charges on the raw materials entering into processed building materials.

(c) No allowance is made for freight rate increases on equipment or on materials entering into equipment. This may aggregate another $10.

(d) No allowance is made for the retailer mark-up, which is customarily a flat percentage of the cost to the dealer.

(e) Assuming that all these additional elements bring the cost up to only $75, this would be the equivalent in the F. H. A.'s typical house to an advance in labor costs of 6 per cent. Such an advance at this time will be generally deplored and condemned.

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It is, of course, the old story. A sizeable percentage increase in any one of the costs becomes a small percentage of the total cost of the finished house, including land.

A mitigating factor, although not to the railroads, is the possibility that the freight increase will result in an increase in the already substantial portion of building materials that is transported by trucks. It is estimated now that railroads haul only 30 per cent of common brick, 55 per cent of building tile, etc., and 60 per cent of lumber. The catch here, however, is that the trucking companies have also applied for a rate increase.

2. General effect of the rate increases

If the rate increases are granted in full this will mean a transfer from the rest of the community to the railroads of around one-half billion dollars. It is difficult to appraise the net effect of this. A substantial proportion of the sum may go in interest, loan repayments and additions to cash, as it is unlikely that railroads will expand their maintenance and equipment expenditures at this time. Hence, the subtraction from consumer buying power may not be fully made up by increased disbursements to consumers.

3. My own feeling, which is based only on superficial study, is that the I. C. C. will feel impelled to grant a rate increase, although probably not to the full amount requested. Rail costs have increased, traffic has suffered a drastic decline and, on the basis of existing revenues together with the absence of any other plan to raise net income by some hundreds of million dollars annually, I do not see how the Commission could do otherwise. Neither of the proposals we are consdering will be regarded as substitutes for freight rate increases, as the direct benefits will be mainly in the future and the indirect benefits arising from increased traffic might be offset by other adverse developments, or be insufficient unless general business activity quickly regained the 1937 level. If the proposals were announced as substitutes they would meet with violent opposition from the railroads. On the other hand, some intimation that the Administration was considering cost-reducing and traffic-stimulating measures in connection with the railroads might influence the Commission in granting lower increases than they would otherwise grant. It is a difficult point.

I am afraid that we must take a freight rate increase for granted as one of the elements in the problem, and use the argument that this makes a spending or reflation program even more imperative.

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March 9, 1938.

Chairman Eccles

Lauchlin Currie

Messrs. Wright and White and the Railroad Proposal.

Messrs. Wright and White left the attached memorandum with me yesterday. The issue on the equipment-buying proposal finally came down to this. They thought that the technical difficulties could be overcome but that the insuperable difficulty would be the opposition of the railroads on the ground that this points toward eventual government ownership. Mr. White also left me a memorandum bearing on the pertinent facts of the conditions under which loans may be made by the R. F. C. and P. W. A. to roads. I said I would apprize you of their position and also that I wanted to go over the whole thing again with Mr. Eastman. They left me their addresses and said they would be glad to be called in on consultation again if we wished it.

On the matter of remuneration Mr. White stated that on other jobs he got fifty dollars a day. I said that in the case of other consultants we paid twenty-five dollars a day plus expenses, and he said this would be perfectly agreeable to him. I haven't got his bill as yet, but I think it might be advisable to set in motion the necessary steps to get authorization from the Board to pay it.

LBC:em

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March 3, 1938.

Chairman Eccles

Lauchlin Currie

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

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March 3, 1938.

Chairman Eccles

The Railroad Equipment Proposal.

Lauchlin Currie

I had a long conference with Mr. Frank Wright and Mr. White on Wednesday. They raised certain objections to our proposal and proposed an alternative. The objections were as follows:

1. The railroads would overcharge the Corporation very badly on repairs. In order to prevent this, a corps of 500 inspectors would be required.

2. Unless traffic revived, or whenever traffic fell off, the Corporation would be left holding the bag. Problems would arise in connection with storage.

3. Their alternative proposal would accomplish the same results while avoiding these difficulties.

They propose that the Government

(a) buy non-cumulative preferred stock of railroads or notes to an amount equal to the difference between the amount spent on maintenance of way, structure and equipment in 1933 and 1936. The purpose of this proposal is to attempt to peg maintenance at the 1936 figure. If this is accomplished a maximum amount of loans to the roads of $365 million a year might be called for. Dividends and amortization would not begin for two years. Amortization payments would vary each year on the basis of a percentage of the operating revenues. Loans to roads in receivership would be secured by junior receivers' certificates.

(b) loan money to roads in the form of equipment trusts for equipment purchases. This loan would be contingent upon acceptances by the roads of proposal (a). These equipment trusts would be for 100 per cent of the cost of the equipment, would be amortized over a twenty-year period and bear interest of 2 per cent beginning in two years. They estimate expenditures of $300 million a year would result.

Mr. Wright has conferred with several railroad presidents on his proposal (b), (not ours) and has received assurances that make him confident that railroads would take advantage of the favorable terms of the proposed equipment trust certificates to buy 150,000 freight cars in the next three years (they bought 75,000 in 1937). He was not so sure about locomotives unless the proposed 90-car train bill is killed. He said the Pennsylvania Railroad would carry through a $100 million electrification program around Pittsburgh if favorable terms could be arranged.

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I confess that I can't get up much enthusiasm for these counter proposals for the following reasons:

1. They call for the railroads assuming increased obligations.

2. They will encounter the usual objection to giving subsidies to the prosperous roads that do not need it. Many politicians will object to the Government acquiring a junior security of such roads as the Illinois Central and B. and O. On the other hand, if "adequate security" is required, the roads may not want or be able to go along. The usual experience is for Congress to insist on more stringent conditions in loans. Mr. White tells me that in the case of P. W. A. loans under the N. R. A. all that was required was "reasonable" security and the terms of interest and maturities were left to the determination of the President. He is going to let me know in a day or so how much new legislation and new appropriations would be necessary. The R. F. C. is limited to "adequate" security and the terms as well as the issue must be approved by the I. C. C.

3. They are simply another emergency device, similar to the 1934 loans, and have no particular favorable implications for greater stability in the future.

4. The outcome in dollars and cents of expenditures is uncertain. Of the estimated $665 million of additional annual expenditures, $365 million is on account of loans or purchases of preferred stock for maintenance purposes. The extent to which this part of the program can be passed in the desired form and availed of by the roads, particularly the more prosperous ones that are still earning something on their common, is highly problematical. Many roads will be loath to take on any more obligations so long as the whole railroad picture is in a state of flux and ferment. Of the $300 million annual equipment expenditures, $110 million is for locomotives, about which Mr. Wright expressed some misgivings.

5. The proposals tend to perpetuate and complicate the present involved railroad picture. I'm pessimistic enough at the moment to think that the roads will periodically get into difficulties and some drastic steps will eventually be necessary. Our proposal would tend gradually to simplify the problem as the Government Corporation acquired title to more and more of the rolling stock.

Of the objections raised to our proposal, neither of those relating to repair bills or to storage appear insuperable. After all, there are leasing companies today which are presumably meeting and overcoming these difficulties. I would still urge in favor of the proposal that it

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(a) makes certain a definite expenditure

(b) paves the way for an eventual national car pool

(c) provides a compensatory mechanism that can be used in future recessions

(d) enables the roads to reduce their fixed charges as their present equipment is retired

(e) lessens the danger of the Government getting further tied in with the affairs of individual bankrupt roads.

I am going to see Mr. Eastman again and find out where he stands. I am told that Jones, Ickes and Delano all think highly of Wright. If they and Eastman all favor the other proposal, I'm afraid we would be lickedoon ours. In any case I will canvass the situation some more and let you know how I come out. Wright said something to me as he left about our reimbursing Mr. White for his time. Did he take this up with you? I have asked Mr. White whether he would look at our proposal from the point of view of administering it, and try to discover how many "bugs" there are in it from this point of view. He promised to give this some thought over the weekend.

LBC:em

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

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

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

First- Maintenance and Additions and Betterments:

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

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

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

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

Second - New Equipment:

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

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

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

III. SUMMARY

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

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

MANHOURS:

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

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THREE YEAR MAINTENANCE AND EQUIPMENT PROGRAM

CLASS 1 RAILROADS

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

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

* Estimated on basis of 1936 percentage.

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

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April 21, 1938.

Chairman Eccles

Railroad equipment loans

Lauchlin Currie

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

LBC:em

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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

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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 2½ 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.

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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.

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