

Y 4
In 8/4
R 13/56
House - Interstate and foreign
R 13/56
5944
9-8/4

GUARANTEED LOANS FOR RAILROADS

GOVERNMENT
Storage

HEARINGS BEFORE THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

FIRST SESSION

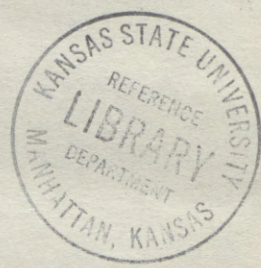
ON

H.R. 1163

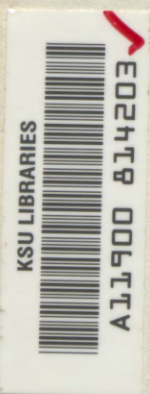
A BILL TO AMEND SECTION 510 OF THE INTERSTATE
COMMERCE ACT SO AS TO EXTEND FOR ONE YEAR THE
LOAN GUARANTY AUTHORITY OF THE INTERSTATE
COMMERCE COMMISSION

MARCH 1 AND 2, 1961

Printed for the use of the Committee on Interstate and Foreign Commerce



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1961



GUARANTEED LOANS FOR RAILROADS

AY
4/8/24
8/3/26

HEARINGS
OF THE
COMMITTEE OF

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

OREN HARRIS, Arkansas, *Chairman*

JOHN BELL WILLIAMS, Mississippi
PETER F. MACK, Jr., Illinois
KENNETH A. ROBERTS, Alabama
MORGAN M. MOULDER, Missouri
HARLEY O. STAGGERS, West Virginia
WALTER ROGERS, Texas
SAMUEL N. FRIEDEL, Maryland
JOHN J. FLYNT, Jr., Georgia
TORBERT H. MACDONALD, Massachusetts
GEORGE M. RHODES, Pennsylvania
JOHN JARMAN, Oklahoma
LEO W. O'BRIEN, New York
JOHN E. MOSS, California
JOHN D. DINGELL, Michigan
JOE M. KILGORE, Texas
PAUL G. ROGERS, Florida
ROBERT W. HEMPHILL, South Carolina
DAN ROSTENKOWSKI, Illinois
JAMES C. HEALEY, New York

JOHN B. BENNETT, Michigan
WILLIAM L. SPRINGER, Illinois
PAUL F. SCHENCK, Ohio
J. ARTHUR YOUNGER, California
WILLIAM H. AVERY, Kansas
HAROLD R. COLLIER, Illinois
MILTON W. GLENN, New Jersey
SAMUEL L. DEVINE, Ohio
ANCHER NELSEN, Minnesota
HASTINGS KEITH, Massachusetts
WILLARD S. CURTIN, Pennsylvania
ABNER W. SIBAL, Connecticut
VERNON W. THOMSON, Wisconsin

W. E. WILLIAMSON, *Clerk*
KENNETH J. PAINTER, *Assistant Clerk*

Professional Staff

ANDREW STEVENSON
KURT BORCHARDT

SAM G. SPAL
MARTIN W. CUNNINGHAM

CONTENTS

	Page
Text of H.R. 1163.....	1
Report of—	
Bureau of the Budget.....	3
Commerce Department.....	4
Interstate Commerce Commission.....	1
Statement of—	
Alpert, George, president, New York, New Haven & Hartford Railroad.....	60, 67
Baker, Vernon V., Director, Bureau of Finance, Interstate Commerce Commission.....	5, 23
Fletcher, Meade, Bureau of Finance, Interstate Commerce Commission.....	5
Gerstnecker, William R., treasurer, Pennsylvania Railroad Co.....	120
Goff, Hon. Abe McGregor, Commissioner, Interstate Commerce Commission.....	5
Herring, Hon. Clyde E., Commissioner, Interstate Commerce Commission.....	5
Hutchinson, Hon. Everett, Chairman, Interstate Commerce Commission.....	5, 23
Johnson, William B., president, Railway Express Agency.....	126
Lynch, George, Bureau of Finance, Interstate Commerce Commission.....	5
McPherson, Hon. Donald P., Commissioner, Interstate Commerce Commission.....	5
Moloney, William M., general solicitor, Association of American Railroads.....	107
Murphy, Hon. Rupert L., Commissioner, Interstate Commerce Commission.....	5
Shoemaker, Perry M., vice chairman of the board, Erie-Lackawanna Railroad Co.....	133
Tuggle, Hon. Kenneth H., Commissioner, Interstate Commerce Commission.....	5
Webb, Hon. Charles A., Commissioner, Interstate Commerce Commission.....	5
Winchell, Hon. John, Commissioner, Interstate Commerce Commission.....	5
Additional information submitted for the record by—	
Interstate Commerce Commission:	
Fourteen approved applications, table and statement.....	6
Letters from Hon. Everett Hutchinson, Chairman.....	58-60
Letter to State and municipal officials.....	28
List of securities cases approved under section 20a between August 12, 1958, and January 13, 1961, table.....	32
Statement with respect to loans to New Haven Railroad.....	38
Statement with respect to responsibility of metropolitan areas.....	57
Summary of background experience of—	
Fletcher, W. Meade.....	54
Helpser, Charles H.....	54
Lynch, George F.....	53
Steele, Hubert B.....	54
Woolman, Joseph A.....	54
Lehigh Valley Railroad Co., statement of Jose R. de Capriles, vice president and general counsel.....	136
New York, New Haven & Hartford Railroad:	
Interstate staff committee report to State and municipal officials.....	73-84
Letter from George Alpert, president, transmitting further information.....	100
Norfolk Southern Railway Co., letter from Arthur J. Winder, vice president and general counsel.....	135

CONTENTS

Page

1	Introduction
2	Chapter I
3	Chapter II
4	Chapter III
5	Chapter IV
6	Chapter V
7	Chapter VI
8	Chapter VII
9	Chapter VIII
10	Chapter IX
11	Chapter X
12	Chapter XI
13	Chapter XII
14	Chapter XIII
15	Chapter XIV
16	Chapter XV
17	Chapter XVI
18	Chapter XVII
19	Chapter XVIII
20	Chapter XIX
21	Chapter XX
22	Chapter XXI
23	Chapter XXII
24	Chapter XXIII
25	Chapter XXIV
26	Chapter XXV
27	Chapter XXVI
28	Chapter XXVII
29	Chapter XXVIII
30	Chapter XXIX
31	Chapter XXX
32	Chapter XXXI
33	Chapter XXXII
34	Chapter XXXIII
35	Chapter XXXIV
36	Chapter XXXV
37	Chapter XXXVI
38	Chapter XXXVII
39	Chapter XXXVIII
40	Chapter XXXIX
41	Chapter XL
42	Chapter XLI
43	Chapter XLII
44	Chapter XLIII
45	Chapter XLIV
46	Chapter XLV
47	Chapter XLVI
48	Chapter XLVII
49	Chapter XLVIII
50	Chapter XLIX
51	Chapter L
52	Chapter LI
53	Chapter LII
54	Chapter LIII
55	Chapter LIV
56	Chapter LV
57	Chapter LVI
58	Chapter LVII
59	Chapter LVIII
60	Chapter LIX
61	Chapter LX
62	Chapter LXI
63	Chapter LXII
64	Chapter LXIII
65	Chapter LXIV
66	Chapter LXV
67	Chapter LXVI
68	Chapter LXVII
69	Chapter LXVIII
70	Chapter LXIX
71	Chapter LXX
72	Chapter LXXI
73	Chapter LXXII
74	Chapter LXXIII
75	Chapter LXXIV
76	Chapter LXXV
77	Chapter LXXVI
78	Chapter LXXVII
79	Chapter LXXVIII
80	Chapter LXXIX
81	Chapter LXXX
82	Chapter LXXXI
83	Chapter LXXXII
84	Chapter LXXXIII
85	Chapter LXXXIV
86	Chapter LXXXV
87	Chapter LXXXVI
88	Chapter LXXXVII
89	Chapter LXXXVIII
90	Chapter LXXXIX
91	Chapter LXXXX
92	Chapter LXXXXI
93	Chapter LXXXXII
94	Chapter LXXXXIII
95	Chapter LXXXXIV
96	Chapter LXXXXV
97	Chapter LXXXXVI
98	Chapter LXXXXVII
99	Chapter LXXXXVIII
100	Chapter LXXXXIX
101	Chapter LXXXXX
102	Chapter LXXXXXI
103	Chapter LXXXXXII
104	Chapter LXXXXXIII
105	Chapter LXXXXXIV
106	Chapter LXXXXXV
107	Chapter LXXXXXVI
108	Chapter LXXXXXVII
109	Chapter LXXXXXVIII
110	Chapter LXXXXXIX
111	Chapter LXXXXXX
112	Chapter LXXXXXXI
113	Chapter LXXXXXXII
114	Chapter LXXXXXXIII
115	Chapter LXXXXXXIV
116	Chapter LXXXXXXV
117	Chapter LXXXXXXVI
118	Chapter LXXXXXXVII
119	Chapter LXXXXXXVIII
120	Chapter LXXXXXXIX
121	Chapter LXXXXXXX
122	Chapter LXXXXXXXI
123	Chapter LXXXXXXXII
124	Chapter LXXXXXXXIII
125	Chapter LXXXXXXXIV
126	Chapter LXXXXXXXV
127	Chapter LXXXXXXXVI
128	Chapter LXXXXXXXVII
129	Chapter LXXXXXXXVIII
130	Chapter LXXXXXXXIX
131	Chapter LXXXXXXXI
132	Chapter LXXXXXXXII
133	Chapter LXXXXXXXIII
134	Chapter LXXXXXXXIV
135	Chapter LXXXXXXXV
136	Chapter LXXXXXXXVI
137	Chapter LXXXXXXXVII
138	Chapter LXXXXXXXVIII
139	Chapter LXXXXXXXIX
140	Chapter LXXXXXXXI
141	Chapter LXXXXXXXII
142	Chapter LXXXXXXXIII
143	Chapter LXXXXXXXIV
144	Chapter LXXXXXXXV
145	Chapter LXXXXXXXVI
146	Chapter LXXXXXXXVII
147	Chapter LXXXXXXXVIII
148	Chapter LXXXXXXXIX
149	Chapter LXXXXXXXI
150	Chapter LXXXXXXXII
151	Chapter LXXXXXXXIII
152	Chapter LXXXXXXXIV
153	Chapter LXXXXXXXV
154	Chapter LXXXXXXXVI
155	Chapter LXXXXXXXVII
156	Chapter LXXXXXXXVIII
157	Chapter LXXXXXXXIX
158	Chapter LXXXXXXXI
159	Chapter LXXXXXXXII
160	Chapter LXXXXXXXIII
161	Chapter LXXXXXXXIV
162	Chapter LXXXXXXXV
163	Chapter LXXXXXXXVI
164	Chapter LXXXXXXXVII
165	Chapter LXXXXXXXVIII
166	Chapter LXXXXXXXIX
167	Chapter LXXXXXXXI
168	Chapter LXXXXXXXII
169	Chapter LXXXXXXXIII
170	Chapter LXXXXXXXIV
171	Chapter LXXXXXXXV
172	Chapter LXXXXXXXVI
173	Chapter LXXXXXXXVII
174	Chapter LXXXXXXXVIII
175	Chapter LXXXXXXXIX
176	Chapter LXXXXXXXI
177	Chapter LXXXXXXXII
178	Chapter LXXXXXXXIII
179	Chapter LXXXXXXXIV
180	Chapter LXXXXXXXV
181	Chapter LXXXXXXXVI
182	Chapter LXXXXXXXVII
183	Chapter LXXXXXXXVIII
184	Chapter LXXXXXXXIX
185	Chapter LXXXXXXXI
186	Chapter LXXXXXXXII
187	Chapter LXXXXXXXIII
188	Chapter LXXXXXXXIV
189	Chapter LXXXXXXXV
190	Chapter LXXXXXXXVI
191	Chapter LXXXXXXXVII
192	Chapter LXXXXXXXVIII
193	Chapter LXXXXXXXIX
194	Chapter LXXXXXXXI
195	Chapter LXXXXXXXII
196	Chapter LXXXXXXXIII
197	Chapter LXXXXXXXIV
198	Chapter LXXXXXXXV
199	Chapter LXXXXXXXVI
200	Chapter LXXXXXXXVII
201	Chapter LXXXXXXXVIII
202	Chapter LXXXXXXXIX
203	Chapter LXXXXXXXI
204	Chapter LXXXXXXXII
205	Chapter LXXXXXXXIII
206	Chapter LXXXXXXXIV
207	Chapter LXXXXXXXV
208	Chapter LXXXXXXXVI
209	Chapter LXXXXXXXVII
210	Chapter LXXXXXXXVIII
211	Chapter LXXXXXXXIX
212	Chapter LXXXXXXXI
213	Chapter LXXXXXXXII
214	Chapter LXXXXXXXIII
215	Chapter LXXXXXXXIV
216	Chapter LXXXXXXXV
217	Chapter LXXXXXXXVI
218	Chapter LXXXXXXXVII
219	Chapter LXXXXXXXVIII
220	Chapter LXXXXXXXIX
221	Chapter LXXXXXXXI
222	Chapter LXXXXXXXII
223	Chapter LXXXXXXXIII
224	Chapter LXXXXXXXIV
225	Chapter LXXXXXXXV
226	Chapter LXXXXXXXVI
227	Chapter LXXXXXXXVII
228	Chapter LXXXXXXXVIII
229	Chapter LXXXXXXXIX
230	Chapter LXXXXXXXI
231	Chapter LXXXXXXXII
232	Chapter LXXXXXXXIII
233	Chapter LXXXXXXXIV
234	Chapter LXXXXXXXV
235	Chapter LXXXXXXXVI
236	Chapter LXXXXXXXVII
237	Chapter LXXXXXXXVIII
238	Chapter LXXXXXXXIX
239	Chapter LXXXXXXXI
240	Chapter LXXXXXXXII
241	Chapter LXXXXXXXIII
242	Chapter LXXXXXXXIV
243	Chapter LXXXXXXXV
244	Chapter LXXXXXXXVI
245	Chapter LXXXXXXXVII
246	Chapter LXXXXXXXVIII
247	Chapter LXXXXXXXIX
248	Chapter LXXXXXXXI
249	Chapter LXXXXXXXII
250	Chapter LXXXXXXXIII
251	Chapter LXXXXXXXIV
252	Chapter LXXXXXXXV
253	Chapter LXXXXXXXVI
254	Chapter LXXXXXXXVII
255	Chapter LXXXXXXXVIII
256	Chapter LXXXXXXXIX
257	Chapter LXXXXXXXI
258	Chapter LXXXXXXXII
259	Chapter LXXXXXXXIII
260	Chapter LXXXXXXXIV
261	Chapter LXXXXXXXV
262	Chapter LXXXXXXXVI
263	Chapter LXXXXXXXVII
264	Chapter LXXXXXXXVIII
265	Chapter LXXXXXXXIX
266	Chapter LXXXXXXXI
267	Chapter LXXXXXXXII
268	Chapter LXXXXXXXIII
269	Chapter LXXXXXXXIV
270	Chapter LXXXXXXXV
271	Chapter LXXXXXXXVI
272	Chapter LXXXXXXXVII
273	Chapter LXXXXXXXVIII
274	Chapter LXXXXXXXIX
275	Chapter LXXXXXXXI
276	Chapter LXXXXXXXII
277	Chapter LXXXXXXXIII
278	Chapter LXXXXXXXIV
279	Chapter LXXXXXXXV
280	Chapter LXXXXXXXVI
281	Chapter LXXXXXXXVII
282	Chapter LXXXXXXXVIII
283	Chapter LXXXXXXXIX
284	Chapter LXXXXXXXI
285	Chapter LXXXXXXXII
286	Chapter LXXXXXXXIII
287	Chapter LXXXXXXXIV
288	Chapter LXXXXXXXV
289	Chapter LXXXXXXXVI
290	Chapter LXXXXXXXVII
291	Chapter LXXXXXXXVIII
292	Chapter LXXXXXXXIX
293	Chapter LXXXXXXXI
294	Chapter LXXXXXXXII
295	Chapter LXXXXXXXIII
296	Chapter LXXXXXXXIV
297	Chapter LXXXXXXXV
298	Chapter LXXXXXXXVI
299	Chapter LXXXXXXXVII
300	Chapter LXXXXXXXVIII
301	Chapter LXXXXXXXIX
302	Chapter LXXXXXXXI
303	Chapter LXXXXXXXII
304	Chapter LXXXXXXXIII
305	Chapter LXXXXXXXIV
306	Chapter LXXXXXXXV
307	Chapter LXXXXXXXVI
308	Chapter LXXXXXXXVII
309	Chapter LXXXXXXXVIII
310	Chapter LXXXXXXXIX
311	Chapter LXXXXXXXI
312	Chapter LXXXXXXXII
313	Chapter LXXXXXXXIII
314	Chapter LXXXXXXXIV
315	Chapter LXXXXXXXV
316	Chapter LXXXXXXXVI
317	Chapter LXXXXXXXVII
318	Chapter LXXXXXXXVIII
319	Chapter LXXXXXXXIX
320	Chapter LXXXXXXXI
321	Chapter LXXXXXXXII
322	Chapter LXXXXXXXIII
323	Chapter LXXXXXXXIV
324	Chapter LXXXXXXXV
325	Chapter LXXXXXXXVI
326	Chapter LXXXXXXXVII
327	Chapter LXXXXXXXVIII
328	Chapter LXXXXXXXIX
329	Chapter LXXXXXXXI
330	Chapter LXXXXXXXII
331	Chapter LXXXXXXXIII
332	Chapter LXXXXXXXIV
333	Chapter LXXXXXXXV
334	Chapter LXXXXXXXVI
335	Chapter LXXXXXXXVII
336	Chapter LXXXXXXXVIII
337	Chapter LXXXXXXXIX
338	Chapter LXXXXXXXI
339	Chapter LXXXXXXXII
340	Chapter LXXXXXXXIII
341	Chapter LXXXXXXXIV
342	Chapter LXXXXXXXV
343	Chapter LXXXXXXXVI
344	Chapter LXXXXXXXVII
345	Chapter LXXXXXXXVIII
346	Chapter LXXXXXXXIX
347	Chapter LXXXXXXXI
348	Chapter LXXXXXXXII
349	Chapter LXXXXXXXIII
350	Chapter LXXXXXXXIV
351	Chapter LXXXXXXXV
352	Chapter LXXXXXXXVI
353	Chapter LXXXXXXXVII
354	Chapter LXXXXXXXVIII
355	Chapter LXXXXXXXIX
356	Chapter LXXXXXXXI
357	Chapter LXXXXXXXII
358	Chapter LXXXXXXXIII
359	Chapter LXXXXXXXIV
360	Chapter LXXXXXXXV
361	Chapter LXXXXXXXVI
362	Chapter LXXXXXXXVII
363	Chapter LXXXXXXXVIII
364	Chapter LXXXXXXXIX
365	Chapter LXXXXXXXI
366	Chapter LXXXXXXXII
367	Chapter LXXXXXXXIII
368	Chapter LXXXXXXXIV
369	Chapter LXXXXXXXV
370	Chapter LXXXXXXXVI
371	Chapter LXXXXXXXVII
372	Chapter LXXXXXXXVIII
373	Chapter LXXXXXXXIX
374	Chapter LXXXXXXXI
375	Chapter LXXXXXXXII
376	Chapter LXXXXXXXIII
377	Chapter LXXXXXXXIV
378	Chapter LXXXXXXXV
379	Chapter LXXXXXXXVI
380	Chapter LXXXXXXXVII
381	Chapter LXXXXXXXVIII
382	Chapter LXXXXXXXIX
383	Chapter LXXXXXXXI
384	Chapter LXXXXXXXII
385	Chapter LXXXXXXXIII
386	Chapter LXXXXXXXIV
387	Chapter LXXXXXXXV
388	Chapter LXXXXXXXVI
389	Chapter LXXXXXXXVII
390	Chapter LXXXXXXXVIII
391	Chapter LXXXXXXXIX
392	Chapter LXXXXXXXI
393	Chapter LXXXXXXXII
394	Chapter LXXXXXXXIII
395	Chapter LXXXXXXXIV
396	Chapter LXXXXXXXV
397	Chapter LXXXXXXXVI
398	Chapter LXXXXXXXVII
399	Chapter LXXXXXXXVIII
400	Chapter LXXXXXXXIX
401	Chapter LXXXXXXXI
402	Chapter LXXXXXXXII
403	Chapter LXXXXXXXIII
404	Chapter LXXXXXXXIV
405	Chapter LXXXXXXXV
406	Chapter LXXXXXXXVI
407	Chapter LXXXXXXXVII
408	Chapter LXXXXXXXVIII
409	Chapter LXXXXXXXIX
410	Chapter LXXXXXXXI
411	Chapter LXXXXXXXII
412	Chapter LXXXXXXXIII
413	Chapter LXXXXXXXIV
414	Chapter LXXXXXXXV
415	Chapter LXXXXXXXVI
416	Chapter LXXXXXXXVII
417	Chapter LXXXXXXXVIII
418	Chapter LXXXXXXXIX
419	Chapter LXXXXXXXI
420	Chapter LXXXXXXXII
421	Chapter LXXXXXXXIII
422	Chapter LXXXXXXXIV
423	Chapter LXXXXXXXV
424	Chapter LXXXXXXXVI
425	Chapter LXXXXXXXVII
426	Chapter LXXXXXXXVIII
427	Chapter LXXXXXXXIX
428	Chapter LXXXXXXXI
429	Chapter LXXXXXXXII
430	Chapter LXXXXXXXIII
431	Chapter LXXXXXXXIV
432	Chapter LXXXXXXXV
433	Chapter LXXXXXXXVI
434	Chapter LXXXXXXXVII
435	Chapter LXXXXXXXVIII
436	Chapter LXXXXXXXIX
437	Chapter LXXXXXXXI
438	Chapter LXXXXXXXII
439	Chapter LXXXXXXXIII
440	Chapter LXXXXXXXIV
441	Chapter LXXXXXXXV
442	Chapter LXXXXXXXVI
443	Chapter LXXXXXXXVII
444	Chapter LXXXXXXXVIII
445	Chapter LXXXXXXXIX
446	Chapter LXXXXXXXI
447	Chapter LXXXXXXXII
448	Chapter LXXXXXXXIII
449	Chapter LXXXXXXXIV
450	Chapter LXXXXXXXV
451	Chapter LXXXXXXXVI
452	Chapter LXXXXXXXVII
453	Chapter LXXXXXXXVIII
454	Chapter LXXXXXXXIX
455	Chapter LXXXXXXXI
456	Chapter LXXXXXXXII
457	Chapter LXXXXXXXIII
458	Chapter LXXXXXXXIV
459	Chapter LXXXXXXXV
460	Chapter LXXXXXXXVI
461	Chapter LXXXXXXXVII
462	Chapter LXXXXXXXVIII
463	Chapter LXXXXXXXIX
464	Chapter LXXXXXXXI
465	Chapter LXXXXXXXII
466	Chapter LXXXXXXXIII
467	Chapter LXXXXXXXIV
468	Chapter LXXXXXXXV
469	Chapter LXXXXXXXVI
470	Chapter LXXXXXXXVII
471	Chapter LXXXXXXXVIII
472	Chapter LXXXXXXXIX
473	Chapter LXXXXXXXI
474	Chapter LXXXXXXXII
475	Chapter LXXXXXXXIII
476	Chapter LXXXXXXXIV
477	Chapter LXXXXXXXV
478	Chapter LXXXXXXXVI
479	Chapter LXXXXXXXVII
480	Chapter LXXXXXXXVIII
481	Chapter LXXXXXXXIX
482	Chapter LXXXXXXXI
483	Chapter LXXXXXXXII
484	Chapter LXXXXXXXIII
485	Chapter LXXXXXXXIV
486	Chapter LXXXXXXXV
487	Chapter LXXXXXXXVI
488	Chapter LXXXXXXXVII
489	Chapter LXXXXXXXVIII
490	Chapter LXXXXXXXIX
491	Chapter LXXXXXXXI
492	Chapter LXXXXXXXII
493	Chapter LXXXXXXXIII
494	Chapter LXXXXXXXIV
495	Chapter LXXXXXXXV
496	Chapter LXXXXXXXVI
497	Chapter LXXXXXXXVII
498	Chapter LXXXXXXXVIII
499	Chapter LXXXXXXXIX
500	Chapter LXXXXXXXI

GUARANTEED LOANS FOR RAILROADS

WEDNESDAY, MARCH 1, 1961

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:30 a.m., in room 1334, New House Office Building, Hon. Oren Harris (chairman) presiding.

The CHAIRMAN. The committee will come to order.

The committee this morning is meeting to conduct hearings on H.R. 1163, a bill which I introduced, to amend section 510 of the Interstate Commerce Act so as to extend for one year the loan guaranty authority of the Interstate Commerce Commission.

The present section 510 provides that the authority of the Interstate Commerce Commission to guarantee loans to railroads for certain purposes shall terminate, except as to applications filed with it, by March 31, 1961.

In view of the fact that this authority expires in the next few weeks, it was felt advisable to conduct a hearing for the purpose of giving consideration to the extension of this program.

(The bill, H.R. 1163, is as follows:)

[H.R. 1163, 87th Cong., 1st sess.]

A BILL To amend section 510 of the Interstate Commerce Act so as to extend for one year the loan guaranty authority of the Interstate Commerce Commission

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 510 of the Interstate Commerce Act (49 U.S.C. 1240) is amended by striking out "1961" and by inserting in lieu thereof "1962".

The CHAIRMAN. We are pleased to note the attendance of Members of the Interstate Commerce Commission. We have a report from the Commission under date of February 28, 1961, which will be incorporated into the record at this point, together with reports from the Bureau of the Budget and the Commerce Department.

(The documents referred to are as follows:)

INTERSTATE COMMERCE COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, D.C., February 28, 1961.

HON. OREN HARRIS,
*Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D.C.*

DEAR CHAIRMAN HARRIS: House Resolution 1163, introduced by you, to amend section 510 of the Interstate Commerce Act so as to extend for 1 year the loan guaranty authority of the Interstate Commerce Commission, has been considered by this Commission, and I am authorized to make the following report and comments in its behalf.

Part V of the Interstate Commerce Act, of which section 510 is a part, was enacted August 12, 1958, principally as a recession measure to provide financial assistance to railroads in the form of guaranty of the financing or refinancing of additions and betterments or other capital expenditures made after January 1, 1957, or to reimburse a railroad's treasury for such capital expenditures made from its own funds after that date, and to finance expenditures for maintenance of property.

Up to February 24, 1961, a total of 18 applications had been received requesting loan guaranties of \$123,292,460. Amendments filed by certain of the applicants reduced the total amount requested to \$110,267,360. Of the applications so received and amended, 17 have been processed. The one application pending as of January 31, 1961, which involves \$16 million, was filed on that date. Of the 17 applications processed, seeking an amended total of \$94,267,360, 14 involving \$85,817,360, have been approved; 2 seeking a total of \$1 million were denied, as were portions, totaling \$7 million, of 2 other applications; and 1 application seeking \$450,000 was withdrawn. Thus of the total of \$500 million loan guaranties we were authorized to issue only \$85,817,360 or 17.16 percent of the total has been used to date.

As to the 14 applications approved, the following table shows the number of applications and the amount for each of the railroads which received loan guaranties:

Railroad	Number of applications	Total amount guaranteed
New York Central.....	1	\$40,000,000
New Haven.....	4	21,659,400
Lehigh Valley.....	2	10,923,000
Boston & Maine.....	2	6,000,000
Chicago & Eastern Illinois.....	1	3,000,000
Norfolk Southern.....	1	2,000,000
Georgia & Florida.....	2	1,934,960
New York, Susquehanna & Western.....	1	300,000
Total.....	14	85,817,360

The New York Central loan was for reimbursement of its treasury for capital expenditures made from its own funds after January 1, 1957 (hereinafter called reimbursement), and the loan proceeds are being used, together with other company funds, to construct certain modern classification yards and signal facilities. The New Haven loans were for the following purposes: (a) \$8,159,400 for acquisition of 30 new special type diesel-electric locomotives; (b) \$1,500,000 for construction of certain shop facilities; (c) \$500,000 for acquisition of maintenance-of-way equipment and machinery; and (d) \$11,500,000 for reimbursement, the proceeds being used principally to meet current interest payments on New Haven's mortgage bonds and other pressing current obligations. Of the Lehigh Valley loans, a total of \$1,167,127 was for refinancing of existing equipment obligations; \$913,948 for financing of freight cars then under construction; \$660,661 for planned future capital expenditures; and \$8,181,264 for reimbursement, the proceeds of which were used principally to pay overdue State taxes. Both of the Boston & Maine loans were for reimbursement and the proceeds thereof were used to pay overdue State and local taxes and other pressing current obligations. The Chicago & Eastern Illinois loan was for the same purpose and the proceeds were similarly used. The Norfolk Southern loan was for reimbursement, and the proceeds thereof were used principally for the rebuilding of its bridge over Albemarle Sound which was heavily damaged by hurricane Donna. Of the Georgia & Florida loans \$934,960 was for acquisition of 100 new freight cars and \$1 million for rehabilitation of its roadway. The New York, Susquehanna & Western loan was for reimbursement and the proceeds were used to pay certain current obligations.

While to date, the volume of applications has not been as large as anticipated when the legislation was pending in 1958, our experience to date has shown that certain hard-pressed railroads have been able to obtain financial assistance in a manner and under terms and conditions which otherwise would not be available without a guaranty under part V. Furthermore, we believe it is reasonable to conclude from information developed in our investigation

and study of the applications that one or more railroads might have gone into receivership or trusteeship under section 77 of the Bankruptcy Act had it not been for the assistance received. Our experience also has shown that, generally, the railroads are availing themselves of assistance under part V only if a dire need exists. Many large railroads, particularly in the eastern district, are still operating at revenue levels below those realized prior to 1958 and are suffering continuing deficits of net income. There is also evidence that maintenance of properties is being deferred to a substantial extent. It appears that some of such railroads are reluctant to incur the burden of additional debt for modernization and improvement of facilities and other purposes eligible under part V except as a last resort.

Section 510 of part V provides that the authority granted in that part shall terminate March 31, 1961, except with respect to such applications as may then be pending, with the further proviso that its provisions shall remain in effect thereafter for the purposes of guaranties made by the Commission. Practically all of the guaranties made to date have been for the full 15-year term allowed in part V. Accordingly, even though no new applications are received after March 31, 1961, the Commission will be required to police and service the guaranties made for approximately 15 years thereafter. Section 505 contains provisions for modifications, with the Commission's consent, as to rate of interest, time of payment of interest or principal, security, or other terms and conditions of guaranties made, or the renewal thereof. Up to February 24, 1961, 26 supplemental orders had been issued disposing of such requests for modification. It is reasonable to conclude that during the term of each of the loan guaranties events will require certain modifications thereof, and that the number of such requests will increase as time goes on due to changing economic conditions and other reasons.

We believe that while the financial condition and earning position of some of the Nation's railroads may have improved since the enactment of part V, the situation of a number of railroads, particularly those in the eastern district, is every bit as critical as it was in 1958 and many are still suffering deficits in net income and are in such poor financial condition that an extension of the provisions of part V is warranted. Furthermore, we believe that for reasons just mentioned, among others, standby legislation and the required administrative machinery should be maintained to permit railroads quickly to avail themselves of assistance such as is provided in part V should another recession or a catastrophe, such as the hurricanes and floods of 1954, 1955, and 1959 occur.

The enactment of any similar legislation in the event of recessions or catastrophes in the future would require considerable time, as would the establishment of the necessary administrative procedures and the recruitment of personnel to handle the required staff work. At present the Commission has the administrative machinery and the personnel to continue the program.

All of the foregoing considered, we are of the opinion that the termination date in section 510 of part V should be extended. We recommend, however, that it be extended for a period of 2 years instead of 1 as provided in the bill.

Sincerely,

EVERETT HUTCHINSON, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., February 28, 1961.

HON. OREN HARRIS,
*Chairman, Interstate and Foreign Commerce Committee,
House of Representatives, Washington, D.C.*

MY DEAR MR. CHAIRMAN: This is in reply to your letter of February 9, 1961, requesting the views of this office with respect to H.R. 1163, a bill to amend section 510 of the Interstate Commerce Act so as to extend for 1 year the loan guarantee authority of the Interstate Commerce Commission.

We understand that since the enactment of the Transportation Act of 1958 the Interstate Commerce Commission has guaranteed 14 loans aggregating \$85.8 million. While the total amount guaranteed is a rather small proportion of the \$500 million authorized by the 1958 act, the loans have helped to meet emergency situations for the railroads whose loans have been guaranteed. It

GUARANTEED LOANS FOR RAILROADS

would appear desirable, therefore, to extend the loan guarantee authority for an additional year.

Accordingly, the Bureau of the Budget would have no objection to the enactment of H.R. 1163 from the standpoint of the administration's program.

Sincerely yours,

PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

THE SECRETARY OF COMMERCE,
Washington, D.C., March 8, 1961.

HON. OREN HARRIS,
*Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request of February 9, 1961, for the views of this Department regarding H.R. 1163, a bill to amend section 510 of the Interstate Commerce Act so as to extend for 1 year the loan guarantee authority of the Interstate Commerce Commission.

The purpose of the loan guarantee provisions of the 1958 act was to aid temporarily in the financing of railroads subject to the Interstate Commerce Act that are unable to obtain needed funds upon reasonable terms through ordinary commercial channels. This provision was one of several amendments in the Transportation Act of 1958 applying to railroads which were designed to improve the critical condition of the railroads at that time.

The authority to discontinue uneconomic operations has permitted a railroad to discontinue passenger operations that impair its overall financial condition. The policy on ratemaking was amended to give the railroads more flexibility in ratemaking in order to place them in a more competitive position with other carriers. These amendments have had some effect. The revised principles of rate regulation along with the advent of new methods of utilizing railroad service such as increase in the number of trailers on flatcars moved and the use of various types of containers on flatcars have attracted additional tonnage to the railroads.

While the revision of the ratemaking practices and the authority to discontinue certain operations or services under the supervision of the Commission have assisted the railroads a great deal in their effort to improve their overall condition, these measures have not effected the recovery anticipated.

At present there are proposals for mergers of major railroad lines in three different areas of the United States which will considerably affect the existing railroad system. Adequate time should be given to see what the railroad pattern will be before the loan guaranty provision is allowed to expire.

The justification appears to be as urgent now for the loan guarantee provision as it was when the legislation was originally enacted.

The Department recommends favorable consideration of H.R. 1163.

The Bureau of the Budget advised there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

EDWARD GUDEMAN,
Acting Secretary of Commerce.

The CHAIRMAN. We have a number of witnesses and we shall proceed as expeditiously as we can. I will say to those who are present that I apologize for not being able to start at the time scheduled, but we had another bill on which we were conducting hearings.

The first witness will be the Honorable Everett Hutchinson, Chairman of the Interstate Commerce Commission.

STATEMENT OF HON. EVERETT HUTCHINSON, CHAIRMAN, INTER-
STATE COMMERCE COMMISSION; ACCOMPANIED BY COMMIS-
SIONERS KENNETH H. TUGGLE, RUPERT L. MURPHY, DONALD P.
McPHERSON, ABE MCGREGOR GOFF, CHARLES A. WEBB, CLYDE E.
HERRING, AND JOHN WINCHELL; VERNON V. BAKER, DIRECTOR,
BUREAU OF FINANCE; GEORGE LYNCH AND MEADE FLETCHER,
BUREAU OF FINANCE STAFF

The CHAIRMAN. I think, Mr. Chairman, it would be advisable for you to identify your associates and any staff members present here, because we want to have an opportunity to greet the members, including the two new members.

Mr. HUTCHINSON. Thank you, Mr. Chairman.

Present with me here this morning in the hearing room are several of my colleagues on the Commission.

Chairman of the Commission's Finance Division, Commissioner Tuggle; Chairman of the Commission's Operating Rates Division, Commissioner Murphy; Commissioner McPherson; Commissioner Goff; Commissioner Webb; Commissioner Herring; and former Chairman of the Commission John Winchell from Colorado.

We have also a number of staff members:

Director of the Commission's Bureau of Finance, Director Baker; Mr. Lynch, of his staff, George Lynch; and Mr. Meade Fletcher, of the Bureau of Finance staff.

The Commission's General Counsel, Mr. Ginnane, I believe is coming, but he had another conference which may delay him some.

The CHAIRMAN. I also observe that under recent action taken by the Commission, Mr. Murphy is also here in the status of Vice Chairman of the Commission. I believe there have been several changes made down there recently for the purpose of expediting the work of the Commission. I would say to my colleagues that I recommend each of those actions for your attention and information.

We are quite interested in the reorganizational steps that have been taken within the agencies, and I want to compliment you, Mr. Hutchinson, for the efforts that you have made to bring about these improvements.

Mr. HUTCHINSON. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, my name is Everett Hutchinson. I am the present Chairman of the Interstate Commerce Commission, and have served in that capacity since January 1 of this year. I am appearing today on the Commission's behalf to testify on H.R. 1163, which would extend for 1 year the loan guarantee authority of the Interstate Commerce Commission.

Part V of the Interstate Commerce Act was enacted on August 12, 1958, principally as a recession measure. It was designed to provide financial assistance to railroads in the form of loan guarantees for certain specified purposes as provided in section 503. Under the provisions of section 510 of part V, however, the Commission's authority to guarantee loans will terminate March 31, of this year.

A total of 18 applications had been received at the Commission for loan guarantees amounting to over \$138 million. Amendments filed by certain of the applicants reduced the total amount requested to

slightly over \$125 million. Seventeen of the 19 applications received have been processed. One application which is now pending is for \$16 million and was filed on January 31, and the other which was filed yesterday is for \$15 million. Out of 17 applications processed, seeking an amended total of over \$94 million in guarantees, 14 have been approved; 2 have been denied, as were portions of 2 other applications; and 1 application was withdrawn. Thus, of the \$500 million total loan guarantees which we were authorized to issue, \$85,817,360, or 17.16 percent, has been used as of this date.

As to the 14 applications approved, there is attached to my statement, Mr. Chairman, marked "Attachment A," a table showing the names of the railroads, the number of applications for each, and the total amount of the loans guaranteed for each road.

(The attachment referred to is as follows:)

ATTACHMENT A.—H.R. 1163

Railroad	Number of applications	Total amount guaranteed
New York Central RR. Co.....	1	\$40,000,000
New Haven.....	4	21,659,400
Lehigh Valley RR. Co.....	2	10,923,000
Boston & Maine RR.....	2	6,000,000
Chicago & Eastern Illinois RR. Co.....	1	3,000,000
Norfolk Southern Ry. Co.....	1	2,000,000
Georgia & Florida RR.....	2	1,934,960
New York, Susquehanna & Western RR. Co.....	1	300,000
Total.....	14	85,817,360

Mr. HUTCHINSON. My statement contains a somewhat detailed explanation of these loans and the purposes for which they were used, and in order to save the committee's time I will pass over that and ask that it be included in the record.

The CHAIRMAN. Without objection it will be included in the record at this point.

(The portion of the statement referred to is as follows:)

Referring for the moment to the attachment, the New York Central loan was for reimbursement of its treasury for capital expenditures made from its own funds after January 1, 1957. The loan proceeds are being used, together with other company funds, to construct certain modern classification yard and signal facilities. The four New Haven loans may be broken down as follows:

- (a) \$8,159,400 for acquisition of 30 new diesel electric locomotives;
- (b) \$1.5 million for construction of certain shop facilities;
- (c) \$500,000 for acquisition of maintenance-of-way equipment and machinery; and
- (d) \$11.5 million for reimbursement (the proceeds being used mostly to meet current interest payments on mortgage bonds and other pressing current obligations).

The two Lehigh Valley loans were for refinancing existing equipment obligations, financing freight cars then under construction, planned future capital expenditures, and for reimbursement—the proceeds being used principally to pay overdue State taxes. Both of the Boston & Maine loans were for reimbursement, with the proceeds being used to pay overdue State and local taxes, along with other pressing current obligations. The Chicago & Eastern Illinois loan was for the same purpose and the proceeds were similarly used.

The Norfolk Southern loan was for reimbursement, with the proceeds being used principally to rebuild its bridge over Albemarle Sound which was heavily damaged by hurricane Donna. The two Georgia and Florida loans were used for the acquisition of 100 new freight cars and for rehabilitation of roadway. The New York, Susquehanna & Western loan was for reimbursement and the proceeds were applied to certain of its current obligations.

Mr. HUTCHINSON. As of this date the volume of applications has not been as large as was anticipated when the legislation was pending in 1958. Nevertheless, experience has already shown that certain hard-pressed railroads have, as a result of the enactment of the guarantee provisions of part V, been able to obtain financial assistance in a manner and under terms and conditions which would not otherwise have been available to them. Moreover, the Commission believes it reasonable to conclude from information developed through investigation and study of the applications received that one, and perhaps more, railroads may very well have gone into receivership or trusteeship under the provisions of section 77 of the Bankruptcy Act had it not been for the very timely assistance afforded them by the action of the 85th Congress in its enactment of part V of the Interstate Commerce Act.

It has also been our experience, generally speaking, that the railroads are availing themselves of assistance under part V only where a dire need exists. Your attention is invited to the fact that many large railroads, especially in the eastern part of the country, are still operating at revenue levels which are below those realized prior to 1958, and that substantial deficits in net income continue to beset many of these roads. The Commission also believes it important to mention that there is some evidence that maintenance of properties is being deferred to a substantial extent. It would, therefore, seem that some of these railroads are reluctant to incur the burden of additional debt for modernization and improvement of facilities, and for other purposes which would come within the eligibility provisions of part V, except as a last resort.

As I previously stated, the present provisions of section 510 terminate the authority granted in part V on March 31, 1961, except as to applications which may then be pending, and with a proviso that the provisions of part V shall remain in effect after March 31 for the purposes of guarantees already made by the Commission.

Practically all of the guarantees have been for the full 15-year term allowed under the provisions of part V. Accordingly, even if no new applications are received after the present statutory termination date, the Commission must police and service those guarantees already made for approximately 15 years.

As the committee is already aware, section 505 provides for modifications, with the Commission's consent, as to rate of interest, time of payment of interest or principal, security, or other terms and conditions of guarantees made, or the renewal or extension of such guarantees. As of February 24, 1961, 26 supplemental orders had been issued in connection with requests for modification. It is logical to assume, therefore, that because of changing economic conditions and other reasons each of the loan guarantees will require certain modifications.

The Commission believes that the financial condition of some of the Nation's railroads may have improved since the enactment of part V. Nevertheless, the financial condition and earning position of a number of railroads, especially those in the eastern district, are every bit as critical now as in 1958. Many are still suffering deficits in net income and are in such poor financial condition that the Commission believes an extension of the provisions of part V is fully warranted. The

Commission also believes that, for the reasons I have mentioned, appropriate legislative authority and the necessary administrative machinery should be maintained so that the railroads may quickly avail themselves of assistance such as that provided in part V in the event of another recession, or a catastrophe such as the hurricanes and floods of 1954, 1955, and 1959.

If part V should be allowed to expire and similar legislation should become necessary in the event of some future recession or catastrophe, this would take considerable time, as would the establishment of administrative procedures and the recruitment of personnel to handle the program. The Commission now has the administrative machinery and the personnel to continue the program.

While the Commission favors the extension of the termination date of part V, it also recognizes that, although affording relief in some situations, the loan guarantee provisions do not provide a permanent solution to the ills of the railroad industry in general. The Congress recognized this when part V was enacted as a part of the Transportation Act of 1958. In considering the extension of its provisions, therefore, sight should not be lost of the fact that such extension will not in any manner eliminate the necessity for other relief.

I have in mind, for example, a previous recommendation made by the Commission that the excise tax on passenger travel be repealed. In order to further encourage efforts at the State and local levels toward the granting of tax and other relief, and to prevent the dilution of benefits, it would be well to consider adjustments in the operation of the Federal corporate income tax so that no portion of local public funds, either through payments or tax relief, given for support of needed railroad service, will be absorbed by Federal income taxation. We also believe, in this connection, that some thought should be given to allowing, for tax purposes, faster depreciation of railroad property and equipment or providing for the establishment of construction reserves or both.

The enactment of measures such as these would enable the railroads to accelerate programs for modification of, and additions to, their facilities, with resulting improvement in their ability to serve the public and meet the needs of the national defense.

The Commission is in favor of the enactment of H.R. 1163, but believes that its provisions should be modified so as to extend the loan guarantee authority for 2 years.

No change in the maximum amount authorized appears necessary to an extension of the program for that period of time. The Commission also believes that consideration should be given to the desirability of certain other changes in part V.

It is probable that railroads would be able to obtain better terms on guaranteed loans, including more favorable rates of interest, if provision were made for immediate payment by the United States when payment is required as a consequence of a guarantee made by the Commission, without awaiting an appropriation of necessary funds by the Congress. This could be accomplished by modifying section 506 to include provisions similar to those contained in 46 U.S.C. 1275 in relation to ship mortgage insurance. The Commission believes that this would substantially widen the market for guaranteed obligations.

Railroads would probably be encouraged to undertake more projects for needed improvements to their properties if they could finance them upon reasonable terms over a longer period than can be done under the existing provisions of part V. Under section 504(a)(3), no guarantee may be extended if the terms of a loan permit full repayment more than 15 years after the date thereof. While a 15-year period is usual in connection with financing of rolling stock, such a period may prove unduly onerous in connection with financing the construction of other facilities, such as modern classification yards, which are expected to have a much longer life. It would appear reasonable, therefore, and in furtherance of the purposes stated in section 501 of part V, to amend section 504(a)(3) to provide for a maximum period of 25 years, rather than 15 years.

The Commission would also like to invite the committee's attention to a recommendation that part V be amended to provide for direct loans of Federal funds. This recommendation appears on page 582 of the preliminary draft of report dated January 3, 1961, prepared for the Senate Committee on Interstate and Foreign Commerce by the Special Study Group on Transportation Policies. That proposal, however, pertains only to loans for suburban railroad capital improvements. The Commission is not convinced that it should be so limited, although legislation of this nature might well provide for more favorable terms, including a lower rate of interest, on loans made for improvement of commuter operations. Direct loans for other than commuter purposes should, however, bear interest approximately equivalent to that prevailing in the market on similar loans available to industrial concerns of good credit.

Since the termination date provided in section 505 is quite imminent, we recognize that time will probably not permit a detailed revision of part V with a view toward immediate consideration of amendments such as those I have suggested. It may be, therefore, that the committee would prefer simply to consider extending the termination date at this time, and then give attention to these proposals at the earliest possible convenience in the interest of making part V more flexible and useful in the light of our experience in administering its provisions. In that event, the Commission recommends merely that the termination date be extended at this time for a period of 2 years instead of 1 year as proposed by H.R. 1163.

Mr. Chairman, in closing I want to say that I have noted an increasing local concern over the railroad situation, the commuter problem in particular, since enactment by the Congress of part V of the Interstate Commerce Act in 1958.

I think this is a good sign and it is, I believe, in the public interest.

I wish to thank the committee for the opportunity to appear and testify on this measure. The Commission stands ready to assist the committee in any way that it can, should the committee desire to consider further the provisions of part V.

And if there are any questions, I shall do my best to answer them, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Hutchinson.

Mr. Roberts, do you have any questions?

Mr. ROBERTS. I have no questions.

The CHAIRMAN. Mr. Younger?

Mr. YOUNGER. Yes, Mr. Chairman, I have one question.

Mr. HUTCHINSON, you make a point about shortening the period for depreciation.

Mr. HUTCHINSON. Yes, sir.

Mr. YOUNGER. Then you ask that the period of the loan be extended 25 years. That is for equipment.

Now, what is the present rule in regard to depreciation of that equipment in terms of years?

Mr. HUTCHINSON. Well, the Commission's depreciation schedules are fixed by the Commission, and I do not know what they are, for tax purposes. But I assume they would vary considerably.

Mr. YOUNGER. Is there anyone on your staff here who can give us that information, or anyone from the railroad industry?

Mr. LYNCH. The Commission's rate of depreciation is approximately 15 to 60 years for diesel locomotives, and 28 years on an average for freight cars. I do not offhand know the rates allowed by Internal Revenue. I understand they vary from railroad to railroad.

Those are the rates prescribed by the Commission—averages.

Mr. YOUNGER. Mr. Hutchinson, do you believe that loans should be made for a longer period than the Government gives for depreciation for tax purposes?

Mr. HUTCHINSON. Well, the loans are made for other than rolling stock.

Mr. YOUNGER. I mean in the case of rolling stock, where the depreciation is given.

Mr. HUTCHINSON. Well, I think the present time is adequate for rolling stock.

Mr. YOUNGER. Well, you do not make that distinction in your paper, as to loans for rolling stock or for the improvement of roadbeds and so forth, loans for that purpose.

In other words, what you are telling us is in your opinion the loans made for rolling stock should not be made for a longer period than the depreciation years allowed, for tax purposes; is that right?

Mr. HUTCHINSON. Well, I would not see any need for the loan to be greater in duration than the depreciation schedule covering particular equipment.

Mr. YOUNGER. Your paper, though, does not show that distinction.

Mr. HUTCHINSON. But the suggestion is, Mr. Younger, that the schedules for rolling stock will be accelerated also, and I believe there are bills before the Congress which have that as a purpose.

Mr. YOUNGER. Well, I agree with you, but you recommend a 25-year loan, and you do not make any differentiation as between a loan for rolling stock or for roadbed improvements or other nondepreciation.

Again I ask you, is it your opinion, or the opinion of the commission, that loans should be made for a longer period than the Federal Government grants in connection with depreciation for tax purposes?

Mr. HUTCHINSON. I would not think so, Mr. Younger.

Mr. YOUNGER. That is all.

The CHAIRMAN. Mr. Williams, do you have any questions?

Mr. WILLIAMS. No questions.

The CHAIRMAN. Mr. Bennett?

Mr. BENNETT. No questions.

The CHAIRMAN. Mr. Moulder?

Mr. MOULDER. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. One question, Mr. Hutchinson. Let me word it this way: As I understand it, there is no limitation on the number of loans that may be secured under the guarantee program. Is that correct, as to the number of guaranteed loans that may be secured?

Mr. HUTCHINSON. No, sir; the only limitation is the total amount which was authorized, and that was \$500 million for the entire program.

Mr. COLLIER. In other words, the limitation is on the collective amount, but not on the individual amounts that may be secured by individual railroads. Is that right?

Mr. HUTCHINSON. I do not believe there is any limit.

Mr. COLLIER. Well then, if that is true, it prompts this question: In suggesting amending section 504 to provide the additional 10-year period, would it not be possible for any given railroad to secure additional loans which in substance would carry the repayment over a greater number of years? In other words, if we had a railroad that came in, let's say, at given intervals after the first year, it might have a pending request and 5 years from now it would return for a new and separate loan. Conceivably then this proposal would put a 25-year maximum repayment period on each individual loan, but a railroad could also be encumbered, or could have—how shall I put it—beyond the proposed 25-year limitation.

Mr. HUTCHINSON. I believe that is correct. But no individual loan may be for a longer period than 15 years now.

Mr. COLLIER. Then in the event the extension was not adopted, the planning of security guaranteed loans could be done in such a way, actually, by a railroad so as to space them to take care of any immediate problems of repayment?

Mr. HUTCHINSON. Perhaps that could be worked to some extent. Our experience is that this would assist the borrowers in obtaining lenders of certain classes. In other words, there are classes of lenders who prefer to make a loan for a longer period than 15 years. On the other hand, the commercial banks ordinarily do not like to go over 15 years as I understand it. But some institutional lenders do prefer the long-term loan.

And it has been represented to us, I believe, that this provision would, in some measure, assist the borrower in finding a lender.

Mr. COLLIER. Then you have experience with the present limitation being a hardship in some instances in getting financing, is that right?

Mr. HUTCHINSON. I believe that is correct. Now the 25-year period which we suggest is, of course, a limitation. There certainly would be nothing to prohibit the loan from being less than that period.

Mr. COLLIER. This is all I have, Mr. Chairman.

The CHAIRMAN. Mr. Staggers.

Mr. STAGGERS. Mr. Hutchinson, I read in your statement, and in listening to your statement to the committee I gather, the crux of your testimony is that section 505, due to the imminent expiration date of March 31, that the suggestion is that it should just be extended at the present time, and that all of these other suggestions should probably

be taken up at a later date, and we would have added testimony by your commission if they are taken up?

Mr. HUTCHINSON. Mr. Staggers, in view of the shortness of time it would appear to me to be a more realistic approach.

Mr. STAGGERS. I gathered that from your testimony, that insofar as you are concerned this is the imminent thing, the extension of the expiration date?

Mr. HUTCHINSON. I think so, yes.

Mr. STAGGERS. And that you throw out these other things for bettering the act for later consideration?

Mr. HUTCHINSON. That is correct, sir.

Mr. STAGGERS. That is what I wanted to get clear. Thank you, sir.

The CHAIRMAN. Mr. Glenn.

Mr. GLENN. No questions.

The CHAIRMAN. Mr. Friedel.

Mr. FRIEDEL. Mr. Hutchinson, along the same lines that Mr. Staggers has spoken to you about, I, too, agree that the railroads are in trouble and need some help, especially the eastern railroads. You have spoken about the interest rates, and that you would like to lower the interest rates. I wish you would elaborate on that a little bit.

Mr. HUTCHINSON. The interest rate?

Mr. FRIEDEL. Yes. What are the present interest rates today?

Mr. HUTCHINSON. Well, generally I think it could be said that the rates on loans which the Commission has guaranteed have been approximately the equivalent of the prime rate. The range has been from 5 to 5½ percent.

I could, Mr. Friedel, if it is desired, supplement the record to that extent and furnish the rates of interest on all the loans that have been guaranteed.

Mr. FRIEDEL. I thought the rate was much lower than 5 to 5½ percent.

Mr. HUTCHINSON. 5½ is the highest rate and 5 is the lowest.

Mr. FRIEDEL. Well that is something to be considered in the future, too. And I agree with you that there should be a lower interest rate.

Mr. HUTCHINSON. I have before me the rates of interest on all the loans that have been made, and I am sure that is correct. The range is 5 to 5½ percent. The low is 5 and the high is 5½.

Mr. FRIEDEL. I would like to bring out one more point that has nothing to do with this bill in particular, but I think it should be considered, and that is the mergers of the railroads. I am particularly alarmed about some of the rumors I hear of mergers, where they might affect the port of Baltimore. Now I know the railroads are in trouble, but I know that we need the transportation of all railroads for shipping and everything else. So just keep that in mind about the port of Baltimore, will you, please.

Mr. HUTCHINSON. Thank you, Mr. Friedel.

The CHAIRMAN. Mr. Devine?

Mr. DEVINE. No questions.

The CHAIRMAN. Mr. Flynt.

Mr. FLYNT. Mr. Hutchinson, I notice from the attachment to your statement that the New York, New Haven & Hartford has been paying approximately one-fourth of the dollar value of the guaranteed

loans and more than one-fourth of the number of applications. I assume those figures are correct, aren't they?

Mr. HUTCHINSON. They are correct, yes, sir.

Mr. FLYNT. How does the trackage capitalization of the New Haven compare with the New York Central, which is the only railroad in the country which has obtained more than the guaranteed loans under this act?

Mr. HUTCHINSON. Well, it is about one-fifth the size. The New Haven is about one-fifth the size of the Central.

Mr. FLYNT. I have no further questions.

The CHAIRMAN. Mr. Nelsen.

Mr. NELSEN. On page 8 it says that modifications with the Commission's consent as to rate of interest, time of payment of interest, and so forth, is permitted. Now, are these loans the loans made through private lending agencies? Is that right?

Mr. HUTCHINSON. That is correct.

Mr. NELSEN. How could modifications be made with the Commission's consent if it is a loan through a private lending agency? How could you regulate interest rates by the Commission's authority if it is a private loan?

Mr. HUTCHINSON. Director Baker I think can give some examples of what those actions are.

Mr. BAKER. It is true, of course, that the Commission could not regulate the rate that a private lender would charge. But, of course, the Commission, under the provisions of the act, must find before it guarantees a loan that the rate is not unreasonably high. Some of these suggestions for amendment of the law were designed to create a wider market for guaranteed obligations, and we feel that by the creation of such a wider market that that would result probably in the railroad being able to obtain a lower interest rate than they can under present conditions.

Mr. NELSEN. I see. Thank you.

The CHAIRMAN. Any further questions? Mr. O'Brien?

Mr. O'BRIEN. No questions.

The CHAIRMAN. Mr. Keith?

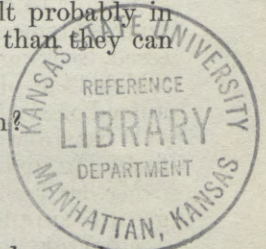
Mr. KEITH. No questions.

The CHAIRMAN. Mr. Moss?

Mr. MOSS. I am interested in the same matter touched upon by my colleague from California, Mr. Younger, a recommendation contained on page 13, where you state: "It would appear reasonable, therefore, and in furtherance of the purposes stated in section 501 of part V, to amend section 504(a)(3) to provide for a maximum period of 25 years, rather than 15 years."

And in explaining some of the problems, you point out the fact that it would not be onerous for rolling stock to be financed under a 15-year period, but you mention the matter of new classification yards.

In reviewing your statement I note that on a number of loans the proceeds have been committed to the payment or reimbursement for taxpayments and items of that kind. Now, is it really your intention here that where the proceeds have been committed to reimbursement for the payment of State and Federal taxes, and certainly we are not dealing here with a matter which has a depreciation



schedule. So how would you determine the length of a loan for that purpose?

Mr. HUTCHINSON. Well, for those purposes a loan could be, under the law as it now is, for 15 years, and under the suggestion we make it could be for 25 years.

Mr. MOSS. Aren't you dealing with a definable area here, where it might be desirable to extend the authority of the Commission to make loans for a 25-year period—fixed capital, and improvements, such as classification yards for usable life or beyond that—

Mr. HUTCHINSON. Well, it might be sound to restrict it in the manner you suggest, if I understand your approach.

Mr. MOSS. Well, if we restrict it in that manner, wouldn't that restriction be consistent with the purposes set forth in section 501?

Mr. HUTCHINSON. I think so.

Mr. MOSS. Those are all the questions I have.

The CHAIRMAN. Mr. Thomson?

Mr. THOMSON. I will defer to my colleague from Connecticut.

The CHAIRMAN. Mr. Dingell?

Mr. DINGELL. Thank you, Mr. Chairman.

You mentioned, sir, in your testimony relative to section 510 of part V of the act that we are discussing today that commuter railroads had come into a very bad pass, and I paraphrase your remarks very loosely.

Would I be correct in inferring that reasonably related with, and one of the reasons that commuter service deteriorated is because of the eliminated State jurisdictions over discontinuance of the service?

Mr. HUTCHINSON. I don't think so, Mr. Dingell.

Mr. DINGELL. I just wanted to be clear on that.

I want to change now and discuss with you this item on page 2 of your statement, where you discuss the substantial applications processed, seeking an amended total of over \$94 billion guarantees of which 14 applications were approved, and a total of \$85 million guaranteed or 17.16 percent. My first question is this:

What relationship do these figures bear to the total minimum of financing done on a long basis by the railroads of this country?

Mr. HUTCHINSON. I do not have a figure on that. Perhaps I could get it to supplement the record.

Director Baker suggests to me that it would be a relatively small percentage. This figure, \$85 million, would be a relatively small percent of the total capital investment made by the railroads during the effective period of this.

Mr. DINGELL. By issuing debentures as opposed to equity stocks?

Mr. HUTCHINSON. Well, for all purposes, equipment trusts and all.

Mr. DINGELL. Now, my next question is this:

Who has paid the cost of servicing this program?

Mr. HUTCHINSON. The borrowers have paid the cost of servicing.

Mr. DINGELL. The borrowers have paid the cost of it?

Mr. HUTCHINSON. Yes. We were authorized to fix administrative fees. We did that and so far the fees, guarantee fees, collected from the beginning of our operations under the law, August 15, 1958, to January 31, 1961, are \$308,690.10, and the cost of administration, for the same period, was \$186,440.16.

Mr. DINGELL. Have there been any defaults or threatened defaults under the program by railroads?

Mr. HUTCHINSON. No, sir.

Mr. DINGELL. Has this possibility of a default been a consideration in your granting, on behalf of the Federal Government, a guarantee of these loans?

Mr. HUTCHINSON. Well, it is always a consideration. The Commission has done what it could to see to it that the interest of the Government was protected but, of course, I understand that bankers have a saying among themselves, at least, that nobody ever loaned very much money and got it all back.

So this is a factor.

Mr. DINGELL. Do you anticipate that your administration costs are sufficient to protect the Government against loss in this program due to default?

Mr. HUTCHINSON. That is not the purpose of the fees, as I understand the law, and I do not think the fees would be adequate.

The fee is designed merely to cover the administrative costs.

Mr. DINGELL. Does it appear to be desirable that it should be done on a basis that would protect the Government against defaults as is done by, let's say, Government agencies which insure mortgages or real property or which insure savings and loan deposits and things of that sort?

Mr. HUTCHINSON. Well, I would think this is a point that should have consideration.

Mr. DINGELL. Would you say that it was worthy of serious consideration?

Mr. HUTCHINSON. I would.

Mr. DINGELL. And, as a matter of fact, it probably would be desirable, would it not?

Mr. HUTCHINSON. Well, may I just say that I believe it is worthy of serious consideration. I do not know what the factors might be that would develop once you took that sort of approach.

Mr. DINGELL. Thank you very much.

Thank you, Mr. Chairman.

The Chairman. Mr. Sibal.

Mr. Sibal. Commissioner, you suggest various legislative possibilities to be helpful in this railroad problem but, on the other hand, you very realistically point out that, because of the time problem involved in H.R. 1163, why, probably this will have to be deferred for other considerations.

Do you know whether there is legislation pending before this Congress which deals with these other points which you make other than this bill?

Mr. HUTCHINSON. Some of them, perhaps, but generally, no.

Mr. SIBAL. I have one other question. When you consider these applications, is one of your considerations the quality of service performed and the quality of service which might become available in improved service as a result of the loan?

Mr. HUTCHINSON. This is not a requirement but it is a matter of concern to us, naturally, as it is to everyone in considering the loans and the applications.

This is something that would be taken into consideration.

Mr. SIBAL. Do you become as familiar as you can with the operation of the railroad—of the applicant railroad?

Mr. HUTCHINSON. Indeed, we do. We have conducted studies of the properties of most of the borrowers.

The Commission has made a serious effort to gain as much knowledge as it could concerning the properties and the operations of the applicants, borrowers, and the other lines too, for that matter.

Mr. SIBAL. But I gather—

Mr. HUTCHINSON. That is part of our storehouse of information on transportation.

Mr. SIBAL. When you grant these or decline approval, as the case may be, assuming you grant approval of an application, do I understand that this is the decision you make rather than any conditions attached thereto?

Mr. BAKER. Well, the conditions that have been attached do not relate to service. They are related to restrictions on their financial operations in certain respects.

Mr. SIBAL. Thank you.

Mr. BAKER. Payment of dividends and the like.

Mr. SIBAL. I see.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Rogers?

Mr. ROGERS of Florida. Yes. Thank you, Mr. Chairman.

Mr. Hutchinson, as I understand it, now, you have the authority to grant loans for 15 years or guarantee loans for 15 years.

Page 8 of your testimony implies, the way I read it, that you could also extend or renew such a guarantee. Is that permitted?

In other words, extend or renew it for another 15 years, or another 10 years, if you so see fit.

Mr. HUTCHINSON. May I ask Director Baker to come in on that?

Mr. ROGERS of Florida. Yes.

Mr. BAKER. As I construe the law, the Commission would be empowered, say, at the end of the 15 years to consent to an extension of the loan, but the difficulty in that respect, and the reason, I think, for the Commission's recommendation to extend for 25 years, is that in approving the original guarantee the Commission must find that the applicant has reasonable prospects that it will be able to repay the loan in the 15 years.

So if it appeared at that time that it could not make full repayment in 15 years the Commission will have to deny the loan.

And from the standpoint borrower itself, ordinarily the Commission would require amortization of that loan over the 15-year period. And repayment in 15 installments might appear too burdensome to the borrower, and it would be unwilling to undertake an improvement that it otherwise might take.

Mr. ROGERS of Florida. So, apparently, they must make a showing that they can repay in 15 years on the initial application?

Mr. BAKER. That is a requirement of the law.

Mr. ROGERS of Florida. Yes. Although you actually could, the next year, come in and refinance it or they could come in and refinance it for a period of an additional 10 years which the Commission could then agree to.

Is that correct or technically could that be done?

Mr. BAKER. Well, when they refinance it, the next day, as of that time, I do not feel the Commission could go beyond 15 years from that date, sir.

Mr. ROGERS of Florida. Well, this is not true then on a renewal or extension of such guarantees over and beyond 15 years?

Is that true then?

Mr. BAKER. The problem hasn't arisen but I feel that the law is broad enough that the Commission could, probably, agree to an extension beyond that 15 years.

Mr. ROGERS of Florida. I would think so, from reading it, that you could agree to a period longer than 15 years. I just wanted your interpretation about that.

Mr. MOSS. Will you yield at this point?

Mr. ROGERS of Florida. All right.

Mr. MOSS. Now, do I understand that you are proposing here a hypothetical case where a loan is made this year for 15 years, and an application is received next year to consider modification of the conditions of the terms of the loan which would permit at that point an extension beyond 15 years from that date?

Mr. BAKER. I hesitate to be positive about it myself, because we have not—

Mr. MOSS. In looking at section 504(a), item 3, it seems to me that you are limited to a 15-year total period from the date of the last action of the Commission because it says here "If the terms of such loan permit full repayment more than 15 years after the date thereof" that, and it goes on "no guarantee shall be made under section 503."

Mr. ROGERS of Florida. Well, perhaps, you could give us an interpretation of this and just put it in the record. I think it might be helpful.

Mr. MOSS. I think this was discussed at length at the time we passed the original act and it was my recollection that we intended no period, whatever the circumstances, beyond 15 years from the last date of consideration of the request for modification, and if there is any danger of it being open to any other interpretation I think we should make it abundantly clear that in the report accompanying the action of the committee, on this instance, that the intent still ties to a maximum 15 years from the last consideration by the Commission.

Mr. HUTCHINSON. Well, as Director Baker suggested, the problem has not arisen with the Commission. The Commission has taken no position on it or had no occasion to take any position on it in an actual situation.

But, Mr. MOSS, your interpretation of the law is the same as mine, or mine is the same as yours.

Mr. ROGERS of Florida. May I ask you then, Mr. Chairman: What about the conditions now of the railroads for which loans have been guaranteed?

Do you feel these loans have really been helpful? Has it shown up that it has been a constructive program or not?

Mr. HUTCHINSON. Yes, Mr. ROGERS, I think it has been useful.

Mr. ROGERS of Florida. Are there any cases where the railroads, where you have granted the loans, are in worse condition now than they were before they had the loan?

Mr. HUTCHINSON. Well, that is difficult to say. General business conditions are, perhaps, not as good as they were when some of the earlier loans were made, and I would say that it is quite possible that the situation of some of the roads is now worse than it was at the time part V was enacted or at the time some of the guarantees were issued under it.

Mr. ROGERS of Florida. Have you had more applications from the railroads for which loans have already been granted?

Have you had any new applications from the same railroads?

Mr. HUTCHINSON. Yes. We have had more than one application from at least two roads, I think. We have had four from the New Haven.

Mr. ROGERS of Florida. Yes. I see your figures. I meant other than these that are indicated. I thought these were loans that have already been granted.

Mr. HUTCHINSON. They are.

Mr. ROGERS of Florida. Well, I mean any new ones?

Mr. HUTCHINSON. We have two applications pending, one by the Missouri-Kansas-Texas for \$16 million and one by the Erie-Lackawanna for \$15 million.

Mr. ROGERS of Florida. I see.

Mr. HUTCHINSON. Those are the only two that are now pending.

Mr. ROGERS of Florida. I have one last question:

What additional personnel, if there were any additional personnel, were required to be added to administer this program? How many would you say?

Mr. HUTCHINSON. Do you mean originally back in 1958?

Mr. ROGERS of Florida. Yes, when this program first went in.

Mr. HUTCHINSON. For an extension—

Mr. ROGERS of Florida. First, I would like to know how many were required to be put on. That would be my first question and then, secondly: Would any additional personnel be required if an extension is granted?

Mr. HUTCHINSON. No additional personnel would be required if the provision is extended.

The Commission had 15 positions allocated for this work but, I am told by Director Baker, that the highest number that we had employed actually in this work was 12.

Mr. ROGERS of Florida. And the 12 will be sufficient to carry on any extension of this sort?

Mr. BAKER. Well, at the present time, actually we only have one man who devotes his entire time to it, and two other men who devote a part of their time to it.

Mr. ROGERS of Florida. Then you anticipate that the three would be sufficient to carry on this program if an extension is granted or what?

Mr. BAKER. If the applications continue to be filed as they have been in the past, they have been spaced pretty well, that if we had a number of applications come in at one time, to process them promptly we would probably have to detail men from other parts of the Bureau to help.

Mr. ROGERS of Florida. Yes, but no significant change?

Mr. BAKER. We do not anticipate it.

Mr. ROGERS of Florida. Thank you.

Thank you, Mr. Chairman.

Mr. HEMPHILL. As I understand the law, Mr. Chairman, the purpose of these loan guarantees is to guarantee those loans made for improvements. Really, they are supposed to be loans for capital improvements, are they not?

Isn't that the real purpose of this?

Mr. HUTCHINSON. Well, that is one of the main purposes, yes.

Mr. HEMPHILL. Well, in the law, did you get the authority or did the Commission get the authority to make loans to the New Haven for \$11½ million to refinance payments they couldn't make and, I believe the other one, was the Boston & Maine for \$6 million to pay taxes they couldn't pay?

Where is the authority under the law?

Mr. HUTCHINSON. The loans were made, Mr. Hemphill, to reimburse the carrier's treasury for disbursements already made for capital improvements since the critical date in the act.

Mr. HEMPHILL. Yes, but taxes are not capital improvements. If they are, that is news to me.

Are State and local taxes capital improvements?

Mr. HUTCHINSON. No, they are not capital improvements.

Mr. HEMPHILL. Well now, what about refinancing the New Haven? Didn't the Commission at first refuse that application at one time?

Mr. HUTCHINSON. I do not think so.

Mr. HEMPHILL. Well, isn't it a bad loan?

Mr. HUTCHINSON. The Commission deferred action on, perhaps, one application.

Mr. HEMPHILL. Was that the \$11½ million?

Mr. HUTCHINSON. No. As I recall, that one was in the total amount of \$4½ million.

Mr. HEMPHILL. Well, haven't the facts since proved that the New Haven loan was a bad loan?

Mr. HUTCHINSON. Well, I do not think so, Mr. Hemphill.

Mr. HEMPHILL. You said they had been back again, didn't you?

Mr. HUTCHINSON. We have had, I think, four applications from them approved.

Mr. HEMPHILL. Well, the question occurs to me: If you make the loan, as you have done, for State and local taxes and if you make the loan, as you have done, for the New Haven for paying interest and current obligations which they have not been able to meet, where is the revenue coming from?

What improvements are to be put in to bring the revenue? What improvements and service or what improvements in hardware or equipment?

What else is going to bring in the revenue?

Now that is the thing that bothers me, unless you raise the rates or make some other provision or require some other provision. If they can't make it before you make the loan how are they going to make it afterwards to pay back the loan to you?

Mr. HUTCHINSON. Well, I think we are all hopeful that there will be some improvement in general business conditions, and this factor alone could very well relieve the tension on most everybody, including the situation of some of the eastern district railroad carriers.

Mr. HEMPHILL. Well, the United States is the only banker that I know of that accepts hope as collateral.

Now, what occurs to me here is that we are trying to bale out the railroads, apparently. I think it is a good thing but what are they doing now to bale themselves out, and what are you people doing to make sure of it, if they take this money, because the bank does not have any risk in the thing. It is just sitting out there as a lending institution and it is a windfall for the banks, I know that.

What is being done now to make sure these loans are being paid back? The taxpayer of the United States is not being stuck with the bill, is he?

Mr. HUTCHINSON. Well, the Congress, in adopting this legislation, authorized the Commission to give assistance to some of these carriers who needed it for a period of approximately 2 years; that its to say, March 31, 1961. This has been done.

The earnings of the carriers are down but, as I indicated earlier, a sharp upturn in general business conditions could very well solve the problems that a lot of people have or a lot of businesses have.

Mr. HEMPHILL. Would it be your considered opinion if the railroads would start thinking in terms of giving service that it might improve the situation, too?

Mr. HUTCHINSON. Well, there is no doubt that service could and should be improved.

Mr. HEMPHILL. All right. I know in the 5 years I have been here I have had universal complaints about the service and not only the passenger service, which has deteriorated to a point where it is no longer a public service in some parts of the country—it is just something the railroads give because you people make them—but also the transportation service which requires meeting competition.

It greatly concerns me because I think the railroad is a great institution, but if you are going to take the taxpayers' money and guarantee the obligation of the railroads, I think—if it is not written into the law it is certainly written into your duties indirectly—that something should be done to show that they pay it back and that the American public is the beneficiary.

Mr. HUTCHINSON. Well, this is a matter of serious concern to the Commission, Mr. Hemphill, and we certainly have it in mind at all times on the matter of service.

The Commission, of course, has no authority to run the carriers, but this is a matter of concern, to us and we have taken every occasion, I think, that we could, to remind the carriers that the public interest requires constant upbuilding in the caliber of the service they render.

And I think the carriers, by and large, are aware of this. I think they are concerned about it, too. Nevertheless, there certainly is room for improvement and we would hope that there will be improvement—

Mr. HEMPHILL. Thank you, sir.

Mr. HUTCHINSON (continuing). On a continuing basis.

Mr. BAKER. May I clarify the legal point you raised as to the authority of the Commission to make loans for payment of taxes, for example?

It is true, the Commission does not have authority to make loans specifically for that purpose, but the law does state that the Commission may make loans to reimburse the treasury of the carrier for expenditures it has made since January 1, 1957, for capital purposes.

In the case of the New Haven Railroad, it showed that it had spent since January 1, 1957, amounts for capital improvements in excess of the amount of the loans guaranteed by the Commission.

Now, in a situation like that the Commission does also ask them what they are going to do with the money.

Mr. HEMPHILL. You said the Commission does ask them?

Mr. BAKER. Yes.

Mr. HEMPHILL. It should ask them.

Mr. BAKER. We are interested, naturally, in knowing what they are going to do with the money but so far as meeting the requirements of the law, it is for reimbursement of their treasury for capital expenditures.

Mr. HEMPHILL. But you will never convince me that when you all authorize the payment of State and local taxes, you are within the law. You are without the law and you may say you can do indirectly what the law says you can't do directly, and that is what you are doing. You are saying you are paying them back for improvements when taxes are not improvements.

You say "We are paying you back for money being used for current interest payments" when interest payments, under no definition that I ever heard of, can be capital improvements.

Mr. MACDONALD. Will the gentleman yield?

Mr. HEMPHILL. Yes.

Mr. MACDONALD. Do you think, Mr. Hemphill, that it would be in the public interest if railroads went out of business on the eastern seaboard or if the New Haven and the Boston & Maine were unable to function at all?

Do you think the public interest would be protected that way?

Mr. HEMPHILL. Oh, I think the question answers itself. Of course not, but I think you and I have a duty right here, Mr. Macdonald, a duty right here to make sure that when the law is administered it is administered in such a way that the best interests of the people of the United States are served, including the taxpayers as well as the industries, and that is my purpose.

The CHAIRMAN. Well, we will go off the record for a moment.

(Discussion off the record.)

Mr. HUTCHINSON. May I say one thing in response to Mr. Hemphill?

The Commission has guaranteed no loans for the payment of State or local taxes. The loans have been guaranteed to reimburse the carrier's treasury for expenditures made.

Mr. MOSS. Mr. Chairman, on that point, and it is the Chair's desire to terminate questions now—

The CHAIRMAN. I am going to be compelled to.

Mr. MOSS (continuing). I would be desirous of having the gentleman return because the statement just made is at complete odds with the statement submitted to the committee or I have certainly misconstrued his words in the statement submitted to the committee.

I think we should explore it further.

The CHAIRMAN. Mr. Hutchinson, will it be convenient for you to return at 10 o'clock in the morning?

Mr. HUTCHINSON. Yes, indeed.

The CHAIRMAN. Very well. If you will do that, the committee will adjourn until 10 o'clock tomorrow morning.

I would like to ask our guests who are here today to give us the room as speedily as possible and we will appreciate it.

(Whereupon, at 12 p.m., the hearing was recessed, to reconvene at 10 a.m., Thursday, March 2, 1961.)

GUARANTEED LOANS FOR RAILROADS

THURSDAY, MARCH 2, 1961

**HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.**

The committee met, pursuant to recess, at 10 a.m., in room 1334, New House Office Building, Hon. Oren Harris (chairman of the full committee) presiding.

The CHAIRMAN. Mr. Hutchinson, will you resume the witness stand?

Mr. HUTCHINSON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Moss, you were questioning the witness when we concluded yesterday, and you are recognized.

Mr. MOSS. Mr. Chairman, at the time we were ready to recess on yesterday, I believe Mr. Hemphill had just gotten a reply. Did you want to continue that questioning?

Mr. HEMPHILL. I would like to ask some more questions after Mr. Moss is finished.

The CHAIRMAN. I beg pardon?

Mr. HEMPHILL. He thought I had the floor, but I would like to ask some more questions after he is through.

The CHAIRMAN. Very well.

STATEMENT OF HON. EVERETT HUTCHINSON, CHAIRMAN, INTER-STATE COMMERCE COMMISSION; ACCOMPANIED BY VERNON V. BAKER, DIRECTOR, BUREAU OF FINANCE—Resumed

Mr. MOSS. I want to get to the statement of Mr. Hutchinson. On page 4, Mr. Hutchinson, of your statement filed with the committee yesterday, the first full paragraph on that page:

The two Lehigh Valley loans were for refinancing existing equipment obligations, financing freight cars then under construction, planned future capital expenditures, and for reimbursement, the proceeds being used principally to pay overdue State taxes.

Mr. HUTCHINSON. That is correct, sir.

Mr. MOSS. That is correct.

Now, in response, I believe, to the question of Mr. Hemphill, you indicated that the proceeds of loans were being used for the purposes set forth in section 501:

It is the purpose of this part to provide for assistance to common carriers by railroad subject to this act, to aid them in acquiring, constructing, or maintaining facilities and equipment for such purposes and in such manner as to encourage the employment of labor and to foster the preservation and development of a national transportation system adequate to meet the needs of the commerce of the United States, of the postal service, and of the national defense.

The question at that time, the question I have now, is where in the statement of purposes in section 501 is there authority to make a loan for the purpose or where the proceeds are committed for the payment of overdue State taxes?

Mr. HUTCHINSON. Mr. Moss, in my statement yesterday I said that the Commission had guaranteed no loans to railroads for the purpose of paying State and local taxes; and what I had in mind was the provision of the statute, section 503, rather than 501 to which you now refer, which provides that guarantees may be made, and I quote now— in the financing or refinancing (1) of additions and betterments or other capital expenditures made after January 1, 1957, or to reimburse the carrier for expenditures made from its own funds for such additions and betterments or other capital expenditures or (2) of expenditures for the maintenance of property, and so forth.

Mr. Moss. Well, let us take that—

Mr. HUTCHINSON. Now, that is the statute, and the loans we were talking about yesterday were those that had been made for reimbursement for capital expenditures.

Mr. Moss. My question then becomes the same as Mr. Hemphill's at the windup yesterday. When did the payment of taxes become an expenditure for capital betterments or capital improvements?

Mr. HUTCHINSON. Well, may I answer your question in this way, Mr. Moss: As I indicated in my statement to which you refer, the proceeds of loans in some instances were used in part to pay overdue taxes. I am referring particularly to the loans you just referred to, and they are the Lehigh Valley and the Boston & Maine loans.

The purpose of these loans, as the statute provides, was to reimburse the carrier's treasury in each instance for capital expenditures made after the critical date specified in the act, January 1, 1957.

In each case the record shows that such expenditures actually had been made in an amount equal to or in excess of the amount of the loan, and the Commission so found in its report, as it is required to do.

Mr. Moss. It is your contention that the funds, that the loans were not made, then, for the purposes of having the proceeds used for the payment of taxes.

Mr. HUTCHINSON. That is correct, Mr. Moss.

Mr. Moss. They were not made for that purpose?

Mr. HUTCHINSON. No, sir. They were made to reimburse the carrier's treasury for capital expenditures—for capital funds already expended for capital improvements, as section 503 provides.

Mr. Moss. Under that theory, then, there is no limit or no restriction upon the Commission in making loans, because you could go back and reimburse for existing capital improvements—

Mr. HUTCHINSON. Yes, sir.

Mr. Moss (continuing). Without limit; is that correct?

Mr. HUTCHINSON. Yes, sir; as the Congress provided.

The Congress made that particular phase retroactive—this act became effective in August of 1958, as I recall it. This part of the Transportation Act of 1958, and that particular provision is retroactive in a sense in that it allows the carriers—

Mr. Moss. The reimbursement is retroactive?

Mr. HUTCHINSON. Yes, sir; it allows the carriers to go back to January 1, 1957, to be—

Mr. Moss. Reimbursed for capital improvements?

Mr. HUTCHINSON. For capital improvements; yes, sir.

Mr. Moss. Then you have in the application clearly delineated capital improvements for which you were reimbursing; is that correct?

Mr. HUTCHINSON. That is correct; if I understand your question correctly, yes, that is right.

Mr. Moss. In each of these instances where funds were used for purposes other than those set forth in section 501, it was a reimbursement in the opinion of the Commission for improvements clearly delineated which were made after January of 1957?

Mr. HUTCHINSON. Yes, sir; that is correct. We were talking about reimbursement for expenditures, that is, funds that had already been expended by the carrier for the purpose set forth in the statute, to wit, additions or betterments or other capital improvements.

Mr. WILLIAMS. Mr. Hutchinson, would you mind speaking a little louder, please?

Mr. HUTCHINSON. Yes, sir; I will endeavor to do that.

Mr. AVERY. Mr. Chairman, will the gentleman from California yield for a comment?

Mr. Moss. Yes.

Mr. AVERY. He employs this word "reimbursement" and it leaves the wrong connotation; it is rather a replacement of funds. But it is not a reimbursement in the sense that there is no obligation to repay.

Mr. Moss. I would not assume that a reimbursement relieved a borrower of an obligation to repay.

Mr. AVERY. Well, I did not assume the gentleman would, but it might leave the wrong inference in the record.

Mr. Moss. For the gentleman's information, the term "reimburse" is the language employed in section 503, and the reimbursement is also the term used by Mr. Hutchinson on page 4 in the two cases we are discussing. It is for that reason that I have employed the term "reimbursement."

Mr. AVERY. I would say that the gentleman from California had precedent for the employment of the term, but I still do not feel, notwithstanding the fact that it appears in the chairman's statement, that it is quite appropriate to describe a situation that we are commenting about.

Mr. HEMPHILL. If the gentleman will yield to me, if you want to play on semantics, let us just use the word "subsidy" and get down to the truth of it.

Mr. AVERY. I would not want my comments included in that. I just assumed this was going to be repaid with interest, and I do not interpret that to be a subsidy.

I yield the floor.

Mr. Moss. Well, the gentleman is very kind to yield back to the gentleman who has the floor.

Mr. AVERY. Quite right. [Laughter.]

Mr. Moss. I think we went to the question also yesterday in Mr. Hemphill's discussion of whether or not there had been a rejection of an application from a carrier presently having a loan.

Mr. HUTCHINSON. I recall some question on that, yes.

Mr. Moss. Has there been a rejection of an application from a carrier presently having a loan?

Mr. HUTCHINSON. With respect to one of the loans the Commission deferred action on the application or refused at the time to pass upon it until additional showings were made. But I would not say that it was rejected. Action was deferred.

(Mr. Williams is now presiding.)

Mr. Moss. Mr. Hemphill, I will yield to you. I think you want to pursue this.

Mr. HEMPHILL. If the gentleman will yield to me, now, as late as January 24, 1961, sir, didn't you write a letter to four Governors of and also the mayor of New York, I believe, and some county commissioner of Westchester County, N.Y., in which you discussed at some length the New York, New Haven & Hartford situation?

Mr. HUTCHINSON. Yes, sir; and made copies of the letter available for distribution to members of this committee and the Senate committee.

Mr. WILLIAMS. Let me ask you if you will speak a little louder because some of the members of the committee cannot hear you.

Mr. HUTCHINSON. Thank you, Mr. Chairman; I will.

Mr. HEMPHILL. At that time I believe that you told these various officials that the Commission could not find that the earning power of the applicant furnished reasonable assurance of its ability to repay the loans in the time fixed; that is correct, is it not? The application was turned down at that time because of that?

Mr. HUTCHINSON. Well, at the time the letter to which you refer was written I do not recall that any application was pending.

Now, the Congress, you will recall, referred to this provision of the Transportation Act of 1958 in the legislative history as a palliative, I think was the word that was used, and indicated that these matters were primarily the responsibility of local interests—matters of local concern.

Mr. HEMPHILL. Of course, that is—

Mr. HUTCHINSON. Local officials were and are becoming increasingly concerned with respect to the situation that we are dealing with here.

Mr. HEMPHILL. Did you make a finding after that, that the New York, New Haven & Hartford could repay that loan?

Mr. HUTCHINSON. The Commission did approve a loan guaranty application subsequent to the letter to which you referred, Mr. Hemphill.

Mr. HEMPHILL. What changes had taken place in the financial structure or in the collateral that would cause you to change that finding?

Mr. HUTCHINSON. Well, the finding was not changed, Mr. Hemphill. The Commission did, as I say, guarantee a loan.

Mr. HEMPHILL. Well, the Commission made—

Mr. HUTCHINSON. After the letter was written, but the language in the letter is not a finding on any particular application that was pending before us, because I am quite certain that there was no application pending at that time.

Mr. HEMPHILL. Well you made this statement in the letter:

We believe we should advise each of you that this time—

that is, January 24, 1961—

that unless such financial assistance is actually afforded New Haven promptly it is difficult to see how we can make the required statutory finding for the guarantee of any further loan to New Haven.

Now, you say a loan has been made since that time?

Mr. HUTCHINSON. That is correct, sir.

Mr. HEMPHILL. What did you base your findings on that the situation had changed?

Mr. HUTCHINSON. Well, the principal change was in the extremely adverse weather conditions that prevailed in the seaboard area, New York-New England area, even down as far as Washington, and a strike of certain railroad marine workers in New York, the duration of which I am not certain, but I believe it was about 2 weeks—13 or 14 days.

Mr. HEMPHILL. Yes. But you are not basing your findings on what you said the findings should be based on, the ability to repay. If you had adverse weather conditions, and if you had the adverse labor conditions, wherein does that increase the ability to repay the loan?

Mr. HUTCHINSON. Well, Mr. Hemphill, I mentioned earlier there was and is increasing local concern in this situation and the New England Governors, including the Governors to whom—well, the Governors of New York, Connecticut, Rhode Island, and Massachusetts, and the mayor of the city of New York, and the county executive of Westchester County, had come forward with a plan for assistance in this area which proposed relief to the carrier, this particular carrier, in the sum of \$13.7 million per year, as I recall the figure. If that is not the figure it is not off over a point or two. So this condition was before the Commission at the time the loan to which you refer was before us.

Mr. HEMPHILL. Well now, at the time you made the loan, which was subsequent to this letter, in which you advised you could not make the loan because they could not pay, did the Commission make a finding that the New York, New Haven & Hartford could repay?

Mr. HUTCHINSON. Yes. We made the finding that the statute requires, and, as I say, we had the benefit of the action that the Governors had taken, and they have, as I understand it, plans pending now before the legislatures of the four States to implement the plan, and I understand action is expected by March 21.

Mr. HEMPHILL. Well, even before the plan had been implemented, the Government goes out on a limb through the Interstate Commerce Commission and guarantees a loan which, until the plans were implemented, is not sound.

Mr. HUTCHINSON. Well, we had strong assurances from people like the former Governor of Connecticut, Mr. Ribicoff, and from the Governor of New York, Mr. Rockefeller, and the officials from the other States, that is, Rhode Island and Massachusetts.

Mr. HEMPHILL. Now let me get to some basic questions.

I think, in fairness to the witness, we had better put in the record at this point his letter of January 24, 1961, so that the context—if no one objects, I would like to insert this letter of January 24, 1961, so that the record will reflect what we are talking about here. You would not object to that?

Mr. HUTCHINSON. No, not at all.

Mr. WILLIAMS. Without objection, so ordered.

(The document referred to follows.)

INTERSTATE COMMERCE COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, D.C., January 24, 1961.

HON. JOHN N. DEMPSEY,
Governor of Connecticut.

HON. JOHN E. VOLPE,
Governor of the Commonwealth of Massachusetts.

HON. NELSON A. ROCKEFELLER,
Governor of New York.

HON. JOHN A. NOTTE, Sr.,
Governor of Rhode Island and Providence Plantations.

HON. ROBERT F. WAGNER, Jr.,
Mayor of New York City.

HON. EDWIN G. MICHAELIAN,
County Executive of Westchester County, N.Y.

GENTLEMEN: This communication is addressed to each of you by direction of the entire Interstate Commerce Commission.

As you know, the ability of the New York, New Haven & Hartford Railroad Co. to continue to serve the New England and Metropolitan New York areas has been in question in recent years. We at the Interstate Commerce Commission are acutely aware of two historic facts: (1) that the New Haven emerged from a prolonged railroad bankruptcy reorganization only in 1947, and even then with such undetermined matters as the related status of the Boston & Providence Railroad Co.; and (2) that the New Haven transportation service is an important element of the economy of the States which it serves.

The Transportation Act of 1958 added to the Interstate Commerce Act a new title V which authorized the Commission to guarantee loans to railroads in an aggregate principal amount not to exceed \$500 million. Title V authorizes such loan guarantees for the purpose of aiding railroads "in the financing or re-financing (1) of additions and betterments or other capital expenditures, made after January 1, 1957, or to reimburse the carrier for expenditures, made from its own funds for such additions and betterments or other capital expenditures, and (2) of expenditures for the maintenance of property." Section 504 provides that no guarantee shall be made "unless the Commission finds that the prospective earning power of the applicant carrier, together with the character and value of the security pledged, if any, furnish reasonable assurance of the applicant's ability to repay the loan within the time fixed therefor and reasonable protection to the United States."

Since part V of the act became effective, the Interstate Commerce Commission as of January 3, 1961, had guaranteed loans to railroads in the aggregate amount of \$79.3 million: of this aggregate amount \$18,159,400, or approximately 23 percent, were made for the benefit of the New York, New Haven & Hartford Railroad Co.

I am directed by the Commission to call to your attention the circumstances surrounding its last two guarantees of loans to the New Haven. First, on October 31, 1960, the Commission, in finance docket No. 21299, New York, New Haven & Hartford Railroad Co. loan guarantee, authorized the guarantee of a loan to New Haven in the principal amount of not to exceed \$4,500,000, plus interest. This was an unsecured loan. The Commission, in its interim report of October 24, 1960, initially denied New Haven's application on the ground it could not "find, as required by paragraph (4) of section 504(a), that the prospective earning power of the applicant furnishes reasonable assurance of its ability to repay the loan within the time fixed therefor (1 year) and reasonable protection to the United States." However, the Commission further stated that "in view of the situation here disclosed which, among other things, clearly

requires affirmative action on local levels if earnings are to be improved, we will withhold entry of an order for the submission by applicant and interested State and local governmental agencies of such facts as they deem relevant in support of the application, including evidence of action on the local level holding promise of prompt and substantial relief."

On October 31, 1960, following a meeting with representatives of the States of Connecticut, Massachusetts, New York, and Rhode Island and the city of New York and Westchester County, the Commission issued an order authorizing the guarantee of a loan to New Haven in the principal amount of not to exceed \$4,500,000. On December 2, the Commission issued a report to accompanying and explain its order of October 31. Briefly, the report states that the finding made in the order of October 31 that there was reasonable assurance of New Haven's ability to repay the loan and reasonable protection to the United States was based upon assurances or predictions that New Haven would receive massive aid at the State and local levels early in 1961.

On December 29, 1960, the Commission issued its further order in finance docket No. 21299 authorizing the guarantee of an additional unsecured loan of \$3,500,000 to New Haven. As the basis for the required statutory finding, this order referred to "certain representations and statements by representatives of certain States and municipalities in respect of proposed actions by the respective State and municipal bodies which would improve applicant's future earning position and its ability to repay the proposed loan within the time fixed therefor."

Both of the above-guaranteed unsecured loans totaling \$8 million are due on November 3, 1961.

It is clear from New Haven's financial reports on file with this Commission and with your respective State commissions that New Haven will need additional financial assistance in the near future—probably not later than April 1. As noted above, the Commission's actions in authorizing the loan guarantees of October 31 and December 29, 1960, were based in considerable part upon the expectation that New Haven would receive substantial financial aid at the State and local levels early in 1961. In the absence of such expectation, the Commission would have been unable to make the required statutory finding of "reasonable assurance of the applicant's ability to repay the loan within the time fixed therefor and reasonable protection to the United States." We believe that we should advise each of you at this time that unless such financial assistance is actually afforded New Haven promptly, it is difficult to see how we can make the required statutory finding for the guarantee of any further loan to the New Haven.

We are sure that you will appreciate the Congress has not empowered us in title V of the Interstate Commerce Act to provide a recurrent subsidy to any railroad. This is clear from the report of the Senate Committee on Interstate and Foreign Commerce on the 1958 legislation (S. Rept. 1647, 85th Cong., 2d sess., p. 16) to the effect that the committee "does not believe that this temporary financial assistance to the railroads in the form of guaranteed loans is an answer to the long-range railroad problems. * * * This guaranteed loan program is only offered as a palliative to meet the short-range emergent fiscal needs of some few of the major railroads and to give them time in which to start feeling the beneficial effects which will result from the adoption to the other legislative proposals and recommendations herein contained." The fact that the loan guarantee provisions of title V will expire on March 31, 1961, is further evidence that Congress did not intend by this legislation to empower us to subsidize continuously any railroad.

Although the New Haven's future is not the exclusive responsibility of the State and local governments involved, we must again emphasize the necessity for prompt State and local assistance in an adequate amount and point out that we cannot recommend or approve any further assumption of Federal responsibility without prompt and positive assurances that State and local communities are ready and willing to assume a substantial part of the burden.

The issue is whether New Haven is to survive.

Sincerely,

EVERETT HUTCHINSON, *Chairman.*

Mr. HUTCHINSON. I would like to say though that the letter does not say, as I recall it—of course, it speaks for itself—that the Commission could not or would not consider any further loans. I believe the

language was that it would be difficult, indeed, unless this aid is forthcoming. It has not actually come yet, but the assurances are stronger and stronger as time goes by.

Mr. HEMPHILL. Well, to me what the letter says is that "your loan is not sound now," and then you make a finding that the loan is sound later on.

It is your interpretation that the purpose of part 5, which was passed, I believe, August 12, 1958, was that not right—

Mr. HUTCHINSON. That is approximately the date, yes.

Mr. HEMPHILL. Part 5 of the Interstate Commerce Act was passed to bail out those portions of the industry which were on the brink of financial disaster.

Mr. HUTCHINSON. Well, I think the legislative history is quite clear on that point, Mr. Hemphill. I cannot quote it actually. But, as I say, the Congress did indicate by the legislative history of the act that the Commission was to assist carriers who could not be financed adequately through normal private sources, on a temporary basis to March 31, 1961, as a palliative, as the Congress said.

Mr. HEMPHILL. All right.

Were you ever authorized—

Mr. HUTCHINSON. In order to give local interests an opportunity to show an interest and bring that interest to focus on the problem.

Mr. HEMPHILL. Were you authorized to make loans which were not—guarantee loans which you did not expect to be repaid?

Mr. HUTCHINSON. I do not think so.

Mr. HEMPHILL. All right, sir.

Now, I suppose part 5 of the act, which was passed in 1958, has to be read in context and in conjunction with other parts of the act, does it not?

Mr. HUTCHINSON. Well, you have to do that in just about every statute that is on the books. However, this part 5 is unique in its field.

Mr. HEMPHILL. I have in mind section 20a which provides that anytime that you approve the issuance of securities you should find that it is necessary and appropriate in order to serve the public; isn't that correct?

Mr. HUTCHINSON. That is correct; yes, sir.

Mr. HEMPHILL. In the face of that, I assume when you made the loans to the New York, New Haven & Hartford for the \$11.5 million to meet the mortgage bonds and other pressing obligations, you must have made a finding that that would improve the service, did you?

Mr. HUTCHINSON. Well, it improved it in that it maintained the service. It kept the service that was then in operation, in operation. I would not say that it improved, although I hoped that it might have.

Mr. HEMPHILL. When you made the loan to the Lehigh Valley—

Mr. HUTCHINSON. Lehigh Valley.

Mr. HEMPHILL (continuing). Which was another tax loan, as well as the Boston & Maine, I believe we talked about yesterday, did you not circumvent the law to stretch it out to cover a situation in which you said it was for capital outlays for the purpose of making a finding, but then you come here today and say in your statement that it was for tax purposes?

Mr. HUTCHINSON. Not at all, Mr. Hemphill.

The Commission does require a showing as to how the proceeds of a loan for which there is an application for a guarantee will be used, and the carriers have shown this.

Mr. HEMPHILL. In other words, you capitalized tax payments, have you not?

Mr. HUTCHINSON. No.

Mr. HEMPHILL. Well, you said here the payments here were for tax payments, and then you turn around and say, no, they were for capital outlays. Why didn't you put in your statement that they were for such and such capital outlays "which we are reimbursing" or subsidizing or whatever my friend up here wants to use, whatever word he wanted? Why didn't you list that instead of saying they were for taxes, if they were for taxes?

Mr. HUTCHINSON. The loans were to reimburse the carriers' treasury for moneys already expended for capital betterments.

Mr. HEMPHILL. Then the words "the proceeds being used principally to pay overdue State taxes," have no place in your statement.

Mr. HUTCHINSON. No, I would not say that. That is a correct statement. Part 5, Mr. Hemphill, does not require the Commission to restrict the use of the proceeds of loans where the loan is to reimburse for expenditures already made.

Mr. HEMPHILL. All right, sir.

I want to ask you if you would supply us for the record with a list of the securities that you have approved under section 20a between August of 1958 and January 13, 1961. I will give you this.

Mr. HUTCHINSON. I will be glad to do it.

(The information requested follows:)

GUARANTEED LOANS FOR RAILROADS

List of securities cases approved under sec. 20a between Aug. 12, 1958, and Jan. 13, 1961

Date decided	Name of carrier	Finance docket No.	Type of securities	Amount	Interest	
					Coupon rate	Effective rate
Aug. 15, 1958	New York, Susquehanna & Western R.R. Co.	20277	Notes	\$52,000.00	3 3/4	---
Aug. 18, 1958	Minneapolis & St. Louis Ry. Co.	20258	Equipment trust certificates	390,558.00	4 1/4	---
Aug. 21, 1958	Missouri Pacific R.R. Co.	20284	do	2,100,000.00	4 1/4	4.34
Aug. 25, 1958	Great Northern Ry. Co.	20283	do	4,275,000.00	4 1/4	---
Aug. 26, 1958	Norfolk & Western Ry. Co.	1 20093	do	2,610,000.00	4 1/4	4.54
Sept. 17, 1958	Western Ry. of Alabama	20093	do	2,310,000.00	3 3/4	4.15
Sept. 26, 1958	Carbon County Ry. Co.	20298	Bonds, extended maturity	1,543,000.00	5	---
Oct. 1, 1958	Chicago, Rock Island & Pacific Ry. Co.	20317	Notes	150,000.00	5	---
Oct. 2, 1958	Pittsburgh & Lake Erie R.R. Co.	20273	Bonds	7,000,000.00	4	---
Oct. 6, 1958	Chicago & North Western Ry. Co.	20334	Equipment trust certificates	3,975,000.00	3 3/4	4.36
Oct. 8, 1958	Minneapolis, St. Paul & Sault Ste. Marie Ry. Co.	20342	Notes	424,000.00	3 3/4	---
Oct. 14, 1958	Chicago & North Western Ry. Co.	20335	Equipment trust certificates	1,875,000.00	5 1/4	5.95
Oct. 17, 1958	Norfolk & Western Ry. Co.	20352	do	7,440,000.00	4	4.32
Oct. 17, 1958	Ann Arbor R.R. Co.	20351	Notes	7,440,000.00	4	---
Oct. 20, 1958	Central Pacific Ry. Co.	20349	Bonds, general mortgage	60,000,000.00	4 1/2	---
Oct. 28, 1958	Cotton Plant-Fargo Ry.	20378	Bonds, 1st mortgage	25,190,000.00	3 3/4	---
Oct. 29, 1958	Virginia Ry. Co.	20313	Notes	20,000.00	6	---
Nov. 7, 1958	Hillsboro & North Eastern Ry. Co.	20313	Income, debentures	32,148,300.00	6	---
Nov. 12, 1958	Chicago & North Western Ry. Co.	20322	Notes	15,000.00	6	---
Nov. 10, 1958	Federal Barge Lines, Inc.	1 20335	Equipment trust certificates	1,875,000.00	5 1/2	5.65
Nov. 18, 19 8	Great Northern Ry. Co.	20168	Notes	174,000.00	6	---
Do	Great Northern Ry. Co.	20392	Equipment trust certificates	3,390,000.00	4 3/8	4.26
Nov. 21, 19 8	Norfolk & Western Ry. Co.	20393	do	6,690,000.00	3 3/8	4.17
Nov. 21, 19 8	Illinois Central R.R. Co.	20383	do	2,610,000.00	4 1/8	4.40
Dec. 4, 19 8	Chicago & North Western Ry. Co.	20335	do	1,875,000.00	5 1/4	5.40
Dec. 5, 19 8	Railway Express Agency, Inc.	20402	Notes	4,920,000.00	4 1/8	4.23
Dec. 31, 19 8	New York, Chicago & St. Louis R.R. Co.	20424	Equipment trust certificates	6,000,000.00	3 3/4	4.17
Jan. 2, 19 9	Norfolk & Western Ry. Co.	20352	do	4,500,000.00	5 1/2	---
Jan. 12, 19 9	Maine Central R.R. Co.	20041	Income debentures	3,300,000.00	5 1/8	5.31
Jan. 13, 19 9	Chicago & North Western Ry. Co.	20460	Equipment trust certificates	7,305,000.00	4 1/8	4.41
Jan. 29, 19 9	Louisville & Nashville R.R. Co.	20484	do	4,200,000.00	4 3/8	4.51
Feb. 4, 19 9	Chicago, Burlington & Quincy R.R. Co.	20495	do	5,850,000.00	4 1/2	4.77
Do	Chicago, Milwaukee, St. Paul & Pacific R.R. Co.	20494	do	7,500,000.00	3 3/4	---
Feb. 10, 19 9	Union R.R. Co.	20479	Notes	4,900,000.00	3 3/4	---
Feb. 10, 19 9	Duluth, Missabe & Iron Range Ry. Co.	20480	do	18,000,000.00	4 1/4	---
Feb. 11, 19 9	Carbon County Ry. Co.	20468	Notes	1,150,000.00	4 1/4	---
Feb. 19, 19 9	Northern Pacific Ry. Co.	20493	do	1,150,000.00	4 1/4	---
Do	Denver & Rio Grande Western R.R. Co.	20527	Equipment trust certificates	4,740,000.00	4 3/8	4.51
Do	do	20501	do	2,190,000.00	4	4.33

Mar. 5, 1959	Chicago, Rock Island & Pacific Ry. Co.	20499	do	5,130,000.00	41%	4.29
Mar. 6, 1959	Southern Pacific Co.	20548	do	7,125,000.00	41%	4.50
Mar. 9, 1959	Norfolk & Western Ry. Co.	1 20393	do	5,100,000.00	41%	4.24
Mar. 26, 1959	Illinois Central R.R. Co.	20563	do	4,400,000.00	41%	4.24
Apr. 9, 1959	Texas & Pacific Ry. Co.	20581	do	3,000,000.00	37%	4.34
Apr. 10, 1959	Grand Trunk Western R.R. Co.	20541	Notes (1)	10,984,416.00	41%	
			Notes (2)	10,000,000.00	5	
			Notes (3)	31,947,000.00	41%	
Apr. 15, 1959	Southern Pacific Co.	20584	Equipment trust certificates	7,927,000.00	41%	4.57
Do	Norfolk & Western Ry. Co.	20574	do	7,350,000.00	41%	4.40
Apr. 21, 1959	Pittsburgh & Lake Erie R.R. Co.	20585	do	2,475,000.00	41%	4.54
Apr. 22, 1959	Wheeling & Lake Erie R.R. Co.	20409	Bonds	8,000,000.00	41%	
May 12, 1959	Central Transport Ry. & Storage Co.	20589	Bonds, extended maturity	20,000.00	5	
May 13, 1959	Great Northern Ry. Co.	20612	Equipment trust certificates	4,590,000.00	41%	4.66
May 26, 1959	Chesapeake & Ohio Ry. Co.	20631	do	2,400,000.00	41%	4.71
May 28, 1959	Southern Pacific Co.	20445	Bonds, assumption re merger	29,706,000.00	39%	
				33,674,000.00	39%	
				60,000,000.00	41%	
				5,310,000.00	41%	4.80
June 2, 1959	Norfolk & Western Ry. Co.	1 20574	Equipment trust certificates	7,320,000.00	41%	4.85
June 3, 1959	Louisville & Nashville R.R. Co.	20642	do	4,470,000.00	41%	4.87
June 15, 1959	Seaboard Air Line R.R. Co.	20645	Notes	3,000,000.00	5	
June 22, 1959	Boston & Maine R.R. (with loan guaranty approved June 22, 1959 in finance docket 20429)	20629	do			
June 24, 1959	Federal Barge Lines, Inc.	20651	do	3,330,000.00	6	
			Notes	1,670,000.00	5 1/2	
July 6, 1959	Minneapolis, St. Paul & Sault Ste. Marie Ry. Co.	20654	Equipment trust certificates	7,050,000.00	49%	4.79
Do	Chicago, Burlington & Quincy R.R. Co.	20668	do	6,000,000.00	49%	4.98
July 14, 1959	Southern Pacific Co.	20685	do	6,015,000.00	43%	4.91
July 17, 1959	Northern Pacific Ry. Co.	20682	Notes	1,150,000.00	53 1/2	
July 20, 1959	Denver Union Stock Yard Co.	20679	do	250,000.00	53 1/2	
Do	Ogden Union Stockyards Co.	20680	Equipment trust certificates	2,850,000.00	44%	5.01
July 29, 1959	Missouri Pacific R.R. Co.	20708	Notes	627,200.00	44%	
Aug. 20, 1959	Minneapolis, St. Paul & Sault Ste. Marie Ry. Co.	20732	Equipment trust certificates	2,820,000.00	41%	4.78
Aug. 25, 1959	Illinois Central R.R. Co.	20747	do	2,700,000.00	45%	4.77
Do	Chesapeake & Ohio Ry. Co.	1 20631	Notes	4,470,000.00	41%	4.87
Sept. 2, 1959	Seaboard Air Line Ry. Co.	1 20645	Equipment trust certificates	50,000.00	6	
Sept. 11, 1959	Montana Western Ry. Co.	20765	do	6,000,000.00	44%	5.06
Do	Southern Pacific Co.	20783	Equipment trust certificates	3,150,000.00	45%	4.90
Sept. 10, 1959	Pittsburgh & Lake Erie R.R. Co.	20738	Notes	40,000,000.00	5	
Sept. 16, 1959	New York Central R.R. Co. (with loan guaranty approved Sept. 16, 1959 in finance docket 20689)	20690	do			
Sept. 17, 1959	Memphis Union Station Co.	20786	Bonds, extend maturity	2,500,000.00	3	
Do	Wabash R.R. Co.	20796	Equipment trust certificates	1,500,000.00	47%	5.28
Do	Chicago, Burlington & Quincy R.R. Co.	20802	do	3,150,000.00	5	5.07
Sept. 25, 1959	Railway Express Agency, Inc.	20812	Notes	27,637,053.80	5	
Oct. 8, 1959	Missouri Pacific R.R. Co.	20825	Equipment trust certificates	3,225,000.00	5 1/2	5.45

Footnotes at end of table, p. 36.

GUARANTEED LOANS FOR RAILROADS

List of securities cases approved under sec. 20a between Aug. 12, 1958, and Jan. 13, 1961—Continued

Date decided	Name of carrier	Finance docket No.	Type of securities	Amount	Interest	
					Coupon rate	Effective rate
Oct. 8, 1959	Norfolk & Western Ry. Co. (assume merger with Virginia Ry. Co.).	20399	Bonds----- do----- do----- Debentures----- Equipment trust certificates, series B----- Equipment trust certificates, series C----- Equipment trust certificates, series D----- Equipment trust certificates, series E----- Equipment trust certificates, series F----- Notes----- do-----	\$51,911,000.00 7,393,000.00 11,757,000.00 26,876,900.00 810,000.00 2,610,000.00 2,800,000.00 3,120,000.00 1,120,000.00 15,000,000.00 1,500,000.00	3% 3 3/4% 4% 6% 2 1/2% 2 1/2% 2 1/2% 3 1/4% 3 1/4% 5% 5%	----- ----- ----- ----- ----- ----- ----- ----- ----- ----- -----
Oct. 15, 1959	Alleghany Corp.	20804	Notes-----	15,000,000.00	5%	-----
Oct. 28, 1959	New York, New Haven & Hartford RR. Co. (with loan guaranty approved Oct. 28, 1959 in finance docket 20398).	20399	do-----	1,500,000.00	5%	-----
Nov. 3, 1959	Texas & New Orleans RR. Co.	20782	Bonds-----	7,789,000.00	3 3/4%	-----
Nov. 13, 1959	Southern Pacific Co.	20862	Equipment trust certificates-----	6,000,000.00	4 1/2%	5.22
Nov. 24, 1959	Brooklyn Eastern District Terminal.	20848	Bonds-----	2,000,000.00	6%	-----
Nov. 27, 1959	Lehigh Valley RR. Co. (with loan guaranty approved Nov. 27, 1959, in finance docket 20760).	20822	Notes-----	5,923,000.00	5.0059	-----
Dec. 29, 1959	Northern Pacific Ry. Co.	20917	Equipment trust certificates-----	3,420,000.00	4 1/2%	5.08
Dec. 21, 1959	Georgia & Florida RR. (with loan guaranty approved Dec. 21, 1959, in finance docket 20518).	20536	Notes-----	1,000,000.00	5 1/2%	-----
Feb. 1, 1960	Chicago, Rock Island & Pacific Ry. Co.	20339	Equipment trust certificates-----	4,350,000.00	5%	5.06
Do-----	Great Northern Ry. Co.	20946	do-----	4,140,000.00	5%	5.12
Feb. 11, 1960	Donora Southern RR. Co.	20957	Note-----	1,700,000.00	5%	-----
Do-----	Carbon County Ry. Co.	20954	do-----	1,150,000.00	6%	-----
Do-----	Chicago, Milwaukee, St. Paul & Pacific RR. Co.	20974	Equipment trust certificates-----	3,000,000.00	4 1/2%	5.12
Feb. 16, 1960	Johnstown & Stony Creek RR. Co.	20962	Note-----	325,000.00	6%	-----
Do-----	Union RR. Co.	20963	do-----	4,900,000.00	6%	-----
Do-----	Great Northern Ry. Co.	20964	do-----	7,000,000.00	6%	-----
Do-----	Southern Pacific Co.	20984	Equipment trust certificates-----	4,740,000.00	4 1/2%	4.95
Feb. 23, 1960	New York, New Haven & Hartford RR. Co.	20981	do-----	7,500,000.00	4 3/4%	5.03
Do-----	St. Louis Merchants Bridge Terminal Ry.	20991	Bonds, extended maturity of Providence Terminal Co. bonds, Merchants Bridge Co.	1,088,000.00	4 1/2%	-----
Mar. 8, 1960	Tennessee Central Ry. Co.	20980	Bonds, assume bonds of St. Louis Merchants Bridge Co.	2,000,000.00	6%	-----
Mar. 16, 1960	Louisville & Nashville RR. Co.	21016	Note, extended maturity-----	5,069,583.47	4%	-----
Mar. 17, 1960	Chicago & Eastern Illinois RR. Co.	21037	Equipment trust certificates-----	7,605,000.00	4 1/2%	4.78
Apr. 6, 1960	Northern Pacific Ry. Co.	20999	Bonds-----	4,561,000.00	5%	-----
Apr. 18, 1960	Northern Pacific Ry. Co.	21052	Equipment trust certificates-----	6,495,000.00	4 1/4%	4.54
Apr. 20, 1960	New York, Chicago & St. Louis RR. Co.	21053	do-----	6,930,000.00	4 3/8%	4.49

GUARANTEED LOANS FOR RAILROADS

List of securities cases approved under sec. 20a between Aug. 12, 1958, and Jan. 13, 1961—Continued

Date decided	Name of carrier	Finance docket No.	Type of securities	Amount	Interest	
					Coupon rate	Effective rate
Dec. 7, 1960	Lehigh Valley RR. Co. (in connection with finance docket 21300; loan guaranty approved Dec. 7, 1960).	21342	Notes	\$5,000,000.00	5	-----
Dec. 8, 1960	Atlantic Coast Line RR. Co.	21367	do	13,500,000.00	(1)	-----
Dec. 19, 1960	Louisville & Nashville RR. Co.	21377	Equipment trust certificates	7,755,000.00	4½	4.48
Dec. 22, 1960	Chicago, Rock Island & Pacific RR. Co.	21341	do	3,450,000.00	4½	4.60
Dec. 29, 1960	Oahu Ry. & Land Co.	21408	Notes	637,000.00	(2)	-----
Jan. 13, 1961	Oregon Short Line RR. Co.	21373	Bonds, extended maturity	41,487,000.00	4	-----
Do-----	Pittsburgh & West Virginia Ry. Co.	21395	Bonds	750,000.00	5	-----

¹ Supplemental.

² 2d supplemental.

³ Prime rate.

Mr. HEMPHILL. Would you indicate for which of these issues applications for guarantees were made, and for which issues the guarantee was approved; and I would also think it would be appropriate that you —

Mr. HUTCHINSON. I do not know that I understand what is wanted here, Mr. Hemphill. You mentioned 20a. We can furnish those. We can furnish those and will do so gladly. What I do not quite get is your connection between 20a and the loan guarantees.

Mr. HEMPHILL. Well, if you would —

Mr. HUTCHINSON. Under part 5.

Mr. HEMPHILL. As I understand it, under part 5 if you issue the money to reimburse some securities you would have to approve those securities to some extent, would you not?

Mr. HUTCHINSON. May I ask Director Baker to comment on that?

Mr. HEMPHILL. Certainly.

Mr. BAKER. If incident to a guarantee a security, as defined in section 20a is issued, the Commission requires that an application also be filed under section 20a, and in connection with the guarantee, of course, it would authorize the issuance of the security under section 20a. But all of the guarantees have not involved securities; some have.

Mr. HEMPHILL. Yes, sir; and I have in mind the fact that in the New Haven they have involved securities, and I wonder if you made a finding that your paying off of the interest or paying off of the coupons or whatever you paid in connection with the bonded indebtedness, if you're financing that, you found that the bonds were good and valid and the collateral was sufficient, and there was a better than even chance of repayment?

Mr. BAKER. On the last New Haven loans to which you refer, they were not subject to section 20a because they came within the exemption of paragraph 9 which provides that carriers may issue notes maturing 2 years or less without any authorization from the Commission, provided those short-term notes do not exceed 5 percent of a carrier's capitalization; so they did come within that exemption.

Mr. HEMPHILL. So that what you were really refunding was a short-term debentures or notes or bonds?

Mr. BAKER. No. There was no refunding involved.

Mr. HEMPHILL. Well, you paid the interest and, I suppose, you paid any current payments which were due; is that true?

Mr. BAKER. The proceeds —

Mr. HEMPHILL. The proceeds were used for that.

Mr. BAKER. The proceeds were used in part to pay interest on some mortgage bonds, and to pay other current obligations.

But the railroad did make a showing that subsequent to January 1, 1957, it had used money in its treasury for capital expenditures, and they were capitalizing those expenditures.

There is no restriction in the act, as the Commissioner stated, on the use that a carrier makes of money that has been paid into its treasury in reimbursement. But the Commission, nevertheless, does require a showing by the carrier as to what it proposes to do with the money, and it would not make a guarantee unless the carrier showed a legitimate need even though it might show sufficient capital expenditures.

Mr. MOSS. Would you yield at that point?

Mr. HEMPHILL. Certainly.

Mr. MOSS. I wonder if it would be possible in connection with the loans to carriers we have just been discussing for the Commission to provide us, because I believe you are required to guarantee a specific loan or a specific financing, is that correct?

Mr. HUTCHINSON. Specific loan; yes, that is right.

Mr. MOSS. Whatever the form of the financing might have taken, you guarantee part or all of a specific loan.

Mr. HUTCHINSON. Well, it is covered by a guarantee agreement.

Mr. MOSS. By a guarantee agreement.

The purposes for which the loan was originally made are very clearly a part of it or of the financing agreement, and I would like to know what, for instance—

Mr. HUTCHINSON. The purposes are those as stated in the statute to which I have referred.

Mr. MOSS. Well, I would assume that the purposes in the loan itself would be more specific than the purposes set forth in the statute.

Mr. HUTCHINSON. Well, the application, and the record, yes, the record would show it.

Mr. MOSS. Because you could make a guarantee to one line under one of the provisions set forth in the statute; you could make it to another under an entirely different one.

Mr. HUTCHINSON. The showing is in fairly good detail.

Mr. MOSS. Yes.

I would like to have the information on the loans themselves, the loans which had been guaranteed by the Commission for the New Haven, showing exactly what the original proceeds of the loan were used for, because you have indicated that this was in the nature of—or, we will say, the Lehigh Valley, because that is where you made a specific reference to reimbursement.

Mr. HUTCHINSON. All right.

Mr. MOSS. That is all.

(The information requested follows:)

The guaranteed loans to the New Haven Railroad fall into two distinct categories.

In the first category are the loans guaranteed in finance docket Nos. 20372, 20397, and 20398, each of which involved the financing of certain planned future capital expenditures. Pursuant to the actions of the Commission in those proceedings, the New Haven obtained guarantees of its obligations (a) in the amount of \$8,159,400 for the financing of its acquisition of 30 new diesel-electric locomotives, (b) in the amount of \$500,000 for the financing of its acquisition of certain specified items of maintenance-of-way equipment and machinery, and (c) in the amount of \$1,500,000 for financing the construction of certain railroad shop facilities.

In the second category are the loans in finance docket No. 21299 guaranteed pursuant to the Commission's orders dated October 31, 1960, December 29, 1960, and February 14, 1961, respectively, each of which was for the purpose of reimbursing the New Haven for expenditures made from its own funds for additions and betterments and other capital expenditures made after January 1, 1957. Pursuant to those orders, the New Haven obtained (a) a guaranteed loan in the amount of \$4,500,000 disbursed on November 3, 1960, (b) a guaranteed loan in the amount of \$3,500,000 disbursed on January 3, 1961, and (c) a guaranteed loan in the amount of \$3,500,000 disbursed on February 17, 1961.

The proceeds of the loans in the aggregate total amount of \$11,500,000 guaranteed by the Commission in finance docket No. 21299 were applied by the New Haven to or toward the payment of certain pressing current obligations, such as (a) State and local taxes falling due, (b) maturing installments of principal

and interest on equipment obligations, (c) interest on its mortgage bonds falling due, and (d) payroll and other items falling due.

During the period January 1, 1957, to December 31, 1960, the New Haven had made capital expenditures from its own funds of approximately \$25 million for equipment alone. Certain of these expenditures were used as a basis for the aforementioned loan guarantees approved in finance docket No. 21299.

The Commission has guaranteed two loans to the Lehigh Valley. Guarantee of the first loan in the amount of \$5,923,000 was approved by the Commission on November 27, 1959, and the \$5,923,000 loan was disbursed to the Lehigh Valley on November 30, 1959.

This loan of \$5,923,000 was made in the following respective amounts for the following respective purposes:

Financing acquisition of certain freight cars-----	\$913,948. 00
Financing certain other planned capital expenditures-----	660, 661. 23
Refinancing certain outstanding equipment obligations created after Jan. 1, 1957-----	1, 167, 127. 15
Reimbursement for expenditures made from own funds for additions and betterments and other capital expenditures made after Jan. 1, 1957-----	3, 181, 263. 62
Total loan-----	5, 923, 000. 00

By its order dated December 7, 1960, the Commission approved the guarantee of an additional loan in the amount of \$5 million to the Lehigh Valley. This loan was for the purpose of reimbursing the Lehigh for expenditures from its own funds made after January 1, 1957, for certain additions and betterments or other capital expenditures. This loan was disbursed to Lehigh on December 15, 1960. The proceeds of this loan, as well as the proceeds of that portion of the above-mentioned \$5,923,000 loan which was made for the purpose of reimbursement, were used to or toward additions and betterments both to road and to equipment, payment of maturing equipment obligations, payment of State taxes, and repayment of bank loans.

Mr. HEMPHILL. I might get back to this New Haven.

At the time you made the last loan in the face of your letter of January 24, 1961, did you make a finding at that time that the New Haven could repay the loan you were guaranteeing?

Mr. HUTCHINSON. Yes. As I have indicated, Mr. Hemphill, the Commission made the finding the statute requires, reasonable prospect for repayment; that is generally the requirement of the statute.

Mr. HEMPHILL. Reasonable prospect of repayment?

Mr. HUTCHINSON. That is right.

Mr. HEMPHILL. You expect it to be repaid?

Mr. HUTCHINSON. Yes, sir.

Mr. HEMPHILL. Do you have a current application under part V, under section 20a of the issuance of notes, have you had that situation, guarantee?

Mr. HUTCHINSON. I am sorry, I do not understand your question. I think the answer is, no.

Mr. HEMPHILL. Have you had a situation where part V and section 20a, both, would apply?

Mr. HUTCHINSON. Yes, we have; yes, we have.

Mr. HEMPHILL. And have you made the finding then that if you guaranteed the loan, that it would assure the appropriate service under section 20a?

Mr. BAKER. That is not a requirement under section 20a. It is that the loan is necessary or consistent with the proper performance of the carrier's obligation to serve the public. I am not quoting literally, but there is no requirement in section 20a that there be a finding that service be improved.

Mr. HEMPHILL. What concerns me, sir, is the fact that in your letter of January 24, 1961, you point out what I think should be the policy:

It is further evidenced that the Congress did not intend by this legislation to empower us to subsidize continuously any railroad.

That is the finding you make here, and yet we find, either for political expediency or for something else, that the subsidization continues, and I see nothing that is in the record except a promise, which I do not doubt, but good banking and good business would direct us to see to it that the measures have been taken to assure the repayment before the Government steps in and guarantees a loan.

It just seems to me, and it is greatly a matter of concern to me, to see what I find in this record here; it seems to me that the Commission has taken the law and interpreted it any way it wanted to, and that the legislative intent of Congress has been aborted because we are paying taxes for people and calling it capital outlay. You are subsidizing by capitalization of interest, and I do not know of any capitalization of interest except sometimes when you capitalize interest for the purpose of getting something off the ground, like a natural gas authority or something like that.

Now, I do not—

Mr. HUTCHINSON. Mr. Hemphill, there is nothing that I find in the statute which requires adherence to strict banking standards in meeting these problems that the Commission was called on to deal with under part V of the act. The Commission has granted no subsidies.

Mr. HEMPHILL. I am delighted to hear you say that. Perhaps your interpretation and mine are different, and I respect yours, and I hope you respect mine.

Mr. HUTCHINSON. I respect yours, sir.

Mr. HEMPHILL. I want to ask you this: Again about this New Haven, are we to understand that under all the existing conditions the Commission found the railroad had reasonable assurance of ability to pay within 15 years or less?

Mr. HUTCHINSON. The Commission made that finding, Mr. Hemphill.

Mr. HEMPHILL. Under all the then existing conditions?

Mr. HUTCHINSON. Yes, based on the entire record and conditions as we found them.

Mr. HEMPHILL. Did some bank handle this particular loan that you—some particular bank?

Mr. HUTCHINSON. A group of banks handled it.

Mr. HEMPHILL. A group of banks handled the loan in which they were allowed to charge an interest rate of how much?

Mr. HUTCHINSON. Five percent, as I recall.

Mr. HEMPHILL. Five percent. But, of course, the banks could not lose because the Government had guaranteed every nickel of it.

Mr. HUTCHINSON. It was a guarantee, yes, sir.

Mr. MACDONALD. Would the gentleman yield?

Mr. HEMPHILL. Yes.

Mr. MACDONALD. Sir, could you answer this question: Was the Commission impressed with the oratory here when this bill was passed that there was a need to help eastern seaboard railroads, par-

ticularly, or those who were in financial difficulty, who could not go to a bank to get loans? Was not the oratory that flowed out of this committee and out of the Hill geared around the fact that this was in the general public interest for the riding public, for the people who were being serviced by the railroads, that the ICC should go into this business on that basis, as being an emergency loan to railroads that really needed it, and certainly you were not thinking of going into the banking business?

Mr. HUTCHINSON. Certainly the Commission gave very close attention to the debates and to the legislative history and the language of the act itself.

May I just say this: The New Haven is a vital rail artery that connects New England, the whole of New England, with New York and the balance of the country. It provides something over 12,000 jobs a year, with a payroll roughly of \$79 million.

I do not think there is any doubt as to its role, the vital role it plays in the strength and security of our country.

Mr. MACDONALD. But more specifically, sir, would there be any need for the railroad to come to you if they could go to a bank and get a loan?

Mr. HUTCHINSON. I cannot see any.

Mr. MACDONALD. Therefore, isn't that your entire position in looking at these loans, that you have a reasonable expectation of getting the money back, that you use a little different standard from the standard used by the banks?

Mr. HUTCHINSON. There was a showing in every case that they were unable to receive, through private channels or from private sources, the financing that they needed.

Mr. MACDONALD. Is that the understanding of the ICC that that was the intent of Congress in passing this bill?

Mr. HUTCHINSON. I think it is. It is a little stronger than an understanding. I think it is specifically provided for and prescribed.

Mr. MACDONALD. Therefore would not your answers to the gentleman from South Carolina point up the fact that this is a proper function of the ICC, to keep the railroad system of the United States in operation?

Mr. HUTCHINSON. Well, the act provides for it.

Mr. MACDONALD. Thank you.

Mr. HEMPHILL. I appreciate the gentleman from Massachusetts trying to answer my questions, but I want to get back.

Mr. SIBAL. Would the gentleman yield?

Mr. HEMPHILL. Certainly.

Mr. SIBAL. Would you say that if normal banking standards were applied and railroads qualified under those standards, that there would be no need for this legislation whatsoever?

Mr. HUTCHINSON. I would say so; yes, sir.

Mr. SIBAL. So the whole purpose of this legislation is—as the questions from the gentleman from Massachusetts indicated—to meet a national need where the banks themselves, under their practices, quite proper practices, cannot meet the need.

Mr. HUTCHINSON. That is right. Section 504(a)(1)—excuse me, 504(a) provides that no guarantee shall be made under section 503(1) unless the Commission finds that without such guarantee the carrier

would be unable to obtain the necessary funds on reasonable terms for the purposes for which the loan is sought.

Mr. FRIEDEL. Will the gentleman yield?

Mr. HEMPHILL. I still have the floor, and I am going to keep it, but I will yield to the gentleman to ask a question.

Mr. FRIEDEL. Do you feel if the ICC had not guaranteed the loans that some of the railroads might have gone bankrupt?

Mr. HUTCHINSON. Yes, I believe I indicated that as a possibility in my statement yesterday, Mr. Friedel.

Mr. FRIEDEL. So by guaranteeing the loans, you kept the railroads going and the employees working and the service almost up to par because of the loan?

Mr. HUTCHINSON. Yes.

Mr. FRIEDEL. That is all.

Mr. HEMPHILL. To get back to my line of questioning, which has not been diverted by the various gentlemen who have asked some questions, as I understand it, the mechanics of this thing would be that the banks which now make the loan, because the Government guarantees a hundred percent, would not make the loan, of course, unless the Government would guarantee it.

Mr. HUTCHINSON. Well, I believe that is correct. But I do not speak for the banks, of course.

Mr. HEMPHILL. The Government does guarantee 100 percent, does it not?

Mr. HUTCHINSON. That is correct.

Mr. HEMPHILL. That is the ICC authority contained in part 5?

Mr. HUTCHINSON. Clearly, yes.

Mr. HEMPHILL. So that the group of banks are making 5 percent off this railroad which is in such fiscal trouble, that the banks would not make the loan unless they were guaranteed a hundred percent?

Mr. HUTCHINSON. I assume that is correct, yes. But, as I say, I do not speak for the banks.

Mr. HEMPHILL. Now, then, of course, the banks cannot lose. They have got the Government behind them.

Mr. HUTCHINSON. I believe that is correct.

Mr. HEMPHILL. The banks cannot lose.

Now, then, what examination does the ICC make to determine whether or not either there is a necessity in changing a managerial policy, the necessity for the improvement in service, which is a thing we are all interested in, or a necessity for other changes in order to put this railroad on a paying basis, because if it was not on a paying basis at the time you made the loan, something has to change to put it on a paying basis.

Mr. HUTCHINSON. Well, the one thing we hope would change, of course, Mr. Hemphill, is general business conditions.

But, to answer your question more specifically, I would say that the Commission made a most exhaustive study of the situation of the New Haven Railroad both from an accounting and an engineering standpoint.

Mr. HEMPHILL. As a result of that study, did you determine that the service would be improved enough to attract the customers to make a profit to pay the loan?

Mr. HUTCHINSON. Well, I do not know that we did, but we determined that the service should be improved.

Mr. HEMPHILL. You determined that the service should be improved?

Mr. HUTCHINSON. Yes, sir.

Mr. HEMPHILL. What authority would you have to insist as a part of your guaranty that the service would be improved?

Mr. HUTCHINSON. No direct authority, Mr. Hemphill. We do not run the carriers, as you know.

Mr. MOSS. Would the gentleman yield?

Mr. HEMPHILL. Yes, sir.

Mr. MOSS. If you are up here to decide whether or not you were going to determine financing to guarantee it, that at that point inherent in the right of the Commission to determine whether or not they will issue a guaranty of the financing, they have a great deal of authority to determine whether or not, as a condition of the financing, they will require an improvement of service, and I do not think they have to find any statutory power to rest on in claiming that right. Whenever you are loaning money you have almost complete discretion as to whether you are going to require someone to improve his business as a condition to making the loan. If he does not want to agree with it you do not make the loan. The same would apply to any practices of management. These items are all brought into focus at that point.

Mr. HUTCHINSON. As I said, we had gone into the situation of the New Haven in a separate proceeding.

Mr. MOSS. The question of Mr. Hemphill went to the question of requiring as a condition precedent to the loan, that you demand certain improvements of service or that you insist upon correction of certain management practices.

Mr. HUTCHINSON. Yes, Mr. Moss.

Mr. MOSS. And whether or not you were in a position to make such demands—

Mr. HUTCHINSON. Mr. Moss, the objective was to keep the service in operation.

Mr. MOSS. At an inadequate level or at an adequate level?

Mr. HUTCHINSON. At an adequate level.

Mr. MOSS. Because you are required to make that finding under 20(a), are you not?

I notice the gentleman with you said you were not. But, as I read it, the Commission shall make such order only if it finds that such issue or assumption is for some local objection within its corporate purposes and compatible with the public interest which is necessary or appropriate for or consistent with the proper performance by the carrier of service to the public.

That would imply to me that there was need to find that the service was proper, at least.

Mr. HUTCHINSON. A finding of consistency—

Mr. MOSS. And inadequate service would not be proper, would it?

Mr. HUTCHINSON. No, inadequate service would not be desirable; that is true.

Mr. MOSS. We are talking about the matter of propriety.

Mr. HUTCHINSON. But the language of the statute, as you have just read, relates to consistency with the rendition of adequate service. That is the language of the act.

Mr. Moss. That is right.

Mr. HUTCHINSON. It is a matter of consistency with it.

Mr. Moss. Consistent with the proper performance by the carrier of service to the public. You have to read it all to get it.

Mr. HUTCHINSON. That is right.

Mr. Moss. It would not be consistent with it if it were not adequate service and proper service.

Mr. HUTCHINSON. Well, of course, adequate service is always the goal, and even perfect service is the goal, but that is something to strive for, and I think we have to recognize that it is seldom, if ever, achieved. But there is certainly always room for improvement, and the Commission has been very concerned in this area.

Mr. Moss. Well, did the Commission make a judgment as to whether or not the applicant carriers would be in a better position to pay their loan if they improved to any degree whatsoever service?

Mr. HUTCHINSON. I do not recall that we made any such finding in connection with the loan applications that we have been talking about here this morning, Mr. Moss.

Mr. Moss. You made no judgment about that?

Mr. HUTCHINSON. The object, as I say again, was primarily to preserve the service that existed. Of course, it is necessary to preserve before you can improve. We are hopeful of improving the service.

Mr. Moss. But you do have the authority, as the guarantor of the loan, to require, whether or not it is spelled out in the statute, that deficiencies in service which are deemed to be important, or defects in management, be corrected as a condition precedent to granting the guarantee of the loan, have you not?

Mr. HUTCHINSON. Well, Mr. Moss, perhaps the authority is there, but—

Mr. Moss. It is inherent, is it not?

Mr. HUTCHINSON. Sir?

Mr. Moss. It is inherent.

Mr. HUTCHINSON. You have to employ reason along with the authority that is there: and, as I say, you have to preserve the service before you can require or do anything about improving the service.

Mr. Moss. Well, you are going to make a loan, and you are conscious of some bad practices in management or in some deficiency in management which, in your judgment, should be corrected in order to enhance the probability of repayment, and you certainly are under a direct obligation to require that a condition before granting the guarantee on the loan, are you not?

Mr. HUTCHINSON. If there were something specific that could be pointed to.

Mr. Moss. Well, I stated it in terms of a specific to get agreement at that point. Then any deficiencies in management of which the Commission might take cognizance could be—there could be a requirement for the correction thereof before the guarantee was issued?

Mr. HUTCHINSON. Well, there could be the requirement, Mr. Moss.

Mr. Moss. There could be the insistent requirement.

Mr. HUTCHINSON. But before the requirement could be put into effect the service could be gone. I mean you have to preserve the service before you can require improvement.

Mr. MOSS. You mean that these cannot be concurrent steps? I would wager that a great many loans—

Mr. HUTCHINSON. It seems to me the service has to be there first.

Mr. MOSS. That a good many officers of the banks and other lending institutions have carefully studied applications for loans, and substantial ones, and agreed upon underwriting only if certain conditions in management or in service were corrected.

Mr. HUTCHINSON. I am sure that is true, Mr. MOSS.

Mr. MOSS. Making of it a better loan in their judgment.

Mr. HUTCHINSON. Well, as I indicated earlier, the Commission under the terms of the statute, is not adhering to strict banking standards.

Mr. MOSS. Well, I think that the exercise of prudence is still a responsibility of the Commission. While you are not held to the same requirements that would guide a banking official, nonetheless you are held to a requirement to find that there is reasonable assurance of repayment.

Mr. HUTCHINSON. Well, Mr. MOSS, as I said, the loans that we have been talking about here have been to preserve the service.

Now, the type of improvement that you have reference to would require many millions more in additional loans or financing from some source for improvement of the plant.

Mr. MOSS. If you are preserving a service which has produced the result of a decline in revenue, a rather shaky outlook, to the point where the normal lending institutions have been reluctant to come forward to underwrite any further financing, if you are only preserving that which has not been able to support the railroad and permit it to meet its obligations, how can you solve its problems or assure a continuation of service if you merely pump in a few emergency dollars?

Mr. HUTCHINSON. Mr. MOSS, I will say that I am not certain as to who can solve the problems, but the Commission has followed the mandate that the Congress gave it, and has preserved the service—that is to say, the service is still there and, as I have said, we are hopeful that the service will improve.

Mr. MOSS. I was not one of those whose oratory would have mislead you in connection with the original passage of this act because I had serious reservations, one, on giving authority to the ICC to approve this type of guarantee of loans.

I thought there might be other agencies in Government more familiar with this sort of activity than the ICC.

Mr. HUTCHINSON. Well, I will agree—

Mr. MOSS. I have reservations over the issuance of 100-percent guarantees, feeling that a little bit of participation on the part of some lending institutions in the risk itself might lead to a more careful examination of practices which may have been responsible, in part, for bringing the railroad to a point where they needed this type of finance.

(Mr. Flynt is now presiding.)

Mr. HUTCHINSON. Well, the Congress could have taken some other approach, I am sure.

Mr. Moss. So I just wanted to say that I do not think the mandate is as clearly spelled out as your remarks indicate, and with all due respect to my very distinguished colleague from Massachusetts, as his remarks would indicate—

Mr. HUTCHINSON. I respect your views.

Mr. Moss (continuing). I think there was a clear intent that you not just preserve the status quo which, in a number of these instances, was one of gradual decline, because the inevitability there is one of ultimate failure, and if that is the picture facing you when you examine the application, then I defy anyone to show me reasonable assurance, because that must be a finding made on the basis of the then existing conditions, that there was, in fact, reasonable assurance of ability to repay within the limits of the time placed upon the guarantee.

Mr. Hemphill, I yield back.

Mr. HEMPHILL. I want to yield to the gentleman from Massachusetts.

Mr. MACDONALD. Thank you, Mr. Hemphill.

Actually my sympathies in the ICC procedure toward the loan, I think, have become fairly obvious.

But there is one thing I really do not understand, and I agree in some respects with the gentleman from California about the cutting off of service.

But I really do not understand, with the power that you have in making these loans, your testimony on page 6 of yesterday where you pointed out:

The Commission also believes it important to mention that there is some evidence that maintenance of properties is being deferred to substantial extent.

Now, as I recall, a year ago I introduced a bill to make it mandatory that the properties be maintained at a certain level; and the ICC at that time opposed such a bill.

Now, I cannot conceive of how you can come before this committee in defense of your position and admit or rather proclaim that there is evidence that the maintenance of properties on these railroads is deteriorating to a marked degree because, as you know, that goes to the very basis of safety on a railroad, and it also goes to the basis of a number of jobs of longtime employees of the railroad.

I wonder if you could clear up, if you can clear up, the discrepancies in your attitude a year ago and your attitude as put forth in your statement here on page 6 of yesterday's testimony.

Mr. HUTCHINSON. Well, there is evidence of deferred maintenance on many of the roads.

Mr. MACDONALD. Isn't this a terribly dangerous thing?

Mr. HUTCHINSON. The Commission is concerned about this. But whenever there is an indication that deferred maintenance involves the safety of operation, then the Commission does step in and requires that corrective action be taken.

Mr. MACDONALD. Aren't you in a very strong position with regard to the railroads to whom you have made loans to see that this condition does not exist?

Mr. HUTCHINSON. Well, not necessarily, Mr. Macdonald. As I indicated earlier, you have to preserve the service first or else you do not have anything left.

(The chairman is now presiding.)

Mr. MACDONALD. I do not think anyone could quarrel with that statement. But I do not quite see its pertinence. If you have an unsafe roadbed you do not have anything much left either.

Mr. HUTCHINSON. Well, as I say, we make every effort that we are capable of making to insure that the maintenance level does not drop below safety levels.

Mr. MACDONALD. Don't you think that that is one of the grave problems of the railroads?

Mr. HUTCHINSON. I think that it is a very serious problem.

Mr. MACDONALD. And that the traveling public is in jeopardy?

Mr. HUTCHINSON. The traveling public and the people who operate the trains are protected.

Mr. MACDONALD. What steps, if any, have you taken to shore up this side of the so-called hard-hit railroads?

Mr. HUTCHINSON. Well, apart from the loan guaranty program, Mr. Macdonald, as I indicated earlier, the Commission is constantly active in this area to insure that maintenance does not deteriorate below reasonable safety standards.

Mr. MACDONALD. In your very words you say that maintenance of property is being deferred to a substantial extent, and I agree those are esoteric words. But "substantial extent" to me, as a layman, indicates a dangerous situation.

Mr. HUTCHINSON. Well, it is not just a matter of safety, Mr. Macdonald. You have other things, such as an upturn in the bad order cars, and paint and preservative for structures—that sort of maintenance, which would not relate directly to safety.

As I say, the Commission has a continuing program to see to it that maintenance does take place and is not deferred to such an extent that safety is impaired.

Mr. MACDONALD. Well, just to put my own mind at rest, because I am in favor of the attitude you have taken toward roads that need your help for it is not just the railroads who are here concerned, it is the public, it is the people who use it for freight, it is the passengers, and it is everybody concerned with the economic posture of a whole area, but I would like to ask you this question: When a railroad comes in to ask for a loan do you make and have you made it a point to see to what extent the maintenance of properties is defective?

Mr. HUTCHINSON. Well, as I have indicated, we made accounting and engineering studies or examinations of most of the roads that have had applications before us; but, quite apart from that, in connection with any applications under part V, the Commission does have the program of seeing to it that maintenance does not drop below safety levels.

Mr. MACDONALD. Thank you.

Mr. COLLIER. Will the gentleman yield?

Mr. HEMPHILL. Mr. Chairman, I had the floor but I have been yielding back and forth. I do not want you to think that I have been doing all the talking.

Mr. Flynt, when he was occupying the Chair, suggested that we recess, if it would be convenient with the chairman, to put on some

other witnesses, in case we want to pursue it, because he has been on the stand for sometime, and other witnesses are from out of town.

The CHAIRMAN. Gentlemen, I would like to conclude with this witness on this subject, if we can. If the gentleman from South Carolina will proceed without interruption, I will appreciate it.

Mr. HEMPHILL. Let me ask you three questions:

Since you have the right under part V to make the loan guarantees upon terms and conditions as set forth in section 503, prescribed by the Commission, and since in section 501 the language of the statute says that one of the purposes is to provide assistance for maintaining facilities, can you not insist under your authority as a part of the agreements on the loan that the facilities are maintained?

Mr. HUTCHINSON. Well, Mr. Hemphill, the Commission does this, as I have indicated, in response to other questions, quite apart from any applications under part V. Since we do it anyway, I do not see, if I understand your question correctly, any need to attach it as a condition to the approval of a loan guarantee application. We have the authority to see that this is done, and we do it.

Mr. HEMPHILL. Well, now, as part of your authority, since you have that authority, do you have the authority to insist until the fiscal structure is improved that dividends are not paid out of this capital outlay, that excessive salaries are not paid, and that other things like that are not paid out of the capital which the U.S. Government is guaranteeing, and which is not supposed to be used, as I understand it, for the payment of dividends and excessive salaries and the like?

Mr. HUTCHINSON. We have so restricted them with respect to the payment of dividends, yes.

Mr. HEMPHILL. I want to thank you for the patience you have shown me. I am sorry I had to question you so much, but I am very much interested, and I am new on the committee, and my ignorance prompted probably more questions than I would have asked.

Mr. HUTCHINSON. I hope I have been helpful.

Mr. HEMPHILL. You certainly have. I am finished. I yield to Mr. Collier.

The CHAIRMAN. Has the gentleman concluded?

Mr. HEMPHILL. Yes.

The CHAIRMAN. The Chair feels that he has to call on Mr. Bennett, unless Mr. Bennett wants to yield to someone else.

Mr. BENNETT. Mr. Chairman, I have only one or two questions.

I wonder why it is that only the seven or eight railroads out of all the country's railroads have availed themselves of the provisions of this act? Can you enlighten us on that, if you can?

Mr. HUTCHINSON. I am sorry, Mr. Bennett, I do not believe I heard your question.

Mr. BENNETT. A lot of railroads operate in the country.

Mr. HUTCHINSON. Yes, sir.

Mr. BENNETT. But only the seven that are named here in this list applied for help under this law. Are these the only railroads in the country that need financial aid? Why is it there have been so few applications under the law?

Mr. HUTCHINSON. Perhaps these are not the only roads, Mr. Bennett, that need financial aid. But I think our experience indicates

that the carriers, for reasons which are not entirely clear to me, have sought assistance under this program more or less as a last resort.

Mr. BENNETT. You mean they could not get it any place else?

Mr. HUTCHINSON. That is about it; yes, sir.

Mr. BENNETT. Well, there are three that, it looks to me as though the law so far has operated just for the benefit of about three railroads, New York Central, New Haven, and Lehigh Valley. They have got about \$71 million out of \$85 million that have been loaned.

Mr. HUTCHINSON. I believe those are the figures; yes, sir.

Mr. BENNETT. Are those roads in bankruptcy?

Mr. HUTCHINSON. Are they?

Mr. BENNETT. The New York Central, is it bankrupt?

Mr. HUTCHINSON. No, sir.

Mr. BENNETT. Can they get their money someplace else besides the Government?

Mr. HUTCHINSON. They made a showing that they could not do so advantageously on reasonable terms. They made a showing that brought them within the provisions of the part V.

Mr. BENNETT. Is the New Haven Railroad bankrupt?

Mr. HUTCHINSON. No, sir.

Mr. BENNETT. Could they get their money someplace else?

Mr. HUTCHINSON. Well, they have made a showing that they could not.

Mr. BENNETT. What do you mean when you say they could not get it as advantageously somewhere else as they could under this law?

Mr. HUTCHINSON. Well, upon reasonable terms, as the statute prescribes.

Mr. BENNETT. Can you be more specific?

Mr. HUTCHINSON. Well, by reasonable terms, I would say this goes to the rate of interest, for instance.

Take the case of the Central. Perhaps they could have obtained the funds from other sources at a point or two higher interest rates or something of that kind. But they made a showing—

Mr. BENNETT. Are these the only applications that are on file now before the Commission, the seven or eight railroads?

Mr. HUTCHINSON. These are applications, Mr. Bennett, that have been acted upon.

Mr. BENNETT. Have you got any further pending applications from these three roads that got about 80 percent of the money, the first three, the New York Central, the New Haven, and the Lehigh Valley?

Mr. HUTCHINSON. I do not think so, Mr. Bennett.

Mr. BENNETT. They are not asking for any more money now?

Mr. HUTCHINSON. We do have some applications pending, as I indicated yesterday.

Mr. BENNETT. From whom?

Mr. HUTCHINSON. Totaling about \$30 million.

One from the Missouri, Kansas, Texas, and the other from the Erie-Lackawanna.

Mr. BENNETT. They have not gotten any money yet?

Mr. HUTCHINSON. No, they have not.

Mr. BENNETT. Are there any other applications besides those two pending?

Mr. HUTCHINSON. The last application of the New Haven was for \$5 million. The Commission passed on only \$3.5 million of the amount of the application, and to that extent, perhaps you could say that that is pending. If so, that would be in addition to those that I mentioned yesterday.

Mr. BENNETT. It looks to me like the law is for the benefit of a couple of these eastern railroads; that the bulk of the railroads in the country can get their money through private sources without having the Government come in here and make these loans.

Mr. HUTCHINSON. Well, it is a fact that they have not come to us, with the exception of the Katy. It is not an eastern road, of course.

Mr. BENNETT. If it was not from this law, they would be getting their money from private sources.

Mr. HUTCHINSON. The Chicago & Eastern Illinois—now these are smaller roads, but the Chicago & Eastern Illinois, of course, is not an eastern road, nor is the Norfolk Southern nor the Georgia & Florida.

Mr. BENNETT. That is all.

The CHAIRMAN. Mr. Flynt.

Mr. HUTCHINSON. There is language in the report on the bill in 1958 pointing up the situation facing the eastern roads. This would be in line with your question, Mr. Bennett.

Mr. BENNETT. You have got the eastern roads pretty well taken care of, so that solves it. If what you say is true, they have not applied for any new money, and they have gotten 80 percent of what has been loaned so far; apparently their problem has been taken care of.

Mr. HUTCHINSON. We have no applications from them other than as I have indicated.

The CHAIRMAN. Mr. Flynt.

Mr. FLYNT. Thank you, Mr. Chairman.

Mr. Hutchinson, some questions have been directed to you which indicated that these loans are Government loans. Isn't it true that these loans have been made by a private banking institution?

Mr. HUTCHINSON. That is correct.

Mr. FLYNT. And guaranteed by the Government?

Mr. HUTCHINSON. That is correct, Mr. Flynt.

Mr. FLYNT. Has the Government been called on to make any of these good yet?

Mr. HUTCHINSON. Not yet, Mr. Flynt.

Mr. FLYNT. Is there any likelihood within the foreseeable future, within calendar year 1961, that any demand would be made upon the Government?

Mr. HUTCHINSON. Well, I would hope not.

Mr. FLYNT. Is there any likelihood?

Mr. HUTCHINSON. I know of none now.

Mr. FLYNT. All right, sir.

During June of 1960, did the Interstate Commerce Commission in docket No. 33332 cause an investigation to be made into the managerial policies or the efficiency of the New York, New Haven & Hartford Railroad?

Mr. HUTCHINSON. We did; yes.

Mr. FLYNT. Do you have a copy of that?

Mr. HUTCHINSON. I do not have it before me.

Mr. FLYNT. Could you supply it for the committee files?

Mr. HUTCHINSON. I would be glad to.

Mr. FLYNT. During a part of that, did Mr. M. Paoli, Bureau of Accounts of the Interstate Commerce Commission, submit a verified statement?

Mr. HUTCHINSON. Well, Mr. Flynt, I cannot answer your question. May I ask though, whether the document that you have just asked for was the report of the Commission that was issued as a result—

Mr. FLYNT. I do.

Mr. HUTCHINSON (continuing). Of that investigation?

Mr. FLYNT. Yes, sir.

Mr. HUTCHINSON. That was a report by Commissioner Webb and Examiner Ries, I believe. Is that the one you refer to?

Mr. FLYNT. That is correct.

Mr. HUTCHINSON. I will be glad to furnish that.

Mr. FLYNT. I would also like to request that, at the same time, you furnish a copy of the verified statement of Mr. M. Paoli, Bureau of Accounts, Interstate Commerce Commission, along with the report by Commissioner Webb.

Mr. HUTCHINSON. If we have it, and I am sure we do, we will furnish it.

(The information requested was placed in the committee files.)

The CHAIRMAN. Mr. Younger.

Mr. YOUNGER. I would like to make one statement for the record. I do not want to enter into a debate with my good colleagues, which is to the effect that I do not concede that the Government, through any of its agencies, the ICC or the Maritime Commission or the FHA in guaranteeing loans, has any inherent right to assume management.

I just want that of record, so far as I am concerned, that is the situation, and if we are going to guarantee loans and at the same time have in mind that we are going to follow the loan with management on the part of the Government or on the part of the agencies, I should vote against the continuance of this bill.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Dingell.

Mr. DINGELL. Mr. Chairman, I should like to ask one question.

Do you clear on these loan guarantees with other Government agencies which have had experience in this field and which have knowledge dealing with the financial world, like the SEC, the Department of Commerce, and Maritime Commission?

Mr. HUTCHINSON. Have we cleared?

Mr. DINGELL. Yes.

Mr. HUTCHINSON. We have not cleared with them, but we have had consultations with the Treasury and the Justice Department, for instance, in working out the loan guarantee agreement under part V.

Mr. DINGELL. You have cleared on this in general terms or in specific cases.

Mr. HUTCHINSON. Well, in the manner that I—that is one situation that I think of where we did collaborate, so to speak, or confer with two of the departments, Treasury and—

Mr. DINGELL. On the formulation—

Mr. HUTCHINSON (continuing). Justice—

Mr. DINGELL (continuing). On the formulation of a standard agreement form.

Mr. HUTCHINSON. Yes.

Mr. DINGELL. Now, with regard to specific guarantees, have you checked with, for example, SEC?

Mr. HUTCHINSON. I do not know that we have, Mr. Dingell.

I would answer that question in the negative.

Mr. DINGELL. Does it not appear to be good administration to check with other Government agencies on these things to achieve the advantage of the expertise that they might have on any specific case?

Mr. HUTCHINSON. Well, as a general proposition, I would agree with you, that coordination and check, as you say, is good. But we feel that we have the primary expertise in matters of this kind.

Mr. DINGELL. On transportation. How about—

Mr. HUTCHINSON. We have, and would if we saw a need for it, seek consultation with other agencies where we thought it might be useful.

Mr. DINGELL. The question I am getting around to is, have you or can you tell this committee whether you have, checked, for example, with SEC on any single one of these applications that you have received for guarantee?

Mr. HUTCHINSON. No, Mr. Dingell, we have not checked with SEC; and I offhand think of no reason why we might have. I just do not know how SEC could have been useful in any of the situations up to now.

Mr. DINGELL. You think this would be worthy of exploration by your agency?

Mr. HUTCHINSON. Well, perhaps we would if we saw some possibility of such a check being useful to us, I would.

Mr. MOSS. Will you yield?

Mr. DINGELL. I would be happy to.

Mr. MOSS. On the loans made so far by the Commission, or the guarantees issued so far by the Commission, have any of them been for less than 100 percent?

Mr. HUTCHINSON. No, they have not, Mr. Moss.

Mr. MOSS. They are all 100-percent guarantees?

Mr. HUTCHINSON. They are.

Mr. MOSS. Has the Commission in its negotiations conducted in connection with the financing tried to work out arrangements where the guarantee would be for an amount less than 100 percent?

Mr. HUTCHINSON. Without having gone into it too much, we have had indications, Mr. Moss, from the lenders or prospective lenders, that they would not be interested in the loan unless they got 100-percent guarantee.

Mr. MOSS. You have had indications; how were these indications obtained?

Mr. HUTCHINSON. Well, largely through field checks or field investigations that our loan examiners have made of the prospective borrower and their operations and their situation as it existed.

As a part of that check, they have made contacts on the prospective lenders, and lenders generally, whether classified as prospects or not, just as a matter of bringing knowledge to bear on the subject.

Mr. Moss. Who are the field examiners in the ICC?

Mr. HUTCHINSON. It is not a field examiner, Mr. Moss. I mean, we do not have any examiner stationed in the field.

Mr. Moss. Loan examiner.

Mr. HUTCHINSON. The loan examiners or analysts are here in Washington, and they have made whatever trips were necessary to the field.

Mr. Moss. What is their general classification?

Mr. HUTCHINSON. You mean title or their—

Mr. Moss. Title, classification, and how many and who are they?

Mr. HUTCHINSON. Well, Mr. Lynch is at the present time in charge of the section.

Mr. Moss. In other words, to tighten this up, because I do not want to take the committee's time, I would ask that he supply for the record the information as to the number, the grades, and a brief summary of background experience of the loan examiners, the gentlemen who have gone out and dealt with the lending institutions making the loans.

The CHAIRMAN. In connection with these applications?

Mr. Moss. Yes; because these are all guaranteed at 100 percent, and I think it would be very helpful.

The CHAIRMAN. Can you supply that information?

Mr. HUTCHINSON. We can supply it, Mr. Chairman.

The CHAIRMAN. You may supply it for the record.

(The information referred to follows:)

(Attached hereto is a brief summary of the background experience of the principal employees engaged in work in connection with the loan guarantee program under part V:)

GEORGE F. LYNCH, CHIEF, SECTION OF LOANS AND FINANCIAL ANALYSIS (GS-15)

Mr. Lynch is 55 years of age, was graduated from the Wharton Evening School of the University of Pennsylvania; received a bachelor of commercial science degree from Benjamin Franklin University, Washington, D.C.; and attended George Washington University for 3 years. He was employed for 5 years in the accounting department of the Pennsylvania Power & Light Co., in Wilkes-Barre, Pa. Since 1928, except for periods with other Government agencies as indicated below, he has been employed by the Interstate Commerce Commission in various accounting and financial capacities in its Bureau of Transport Economics and Statistics, Bureau of Motor Carriers, Bureau of Accounts, and Bureau of Finance. For approximately 1 year (1933-34) he was detailed to the Office of the Federal Coordinator of Transportation, during which time he participated in various corporate financial studies. In 1950 he was transferred to the Defense Transport Administration to assist in organizing the tax amortization and defense loan division of that administration and later became Chief of its Section of Defense Loans, which section processed loan applications from railroads, motor carriers, and public storage concerns under section 302 of the Defense Production Act of 1950.

Upon enactment of the Transportation Act of 1958, Mr. Lynch was transferred to the Bureau of Finance and designated Chief, the Section of Loans, a new section created to process loan-guarantee applications under the new statute. On January 1, 1960, his duties were enlarged as a result of the creation of the new Section of Loans and Financial Analysis which embraces the work of the old Section of Loans and certain other financial analysis work formerly performed in the Bureau of Accounts and other sections of the Bureau of Finance in connection with applications by railroads and motor carriers for authority to issue securities and applications by such carriers for authority to merge, consolidate, lease, or purchase properties of another carrier or carriers.

W. MEADE FLETCHER, ASSISTANT CHIEF, SECTION OF LOANS AND FINANCIAL ANALYSIS (GS-15)

Mr. Fletcher is 63 years of age. He received his Litt. B. degree from Princeton University and his LL.B. degree from the University of Pennsylvania Law School. From 1922 to 1926 he was in the legal department of the Pennsylvania Railroad, engaged principally on freight-rate cases before the Commission, and later became assistant solicitor, and assistant general solicitor of that railroad. From 1926 to 1934 he was in private practice in Philadelphia. From 1935 to 1954 he was with the RFC as counsel, then chief railroad counsel, and then special railroad counsel, during which time he was engaged principally in the legal phases of loans and guarantees of loans to railroads and in railroad reorganization proceedings. From 1956 to 1958 he was Assistant Chief Counsel, Office of Defense Lending, Treasury Department, engaged in work of the same nature as with RFC. Since 1958 Mr. Fletcher has been Assistant Chief, Section of Loans and Financial Analysis of the Bureau of Finance, and has the primary responsibility for the preparation and review of legal documents covering loan-guarantee transactions and the closing of such transactions.

HUBERT B. STEELE, LOAN EXAMINER (GS-13)

Mr. Steele is 60 years of age. He graduated from Emerson Institute, Washington, D.C., and attended Trinity College and Benjamin Franklin University. From 1923 to 1937 he was in the Accounting Division of the Public Utilities Commission of the District of Columbia and became Assistant Chief Accountant of that Commission. From 1937 to 1949 he was with the Reconstruction Finance Corporation and during that time served as public utility loan examiner, industrial loan examiner, Chief Supervisor of Defense Homes Corporation, and Assistant Chief Examiner, Defense Plant Corporation. From 1950 to 1958 he was engaged in private practice as financial consultant. Since 1958 Mr. Steele has been a loan examiner in the Commission's Bureau of Finance and has been engaged almost entirely on loan guaranty work.

CHARLES H. HELSPER, ATTORNEY ADVISER (GS-13)

Mr. Helsper is 52 years of age. He received his LL.B. degree from Washburn University, Topeka, Kan.; and has taken graduate work at George Washington University Law School. He is a member of the District of Columbia bar and has been admitted to practice before the Kansas Supreme Court and the U.S. Supreme Court. He was employed by the Santa Fe Railroad in Topeka, Kans., for approximately 6 years. For approximately 6 years he was with the Reconstruction Finance Corporation as an examiner in its Railroad Division. For 3 years he was with the War Production Board, Division Requirements Committee. He served in the Navy for 4 years attaining the rank of lieutenant commander. From 1947 to 1949 he served in the Department of Commerce; and for approximately 10 years thereafter was with the Central Intelligence Agency engaged in studies of foreign corporations. Mr. Helsper was an attorney adviser in the Section of Loans of the Commission's Bureau of Finance from March 18, 1959, until April 3, 1960, at which time he was transferred to the Section of Securities and Reorganizations of that Bureau.

JOSEPH A. WOOLMAN, ATTORNEY-ADVISER

Mr. Woolman is 47 years of age. He received his A.B. and LL.B. degrees from Union University, Albany, N.Y. He is a member of the New York and District of Columbia bars, and has been admitted to practice before the Supreme Court. From 1938 to 1941 he was engaged in private practice in Albany, N.Y. From 1941 until 1955 he was with the Reconstruction Finance Corporation or its subsidiaries in various legal capacities including Assistant General Counsel, War Damage Corporation; and Assistant General Counsel, Federal Facilities Corporation. From 1955 to 1957 he was Assistant Chief Counsel, Office of Defense Lending, Treasury Department; and from 1958 to 1959 he was Chief of

the Opinions and Legal Services Division, U.S. Bureau of Public Roads. From September 14, 1959, until April 3, 1960, Mr. Woolman was an attorney adviser in the Section of Loans of the Commission's Bureau of Finance in GS-14. On the latter date he was appointed hearing examiner (GS-15) in the Section of Hearings of that Bureau.

The CHAIRMAN. The Chair is going to have to really insist that the members now utilize their time and not yield it, because if it is yielded all around, other members who are entitled to their time will be waiting.

I think we will move along in better procedure.

Mr. DINGELL. I have just one last question.

The CHAIRMAN. We have a lot of witnesses, and I remind the members of that.

Mr. DINGELL. You said that you had cleared in a general way the general agreement which you would make with the railroads and with the loaning bodies. Have you had any specific conversations with any Government agencies other than Justice and the other agency you mentioned, on this subject, either with regard to general—

Mr. HUTCHINSON. I do not recall any, Mr. Dingell. We called on Treasury and Justice for assistance in the preparation of this agreement back in 1958, as I have indicated.

Other than that I know of no clearances such as you have indicated.

Mr. DINGELL. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Mr. Chairman, I will try to confine my remarks here to about 3 minutes.

Mr. Hutchinson, repeatedly you have made the statement in the course of testifying here that the return to financial stability or the financial rehabilitation of some of these railroads which have secured the loans is dependent upon improvements in general business conditions.

Is it not a fact that there are other far more substantial factors involved than general business conditions, inasmuch as some of these railroads were in sad financial operating condition even when economic conditions were considered good?

Mr. HUTCHINSON. Well, that situation existed to some extent with respect to the commuter roads, of which the New Haven is one—also the Long Island and the Central.

Mr. COLLIER. There are such matters as cost factors, equipment depreciation, taxes, new trends in competition and so forth.

Mr. HUTCHINSON. Yes. In this general commuter service I think the costs of rendering the service have run ahead of productivity, so to speak.

Mr. COLLIER. Is it not also true that the comparatively short time that this program has been in effect is, in fact, too short at this point to provide sufficient experience, or to determine whether or not this is an unsound financing program, and secondly whether or not there will be other railroads in need of getting guaranteed loans at some time in the future?

Mr. HUTCHINSON. Well, I do believe that the Commission and the Congress could make a better evaluation of the law and its operation after more experience with it.

Mr. COLLIER. Is it not also true that Congress itself is in a position very frequently to countermand by legislation any effort that the Com-

mission might require to control these factors that you are being asked to control through the Commission itself?

Mr. HUTCHINSON. Well, I understand that Congress is in charge; yes, sir.

Mr. COLLIER. In other words, there are avenues open to the Congress itself—

Mr. HUTCHINSON. I believe that is right, sir.

Mr. COLLIER (continuing). Through the medium of legislation to either cope with some of these problems to provide relief or, in fact, to rescind through legislation any control or qualifications that the Commission might put on the program of the guarantee of these loans.

Mr. HUTCHINSON. As I indicated earlier, I think, perhaps, the Congress could have taken some other approach to the problem that it was dealing with when it adopted part V, and surely the Congress is free to do that at any time.

Mr. COLLIER. Thank you. I just thought this might assist in getting this broad picture back into proper perspective.

The CHAIRMAN. Any further questions?

Mr. CURTIN. Mr. Chairman?

The CHAIRMAN. Mr. Curtin.

Mr. CURTIN. Mr. Hutchinson, I would like to ask one question. I notice this money has been available since 1958 and there have been 19 applications made for loans under it, is that correct?

Mr. HUTCHINSON. That is correct.

Mr. CURTIN. As I understand, a lot of the railroads in this country have been in difficulty. Do you know why there have been so few applications for this money?

Mr. HUTCHINSON. Only to the extent that I have indicated previously, and that is our experience seems to indicate that they come in only as a last resort. Then there also is this, that they are unwilling to incur the additional indebtedness. There are indications that this is a factor also.

Mr. CURTIN. Most of the railroads then are able to get their money from private sources, is that correct?

Mr. HUTCHINSON. Well, most of them; yes sir.

Mr. CURTIN. That is all, Mr. Chairman.

The CHAIRMAN. Is it not a fact, Mr. Hutchinson, that the existence of this law has made it a whole lot easier for the others to go to regular money markets to obtain money that they need?

Mr. HUTCHINSON. I think it is a fact, Mr. Chairman.

The CHAIRMAN. Well, that is the real purpose of it right now, and the way it has affected this entire situation, is it not?

Mr. HUTCHINSON. Yes, sir.

The CHAIRMAN. Any further questions?

Mr. SIBAL. Mr. Chairman, I would like to ask just one question, if I may.

The CHAIRMAN. Yes, sir.

Mr. SIBAL. Mr. Chairman, would you say it is a true statement that a primary reason for the financial plight of some of the railroads is because the Federal and State Governments have forbade them to abandon certain services which are unprofitable, such as commuter services?

Mr. HUTCHINSON. Well, I am sure that is a factor or certainly was a factor prior to the adoption by the Congress of the 1958 act, the Transportation Act of 1958.

Mr. SIBAL. And would you care to offer an opinion as to whether or not the New Haven Railroad would be operating today if these loans had not been made available to them over the past few years?

Mr. HUTCHINSON. Well, there are indications that it might not.

Mr. SIBAL. Thank you.

The CHAIRMAN. Any further questions?

Mr. AVERY. Mr. Chairman, could I make a request? I will not put this in the form of a question.

Mr. Hutchinson, when we passed this bill in 1958 there was a considerable amount of evidence to the committee that one need for this bill was the undue tax responsibility of some carriers in the eastern metropolitan areas. I think the committee made it abundantly clear at that time we expected these areas to assume some of this responsibility through tax adjustment with the railroads, as it was presented in a persuasive manner to the committee that the tax load was out of proportion and unfair to the carriers.

Could you prepare for the record to have inserted at this point some evidence of increasing recognition on the part of these metropolitan areas that they do have some responsibility and are not trying to unload their tax burden on the taxpayers of the country through this loan program, if such information is available?

Mr. HUTCHINSON. Yes, I think we can do that.

Mr. AVERY. Thank you.

(The information referred to follows:)

As to the recognition on the part of metropolitan areas generally concerning their responsibility in the commuter problem, brief mention is made hereinafter of certain efforts of some of the States and large cities in this regard.

The city of Philadelphia since 1956 has conducted certain experiments, with funds appropriated by its city council, generally to preserve and maintain existing rail commuter service, then to add additional trains, and then to consolidate such rail service with local bus and streetcar service. Such experiments have cost that city approximately \$500,000 annually, and by 1960 it appeared that the experimental phases had been concluded. A nonprofit corporation, the Philadelphia Passenger Service Improvement Corp. has been formed and arrangements have been made with the Pennsylvania Railroad and the Reading Co., to expand certain commuter operations. That expansion will be financed by issuance of self-supporting bonds. Present plans call for the expenditure of almost \$9 million for new cars, electrification of certain lines, and perimeter parking facilities. Plans and studies are now under way for further expansion of existing rail commuter service beyond the city limits of Philadelphia.

The Metropolitan Transit Authority of Boston in 1958-59 appropriated approximately \$900,000 for operations of the Old Colony Line of the New Haven Railroad. That experiment was discontinued principally for financial reasons.

The State of New Jersey is currently expending approximately \$6 million annually under a plan whereby certain rail commuter trains, considered by State officials to be essential, operate under a contract between the State and certain railroads which operate commuter service between northern New Jersey and New York City.

The Port of New York Authority currently has the authority and the funds (approximately \$25 million) to provide new commuter cars for railroads operating into New York City. Negotiations are being conducted with the New York Central, the Long Island and the New Haven Railroads with the view of supplying such cars to the railroads under long-term lease arrangements.

The Governors of New York, Connecticut, Massachusetts, and Rhode Island through the medium of a joint staff committee, have made a study of the needs

of the needs of the New Haven Railroad and as a result of such study the Governors have just recently made legislative proposals to the respective State legislatures for State and local tax and other relief for the New Haven which will aggregate approximately \$8.4 million annually.

The State of New York in 1959 enacted legislation which affords certain property tax relief for all railroads operating in that State by a graduated reduction in the assessed values of railroad properties. For example, as to the New Haven Railroad, as a result of this legislation, its New York State taxes were reduced by \$465,000 in 1960 and it is estimated such taxes for that railroad will be reduced by \$943,500 for 1961, \$1,422,500 for 1962, and \$1,662,000 for 1963 and thereafter. Reductions of such taxes for all railroads operating in New York will reach an estimated maximum of \$15 million per annum by 1963.

The CHAIRMAN. Thank you very much, Mr. Hutchinson. We appreciate your attendance here and your testimony in this matter. You may be excused.

Mr. HUTCHINSON. Thank you, Mr. Chairman.

(The following letters were later received from Mr. Hutchinson:)

INTERSTATE COMMERCE COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, D.C., March 14, 1961.

HON. OREN HARRIS,
Chairman, Committee on Interstate and Foreign Commerce,
House Office Building, Washington, D.C.

DEAR CONGRESSMAN HARRIS: I have your letter of March 9, 1961, with reference to H.R. 1163.

There are now pending before the Commission two applications for guarantees under part V of the act, one by Missouri-Kansas-Texas Railroad, Finance Docket No. 21454, filed January 31, 1961, which seeks the guarantee of a \$16 million loan for the purpose of reimbursing its treasury for certain of the capital expenditures made from its own funds for equipment acquisitions after January 1, 1957; and another by the Erie-Lackawanna Railroad, Finance Docket No. 21494, filed February 28, 1961, seeking a \$15 million loan guarantee, also for such reimbursement. No loan-guarantee applications of the Lehigh Valley Railroad are pending. The most recent application of that railroad, Finance Docket No. 21300, involving a guarantee of \$5 million, was approved December 7, 1960.

In its application, the Missouri-Kansas-Texas Railroad states that while the purpose of the proposed loan is as aforesaid, it proposes to use the proceeds of the loan, together with other company funds, toward the refinancing of certain of its mortgage bonds maturing on January 1, 1962.

The Erie-Lackawanna states in its application that while the purpose of the proposed loan is to reimburse its treasury, it proposes to use the loan proceeds, together with other company funds, for the construction of certain roadway projects necessitated by the recent merger.

Sincerely,

EVERETT HUTCHINSON, *Chairman.*

INTERSTATE COMMERCE COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, D.C., March 17, 1961.

HON. OREN HARRIS,
Chairman, Committee on Interstate and Foreign Commerce,
House Office Building, Washington, D.C.

DEAR CHAIRMAN HARRIS: This will acknowledge receipt of your letter of March 13, 1961, regarding the financing of the acquisition by The New York, New Haven & Hartford Railroad Co. of 30 diesel-electric locomotives involved in Finance Docket Nos. 20372 and 21010.

Since the history of this transaction is quite complicated, I believe a brief factual recitation will be helpful.

The report of the Commission dated March 25, 1959, in Finance Docket No. 20372 discussed, and made certain findings with respect to, the proposed financing of the acquisition under a conditional sale agreement of 30 diesel-electric

locomotives which at that time were being used by the New Haven under a temporary lease from General Motors Corp.

In July 1959 we were advised that General Motors would finance the New Haven's acquisition of these 30 locomotives under a conditional sale contract and the New Haven amended its application in Finance Docket No. 20372 so as to request a guarantee of the financing of its acquisition under a conditional sale agreement of 30 new diesel-electric locomotives of the same type as the first mentioned 30 locomotives.

The Commission's supplemental report dated September 14, 1959, in Finance Docket No. 20372 modified the findings in paragraph 1 of its said report dated March 25, 1959, "so as to embrace the financing of 30 new diesel-electric locomotives (in lieu of the theretofore delivered 30 diesel-electric locomotives therein referred to) and to change '\$8,389,530,' where said amount appears in said paragraph 1 to '\$8,159,400'" and otherwise affirmed said findings.

On February 11, 1960, the New Haven filed an amended application in Finance Docket No. 20372 requesting a guarantee in connection with the acquisition of said 30 new locomotives under a proposed equipment trust providing for the issuance of \$8,159,400 principal amount of equipment trust certificates and represented that the "change from a conditional sale form of financing to one by equipment trust is required by one of the large investors." On February 11, 1960, the New Haven also filed its application in Finance Docket No. 21010 requesting authority under section 20a of the act with respect to \$8,159,400 principal amount of proposed equipment trust certificates bearing dividends at the rate of $5\frac{1}{2}$ percent per annum.

On June 9, 1960, the Commission issued its eighth supplemental order in Finance Docket No. 20372 which approved a guarantee of said \$8,159,400 principal amount of proposed equipment trust certificates upon the condition, among others, that such equipment trust certificates should bear dividends at a rate of not to exceed 5 percent per annum. In its said eighth supplemental order the Commission deferred action on the 20a application in Finance Docket No. 21010 pending its amendment so that it would be in accordance with the conditions referred to in the next preceding sentence of this letter.

By petition filed July 18, 1960, the New Haven requested that the Commission modify said eighth supplemental order so as to find that in the circumstances a dividend rate of $5\frac{1}{2}$ percent per annum on the proposed trust certificates was not unreasonably high and to eliminate the condition that such certificates should bear interest at a rate not in excess of 5 percent per annum.

The Commission by its 10th supplemental order dated August 5, 1960, in Finance Docket No. 20372, found that "under the circumstances existing in this case, the proposed dividend rate of $5\frac{1}{2}$ percent per annum is not unreasonably high" and approved, subject to certain prescribed conditions, the guarantee under part V of the act of \$8,159,400 principal amount of proposed equipment trust certificates "under an equipment trust providing for the acquisition of said 30 new locomotives." This same order also authorized the New Haven under section 20a to assume obligation and liability in respect of not exceeding \$8,159,400 principal amount of such equipment trust certificates, as requested by the New Haven's application in Finance Docket No. 21010.

Subsequently the New Haven submitted a form of equipment trust and a form of guarantee agreement which were accepted as satisfactory by this Commission (as evidenced by a certificate dated September 1, 1960, by Commissioner Tuggle, the Commissioner through whom the Commission's Bureau of Finance reports) and also complied with the other conditions prescribed in said 10th supplemental order dated August 5, 1960.

The guarantee agreement was delivered on September 29, 1960, at which time there were purchased by the investors \$2,719,800 principal amount of the New Haven's equipment trust certificates of the proposed issue of \$8,159,400 principal amount thereof referred to in said 10th supplemental order and in said guarantee agreement.

On October 28, 1960, an additional \$2,719,800 principal amount of such equipment trust certificates were purchased by the investors and on November 29, 1960, the remaining \$2,719,800 principal amount of these equipment trust certificates were purchased by the investors.

Thus the \$8,159,400 principal amount of the equipment trust certificates guaranteed by the Commission in Finance Docket No. 20372 have all been issued and are presently outstanding.

These equipment trust certificates mature in 15 equal annual installments payable on the first day of June in each year beginning June 1, 1961, and ending June 1, 1975.

Sincerely,

EVERETT HUTCHINSON, *Chairman.*

INTERSTATE COMMERCE COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, D.C., March 21, 1961.

HON. OREN HARRIS,
*Chairman, Committee on Interstate and Foreign Commerce,
House Office Building, Washington, D.C.*

DEAR CHAIRMAN HARRIS: I have your letter of March 17, 1961, in which you refer to the note appended to the Commission's second supplemental order of December 29, 1960, in finance docket No. 21299, New York, New Haven & Hartford Railroad Co. loan guarantee, and inquire whether the supplemental report referred to therein has been issued.

To date no such supplemental report has been issued. The Commission intends to issue in the near future a supplemental report covering its actions taken in the mentioned second supplemental order and in its third supplemental order of February 14, 1961, in finance docket No. 21299, and I shall supply you with a copy of the supplemental report when it is issued.

Sincerely,

EVERETT HUTCHINSON, *Chairman.*

The CHAIRMAN. Mr. George Alpert, chairman of the board of directors of the New Haven Railroad.

Mr. Alpert, you may proceed.

STATEMENT OF GEORGE ALPERT, PRESIDENT, NEW YORK, NEW HAVEN & HARTFORD RAILROAD

Mr. ALPERT. Thank you, Mr. Chairman.

My name is George Alpert. I am president of the New York, New Haven & Hartford Railroad, and I appear here in favor of H.R. 1163 that provides for an extension, as you know, of the loan provisions of the Transportation Act of 1958.

Since I am a relative newcomer to the railroad business, I have only been in it for 5 years, and it seems at times like 50, but it is only 5, I shall not presume to talk for the railroad industry.

I speak only for the New Haven Railroad, and there has been so much said about the New Haven Railroad, thus far, in this hearing that I think, perhaps, I ought to tell this committee why the railroad is in its condition and what the effect of the Transportation Act of 1958 has been on the transportation system in New England.

In the first place, I think in order that we may consider this in the proper frame of reference, I ought to refer to one statement in the legislative history of this act in the house report, this committee's report, on the bill which finally wound up as the Transportation Act of 1958.

You said this:

Some railroads, particularly in the East, are in grave economic difficulties, and the committee had testimony to the effect that it is doubtful whether some of them will be able to avoid going into receivership during the year.

Were some of the major railroads to go into receivership, the resulting impact would be serious not only to the industry but to the country as a whole.

The Senate, the subcommittee of the Senate, on the companion bill, which was in conference with your bill, and which ended up as the Transportation Act of 1958, along the same lines said this:

The position of some of the railroads, primarily located in the East, is an extremely serious one. Some of those in the most precarious position are our largest railroads in point of employees, wages, purchases, and track-miles.

Some of them have millions of dollars of deferred maintenance, millions of dollars owed in unpaid loans and State taxes, and a few of them have so little operating capital remaining that there is considerable likelihood of their being unable to meet their payrolls in the ensuing months.

Heretofore these railroads have been strong economic factors in the areas in which they operate. But today their economic condition is such that they no longer have sufficient credit standing to borrow money through the ordinary commercial channels. Bankruptcy is a likely prospect for several of them if present conditions remain unchanged.

In your subcommittee's opinion, such a failure on the part of any one or more of them would not only result in the hardship of loss of jobs, service and payrolls to those persons directly involved, but any such failure would adversely affect our entire economy.

This, I believe, if not the dominant purpose of the statute was certainly a very important consideration, to avoid bankruptcy and the resultant effect on the economy of the Nation.

Why the New Haven is not mentioned by name in this legislative history, nothing could ever have been written which so fit the situation of the New Haven than in the passages which I have just read.

The plight of the New Haven Railroad or the railroads of the country, first, has been the subject of numerous studies and reports, the various congressional committee reports, the Interstate Commerce Commission reports, and Department of Commerce reports; it was a situation which existed in 1958, you will remember, just epitomize all these reports, which motivated Senator Smathers of the Senate committee to say that a mighty industry has come upon sick and precarious times.

It was Secretary Mueller of the Department of Commerce who referred to the railroad business as the unsubsidized sick man of American industry.

Now, all of these reports point out one thing: That there have been great changes in the railroad business in the last quarter of a century. Much of our freight business has gone to the highway, much of our passenger business has gone to the highway and to the airlines.

These are the problems which confront all of the railroads of America, and has been resulting in the small net return that you have heard so much about.

But in addition to these problems, the New Haven suffers from certain inherent disadvantages from which it has always suffered, and I just want to refer to them briefly.

In the first place, we are a short-haul railroad. We do not have the very profitable long-haul freight that you have on the Western and Southern railroads. Our longest run on the New Haven is only 220 miles, I believe, or 218 miles, from Boston to New York.

Being located right on the eastern seaboard, we are vulnerable to water competition, and much of the coal which we used to receive on the rails now comes on barges to Bridgeport and New Haven and Boston, and that business is gone.

We have an unbalanced traffic pattern because the economy of New England is such that raw materials come in in large quantities, but the finished products, electronic gadgets, and things of that sort, go out on trucks, and so a great deal more freight comes in, and that requires us to reship empty cars, on which we pay heavy per diem bills. Our per diem charges are tremendous on the New Haven Railroad. This is a great disadvantage.

Mr. AVERY. Could I interrupt there? Did you say a heavy per diem charge?

Mr. ALPERT. Heavy per diem charge. I do not mean the amount of the charge; I mean the total that we pay for per diem.

Mr. AVERY. I want to get that point cleared up, because there is a little difference in opinion on per diem rates.

Mr. ALPERT. Yes.

Furthermore, we are a terminal railroad. Seventy-five percent or thereabouts of all the traffic on the New Haven terminates on our line and, as everyone knows, terminal charges are the most expensive part of a railroad's operation.

To make things a little worse, we receive an interchange freight from the Pennsylvania and a few other railroads on the New Jersey shore, and this requires a floating operation. That was brought to public attention recently in the so-called tug strike, where six of our employees tied up a whole system for a couple of weeks and cost the railroad a fortune. We have this floating operation.

Now, when freight was abundant, when we had plenty of freight, these disadvantages that I have just referred to that we have always suffered from could be overcome.

But as traffic declined, as a result of the great highway program and some other considerations, these inherent disadvantages became more serious; and then when the New York Thruway and the Massachusetts Thruway and the \$460 million Connecticut Turnpike opened, it cut deeply into our revenues.

The Interstate Commerce Commission in its investigation referred to the Connecticut Thruway as a Chinese wall, because along a great length of our road in Connecticut, it is built so close to our tracks, in some places as close as 20 yards, that we haven't even room in these areas for industrial development for side tracks, for prospective manufacturers.

The best evidence of what has happened is in the figures. In 1950 the freight on the New Haven Railroad was \$90 million.

By 1957, the second year that I was in the presidency, it was \$94 million. But in 1958, the Connecticut Thruway opened, and our freight that year fell to \$81 million, a difference of \$13 million, and most of that \$13 million is carried right down the net, because it does not involve a tremendous amount more expenses.

As a result, the net profit from freight which the New Haven had enjoyed from 1950 to 1957, running between \$15 and \$20 million a year, fell in 1958 to \$7 million, and in 1959 to \$3.5 million, and in 1960, below zero.

Now, this declining freight is not indigenous to the New Haven Railroad. It is a situation in the East.

Yesterday morning's New York Times, in giving the January figures for some of the eastern railroads, referred to them—this is old

hat—referred to them as the chronically ailing eastern railroads. That is a pretty accurate description because our freight is declining.

Take a look at the figures on any of these roads, any of them, without naming any specific one.

Now, in addition to this, the New Haven operating losses, the operating losses on the New Haven over the last few years have depleted our working capital. We have no reserves. We have no cash, and we have no borrowing capacity, and there is a good reason for this.

In 1950, an act of God visited Connecticut in the form of a flood, and it tore up the tracks and destroyed the stations, and it cost the New Haven \$25 million, none of it insured because you could not get insurance to cover that.

The report of the Interstate Commerce Commission said, in referring to this flood, this nearly sealed the doom of the New Haven Railroad, and I think it did.

I think it is a case where the referee counted us out but we did not hear the referee.

That was the time that the railroad should have folded. It was a horrible sight, as we traveled through Connecticut and saw these tracks bent like hairpins all over the system, and we had to borrow on Government-guaranteed loans under the Defense Production Act, \$16 million on a 90-percent guarantee.

There has been some reference to the fact of why is this a 100-percent guarantee? Because our experience there showed it was difficult, awfully difficult, to get a guarantee which was only 90-percent guarantee.

Mr. Moss. Just a moment, Mr. Chairman. In view of the fact that I made the reference, my concern goes to whether or not, not only in the case of the New Haven, but in each of the listed roads, the Interstate Commerce Commission is undertaking the responsibility I feel the Congress gave them, not to go out and just willy-nilly guarantee them all 100 percent, but to exercise every effort to get participation by the lending institutions in the risk of the loan itself, and I think it is a proper interest, a proper concern of this committee and of the Congress.

Mr. ALPERT. Mr. Chairman, I have no doubt of that, and I want to assure Mr. Moss that this statement that I just made as to the reason why 100-percent provision was necessary in this act was certainly not intended as any reflection on any question that anyone asked, certainly not his question.

I was simply explaining that I believe that the reason for the 100-percent guarantee inserted in the Transportation Act of 1958 was due to the fact that there has been so much difficulty, and we had had experience with that 90-percent loan on the flood loans.

We got loans of \$16 million against the losses of \$25 million, and we rebuilt the line.

But in order to get this money, the cupboard was left bare of collateral. They took every bit of collateral we had. You could not blame them. This is banking. They took all the bonds, all the securities, everything, and we had nothing, so we have no borrowing capacity.

Now, all these things are very serious. This is a serious situation. But the most serious situation that we have is the passenger deficit.

In your report of 2, 3 years ago, in connection with this bill, you said:

A major cause of the worsening of the railroad situation is the unsatisfactory passenger situation. Not only is the passenger rendering business not making money, it is losing a substantial portion of that produced by freight operations.

That is nothing new.

The railroads last year in this country lost \$530 million-odd, I believe the figure is; it might have been 1959, but I am sure it was not much less than 1960, \$530 million-odd in the passenger business, and those losses absorbed or consumed 45 percent of all the freight.

Now, the effect of these passenger losses on any individual railroad depends upon the percentage of passenger service which that railroad has to its gross revenue. If the percentage is small as it is in the case of some of the southern and western railroads, 12 percent, 15 percent, then it can easily be absorbed.

While they lose money on it, they do not complain about it; it is part of the railroad business.

If you get up to 20 percent, in the case of the New York Central or the Pennsylvania, two of our largest railroads, then it becomes more serious.

In the case of the New Haven Railroad, because we operate through an area of concentrated population, we have passenger service revenue of 47 percent of our entire gross revenue. That is the highest passenger ratio in the United States, except for the Long Island.

Now, up to 1947, even with this huge passenger business, we were able to absorb our losses from freight because, as I have explained to you, up to the opening of the thruway our freight was at a \$15 or \$20 million level, even though we earned \$10 million plus in freight every year since 1950.

In 1958 it fell off and, therefore, we were not able since 1958 to absorb our passenger losses, which ran way above our freight revenue.

In 1959 the passenger loss on the New Haven Railroad was 350 percent, \$12.5 million—was 350 percent of our entire net freight income on the railroad; and, in the words of the boys on Madison Avenue, this is the only railroad in America that can make that claim. [Laughter.]

In 1960 our loss was \$14.5 million from all service.

Now, what is the answer to it? Is it abandonment? I do not think so. I have contended from the day I became president that the worst thing that could happen to New England was to have railroad service abandoned, whether you call it commuter service or long-haul service or whether it is freight service; because we operate, as I have told you, in an area of dense population.

In 1 percent of the land area of the United States, in our territory, live 10 percent of the population of America. There is not a more dense area, from a population standpoint, in the United States.

If the 30,000 passengers that we carry every day in the week from Connecticut and Westchester County into New York City were thrown onto the highways, you would have chaos. You would not be able to get them into the city; you would have to build tremendous highways and parking facilities. It would disrupt the economy of that entire area.

If the main line from New York to Boston were to go out of existence, there would be tremendous public inconvenience, and when the planes are down and the highways are frozen, you would be back to the horse and buggy age of the beginning of the 19th century, without a railroad line.

The American Municipal Association made a study of this situation, particularly with regard to suburban service, the commuter service, into large cities, and they picked five cities to show you the importance of this subject, even for the Federal Government; and the five cities were Boston, New York, Philadelphia, Chicago, and Cleveland.

They came up with the conclusion that if rail service to those five cities transporting commuters should go out of existence, it would be necessary to supply substitute facilities in the way of highways and parking facilities which would cost \$31 billion, and that is an amount which is even a big amount for the Federal Government.

Certainly it compares pretty ludicrously with the \$500 million to save the railroads that we are talking about in this act. That makes that \$500 million pale into insignificance when you realize the importance of continuing rail service.

Now, if abandonment is not the answer, why not charge compensatory fares? Why should not the traveler on the railroad pay the full cost of the service? Well, the quick answer is he won't. He would go to the highway rather than pay the full cost.

But I want to ask you the question, why should he? Why should the traveler on the railroad pay the full cost when the traveler on the airline, the traveler on the highway, the traveler on the transit system, the traveler on the helicopter does not pay the full cost, because that service is subsidized to the queen's taste by the Federal Government and by the State governments.

A special message was given by the President of the United States to the Senate just 2 days ago. What was the reason for it? That the trucks are not paying the full cost of the highway program.

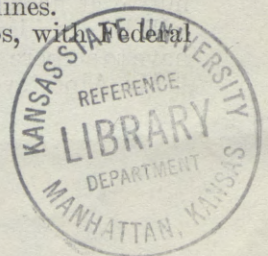
The investigation made 2 years ago by the Interstate Commerce Commission showed that \$140 billion have been poured into the highways, national, State, and local level, and I am quoting these figures from the ICC report, and the total amount recovered in user charges was \$63 billion; and the balance of \$77 billion is a subsidy for the users of the highways.

The trucks do not have maintenance-of-way costs, as the railroads do, because those are paid by the Government, and are not adequately repaid through user charges.

The airlines, air traffic control, the signaling system of the airlines, as worthy as it is, who pays for it? The Federal Government, to the tune of \$1.5 billion in the last 10 years, 50 percent, according to President Eisenhower's budget message, for the benefit of the commercial airlines. They do not pay a penny of it. That is a subsidy.

Equipment development, that expense, all these jets developed by Federal funds, that is a subsidy for the commercial airlines.

The building of airports and strips, landing strips, with Federal funds, that is a subsidy.



When the helicopter company operating in our area carries 80,000 people, according to its 1959 report, and gets revenue of \$840,000 for carrying those 80,000 people, and then the Federal Government, under the law, gives them a cash subsidy, nothing indirect, not for carrying mail, but cash right over the table, of \$2.2 million, \$3 for every \$1 the passenger pays, that is a subsidy. The railroad gets nothing in the way of subsidies.

Now, in addition to the subsidies, and I have only mentioned a few of them, I have not mentioned the feeder airlines and the water subsidies and the variety of subsidies all over the country—there was a special study made of it, a report just came out, of the billions, hundreds of billions, I think Senator Frank Lausche filed a bill last year to determine how much we are paying for subsidies, and I have not even mentioned farm subsidies; I am mentioning transportation subsidies, and in addition to these subsidies, the facilities of these other forms of transportation are tax exempt.

The highways are not taxed; the airports are not taxed.

In Boston we have South Station. Our terminal in Boston is assessed for \$12.2 million and on a tax base of \$100 for every \$1,000, we pay a tax of \$1,230,000 on that station.

Logan International Airport, which I can see from my office in Boston, across the harbor, cost \$100 million of public funds, and it does not pay a penny in taxes to the city of Boston. They are tax exempt.

The same is true in New York and the same is true all over the country.

If these other forms of transportation have to pay taxes, municipal taxes, I am talking about now, not income taxes, municipal taxes on their real estate to the same extent as we have to pay them on the railroads, and had to pay the cost of operating, including air traffic control and all the cost of the highways, that would have to be reflected in their fares, and the fares would be prohibitive.

The CHAIRMAN. Pardon me for interrupting, but the time is past 12 and the House is in session, and there are some members who have engagements they have to meet, and I see your testimony is going to require a little time.

Mr. ALPERT. I can finish in about 10 minutes.

The CHAIRMAN. But there will be a good many questions, I have some feeling.

Could you come back at 2 p.m.?

(Discussion off the record.)

The CHAIRMAN. Very well.

The committee will adjourn until 2.

(Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

I should like the record to show that when I adjourned the committee at noon, it was adjourned to meet at 2 o'clock. I hope this will be considered an admonition from here on out, that we will not have to sit here for 30 minutes.

Mr. Alpert, you may continue.

STATEMENT OF GEORGE ALPERT—Resumed

Mr. ALPERT. Thank you, Mr. Chairman.

At the recess, I had been discussing compensatory fares and the matter of subsidies and taxation, relief from taxation to other forms of transportation, and had stated that if the other forms of transportation had to pay the full cost of the service and taxes, these matters would have to be reflected in the fares and the fares undoubtedly would be prohibitive.

It is this inequality which I believe is the source of the problem on the passenger railroads, certainly on the New Haven Railroad.

We feel it very much on the New Haven, because we pay \$8.5 million a year in municipal taxes, or the equivalent thereof, in addition to the \$5 million for unemployment and retirement taxes. For 5 years now, or probably 4 years, I have been arguing in every forum available for equality for the railroads.

I want to make it plain, I ask for no gift, for no giveaway, for no favor, and for no special privilege. All we ask, all we need, is equality with other forms of transportation. We are entitled to no more, and we expect no less. That is, to me, the touchstone of the free enterprise system.

I am told everywhere I go that the railroads are the bedrock of our transportation system, that they still are even in these days, that they are vital to our economy, that they are necessary for industrial developments; that they are certainly essential in time of war. Yet, we are allowing our railroads to wither by neglect, particularly those roads in the east that have this passenger problem.

In foreign nations—in Russia, in Argentina, in Japan, in many of them—the railroads are being upgraded, more emphasis is being placed upon them as an important form of transportation. Their freight loadings are rising. Often this is being done with American dollars, through the counterpart funds. Millions of dollars have been given to other countries, to France, to Italy, to Spain, to Yugoslavia, to Ceylon, in the last 10 years. Here, the railroads are allowed to die.

If we have come to the point where the railroads are to be relegated to the Smithsonian Institution, where they go the way of the covered wagon, let's call it a day and get rid of these railroads that cannot operate under this system.

If, on the other hand, they are essential, and I think they are, certainly in my neck of the woods, I think they ought to be given equal treatment. This last 5 years, during which I have been president of the railroad, it has not been an easy task. We have been working against a deadline from day to day, against the day we would run out of cash, and that deadline was reached recently. It came as the result of a series of unfortunate events, first the Pennsylvania Railroad strike, which shut off our freight for a while; then Hurricane Donna; then the tug strike in New York Harbor, which required an embargo of all freight and the cessation of passenger business; then the devastating, unprecedented storms of December 12, January 9, and February 3 up in the Northeast, and the very cold weather. These put a strain on our meager cash resources. So we had no alternative but to apply to the Interstate Commerce Commission under

the Transportation Act of 1958 for a guaranty loan. We received a loan of \$11.5 million in three stages, as you have heard.

We have spent on capital improvements since January 1, 1957, \$28 million on the New Haven Railroad. Under the act, there was jurisdiction in the Interstate Commerce Commission to loan us an amount up to the amount which we had spent in these capital improvements since that date if we needed it to preserve the railroad. That is the theory on which I believe the \$11.5 million was loaned to us.

I want to make it very clear that if it had not been for these loans, the New Haven Railroad would have been in bankruptcy months ago. I think, as I pointed out before, that it was the prevention of bankruptcy which was the dominant purpose that this act was intended to prevent.

Now, in the case of the New Haven Railroad, I think it can be fairly said that the Transportation Act of 1958 accomplished its purpose. I think great credit is due to the Interstate Commerce Commission for its statesmanship in applying the act broadly with a deep regard for the public welfare. I think that is the basis on which these loans must have been made.

All the studies have indicated that the New Haven Railroad is a vital artery in the New England economy and must be preserved. As a matter of fact, it is the only railroad in southern New England, except for the Central Vermont, which is the small freight line running down from the Canadian border to New London, Conn. Aside from that, there is no other freight service in southern New England. It is obvious how important this is to southern New England, even at the low levels of 1960.

We carried, in 1960, 630,000 carloads of freight. That means 1,700 carloads of freight every day of the 365 days in the year 1960, and that is a lot of freight. And we carried 31 million passengers, and we employed 12,000 people, at a payroll of \$79 million. We have stockholders in number of 7,342, whose money is invested in this enterprise. The demise of the New Haven Railroad would be, in my opinion, a catastrophe to New England and to the Nation.

It is because of these circumstances and these conditions that all the studies that have been made, the lengthy study by the Interstate Commerce Commission, the study by the Public Utilities Commission of Connecticut, in whose jurisdiction we operate, or to whose jurisdiction we are subject, and the other investigations that have been made by various people have recommended relief for the New Haven Railroad. What form is this relief to take? Everybody agrees that the first step, the important step, the relief which will start us back on the road to economic health, is relief from taxes; the unconscionable and the burdensome taxes which are imposed on the railroads and are relieved, are taken away in the case of other forms of transportation. This is what I have been urging for 4 or 5 years.

I find that the mills of the gods grind slowly, particularly where you ask a municipality or a State to give up taxes it is now collecting.

But there are straws in the wind. In New Jersey, the legislature provided \$6 million for the railroads. I believe it was a subsidy. In Philadelphia, the city has provided money for the Pennsylvania and the Reading on a subsidy basis. In New York, the legislature, at the request of Governor Rockefeller in 1958, passed a law which tied the

railroad taxes to net income rather than assessment. That was a very excellent move, and I think eventually, would give us some relief. But unfortunately, it is to apply on a graduated scale, so that the real relief we get does not come until 1963, and it is going to be difficult to live until 1963.

When the situation became very critical a few months ago, as I said, we applied for this ICC guaranteed loan. Then the four States in which we operate—Massachusetts, Rhode Island, Connecticut, and New York—met and they appointed, the Governors appointed an interstate committee, and a report of that committee was recently filed; I think about the middle of January. They recommend, this interstate committee recommends that a program which calls for \$13 million or \$13,700,000 a year for the New Haven Railroad, and of this \$13,700,000, \$6,200,000, is primarily from the elimination of local and State taxes. This is the first indication of substantial relief in the campaign for equality, and it is a very important step.

Next Tuesday, special messages are to be delivered by the four Governors to their respective legislatures, urging the adoption of this program. Tonight, I am meeting with the Governor of Massachusetts; Saturday with the Governor of Rhode Island. Finally, we have come to the point of possible long-range help; I shall say probable long-range help, and I almost feel it is certain long-range help in this tax area. It is certainly on the way. And I believe the framers of the Transportation Act of 1958 envisaged such relief.

After all, the loan program that we have been talking about was never intended as an answer to our long-range problems. As the Senate pointed out, the subcommittee of the Senate pointed out on page 10 of its report, this guaranteed loan program is only offered as a palliative to meet the short-range emergent fiscal problems of some few of the major railroads, and to give them time in which to start feeling the beneficial effects that will result from the adoption of other legislative proposals.

With the critical situation that we have faced and do now face due to the current state of the economy in large measure, because carloadings are way off this year, with the likelihood of substantial relief on the State level and on the local level which will take off the burden of these taxes, I think it would be very unfortunate if that palliative which was granted by the Congress in 1958 were now to be withdrawn. We are too close to the goal. We are too close to the goal to take any chances now.

I have already said that the purpose of this act, in great measure, was to prevent bankruptcy. Yet some people have suggested that bankruptcy is the only solution; reorganization; reorganize the railroads. That is the magic thing to do.

I want to call your attention to the fact that the Interstate Commerce Commission, in their exhaustive report, the Public Utilities Commission in their exhaustive report, the Governor's committee, the Chamber of Commerce of Boston that has made a study of this, have all pointed out that bankruptcy is not the solution; reorganization is not the solution. Because reorganization or bankruptcy will result in either liquidation of the road, which will be disastrous, or it will result, as it has before, in drastic curtailment of passenger service, or abandonment of certain lines. Either of these things would be a major blow to the economy of New England.

Those who argue wistfully for reorganization and think of the reorganization that the New Haven went through in 1935-47 do not seem to realize that the circumstances are different today. In 1935, when the New Haven went into reorganization, it had fixed charges of \$17,600,000. This was an accumulation of things that had happened, I believe from the days of Mellon back in 1906 or 1907 or 1908. It had real estate taxes of \$1,400,000. It had a payroll of \$33 million. Now, the purpose of the reorganization, as it always is, was to scale down the fixed charges, and what was accomplished in a 12-year reorganization? The company was taken out of reorganization in 1947. That \$17,600,00 had been reduced to \$6 million in fixed charges. That elimination of \$11 million of expenses was deemed sufficient to enable the railroad to continue on its way.

Now, what is the situation in 1961? Our fixed charges today are only \$6,700,000. Our taxes, on the other hand, have increased over 100 percent to \$8.5 million, and our payroll has increased well over 100 percent to \$79 million.

If the court, in reorganization, should try to eliminate the fixed charges, all they could eliminate is about \$4 million or \$3.5 million, because the rest of them are fixed charges on equipment trust certificates, and those nothing can be done about, because the holders have a right to the security, and so there will not be any elimination of those. So for \$3.5 million—we might get rid of \$3.5 million. But we lost, last year, \$14.5 million. What is going to be done about the balance?

There is only one of three possible conclusions: Either the railroad is going to be liquidated; No. 2, the railroad will be nationalized, if that is what you want, with the experience in Britain and other places where they have been nationalized, a pretty expensive way to do it; or No. 3, get rid of the local taxes; put us on a basis of equality and parity with other forms of transportation and give us the same help. I do not care whether it is done by direct subsidy or whether it is done, as the President has suggested, and President Eisenhower before him has suggested, by the imposition of user charges to those people in other forms of transportation. That is for the Government to decide. But put us on a basis of equality, and that has to happen whether you are in or out of bankruptcy. I think it can happen much better if you are out of bankruptcy.

I think it might be interesting for the committee to know that the proposed legislation in Connecticut and the proposed legislation in Rhode Island and, I believe, also in Massachusetts, have a provision that if a company goes into bankruptcy, there will be no tax relief, because then their taxes will not be paid, but there will be a priority. So they are not going to fool around with it at all. The only chance we have of getting tax relief is to stay out of bankruptcy, and that is what I am struggling for.

These loans of \$11.5 million were for 1 year. We could not ask for a longer loan, because under our charter, a loan for longer would require the stockholders' approval, and there was not time to get that. We put it on the agenda for the annual meeting, to be held in April, and if that meeting votes in favor of it, and I think it will, then these loans will have to be refinanced through the Interstate Commerce Commission on a 15-year basis, and that is what we hope will happen.

Furthermore, there is a question of new equipment under the arrangement made in the New York Legislature, and that will require some intervening by the Interstate Commerce Commission.

I regard this act not as a subsidy, not as a banking proposition; I regard this act as a safety valve against bankruptcy. Like most safety valves, perhaps it may never be used again by us if we get tax relief, but it will be there if the emergency arises. Therefore, I submit to this committee that you report favorably on this bill.

I would just like to take another 3 or 4 minutes, because if this bill is going to be extended, I want to suggest a few amendments.

In the first place, section 504 provides that no guaranty shall be made unless certain findings are made by the Interstate Commerce Commission, and one of those findings is that the prospective earning power of the applicant furnishes reasonable assurance of applicant's ability to repay the loan.

This limitation was not in the original House bill. According to your report, it was taken from the Senate bill in the conference.

Now, the purposes of the act, and I think they were referred to sometime during this hearing, are set forth in section 510, to maintain facilities and equipment, to encourage employment, and so forth, to develop a national transportation and postal service, in the aid of national defense.

When you read section 4 that I have just referred to, making it necessary that a finding be made that prospective earning power furnishes reasonable assurance of the applicant's ability to repay, the effect of the act, as set forth in its purposes, is very much impaired. The Senate committee, in its report, referred to the feeder airline Guaranteed Loan Act, which was adopted almost at the same time—I think a year before this, 1957—as an appropriate precedent. In the case of the feeder airlines, there is one act which provides for a direct cash subsidy, but I am not talking about that one. There is another act which provides for guaranteed loans to the feeder airlines. That is 49 United States Code Annotated, section 1324. Under that act there is no provision that there be any assurance of repayment by the applicant. There it is provided that the loan be in the national interest and needed to improve the service and the efficiency of the operation.

I think a comparable provision should be inserted in this act, in place of this subsection 4 in section 504. I suggest, therefore, a provision requiring a finding by the Interstate Commerce Commission, instead of reasonable assurance of ability, the requirement that the Commission find that the guarantee is in furtherance of the purposes declared in section 501. Such a condition, I believe, will more reflect the purposes intended by the act.

Another amendment which I suggest, one of the purposes was to assist the railroad in acquiring equipment. Now, leasing of equipment, as distinguished from purchasing on trust certificates, is becoming a common practice in the railroad industry. While section 503 provides for guarantees by trustees—that is, under equipment trusts—it does not say anything about lessors. I think that this omission can be remedied by the insertion of the word "lessors" so that if a more advantageous arrangement can be made in the opinion of the Interstate Commerce Commission, a lease could be guaranteed just as an acquisition by trust certificate could be guaranteed.

The third suggestion I wish to make is in the definition of additions and betterments. In section 503, it is there provided—in section 502. Section 503 provides that loans may be made for additions and betterments or to reimburse the carrier for expenditures made for capital improvements or; that was back in 1957.

Section 502 defines the term “additions and betterments.” That definition is expenditures for the acquisition or construction of property used in transportation service chargeable to the road property, or equipment investment account in the uniform system of accounts prescribed by the Interstate Commerce Commission.

While our accountants are of the opinion that acquisition and construction, as used in this phrase, includes rebuilt equipment, there seems to be a question in certain quarters, or a question has been raised, at least, whether an expenditure for this purpose—that is, to rebuild equipment, which is just as serviceable as new equipment and much less expensive, would fall within the definition of acquisition and construction.

The Interstate Commerce Commission has ruled, I am informed, that the cost of rebuilt equipment is properly chargeable to the equipment investment account. Therefore, they would see no reason why the word “reconstruction” should not be inserted in this definition before the word “construction” so as to cover the acquisition of rebuilt property. I think the task should not be whether the property is new or whether it is old, but whether it is expended for capital improvements under the uniform system of accounts.

In conclusion, I simply want to say that the act as drawn is to provide for an extension of 1 year. I agree entirely with the statement of the Interstate Commerce Commission Chairman that, with the long-range relief which we hope to get, and to avoid the necessity of any further loans, things move rather slowly, and I think it would be much more realistic to have the act extended for a 2-year period.

Just one further thing. I referred to the report of the interstate committee in the four States, which have a great deal of what I believe is valuable information as to what the States intend to do. I think the letter, a copy of the letter from the Interstate Commerce Commission to the Governors, dated sometime in January, was admitted as an exhibit, and I merely suggest for the committee to decide whether a copy of the interstate committee report representing the Governors would not be a pretty good idea to have in the record, to show you the facts about which I have been talking. So I offer that as an exhibit for your consideration.

The CHAIRMAN. That will be received.

(The report referred to follows:)

NEW HAVEN RAILROAD

THE FOUR-YEAR PROGRAM

WHAT IS NEEDED ANNUALLY	HOW TO MEET IT
To meet Cash Deficit	State & Local Tax & other Relief
Additional Working Capital	Revenue from repeal of Fed. excise tax
To Improve equipment, acquire new commuter cars	Passenger Fare Increases
	Economies through labor-management cooperation and bondholder
TOTAL	\$13.7 MILLION
	\$13.7 MILLION

To: The Governors of the States of New York, Connecticut, Massachusetts, and Rhode Island; the mayor of the city of New York; the county executive of the county of Westchester.

From: Interstate staff committee on the New Haven Railroad.

In accordance with your instructions we respectfully submit this report on measures which may be taken by the States of New York, Connecticut, Massachusetts, and Rhode Island, the city of New York, Westchester County, and other interested parties to maintain and improve the essential services of the New York, New Haven & Hartford Railroad Co.

THE NEW HAVEN RAILROAD CRISIS

On October 1, 1960, the financial crisis of the New Haven Railroad had reached a point where bankruptcy and possible curtailment of service appeared imminent. Its available cash had declined to such an extent that it could barely meet its weekly payroll. The railroad's net operating revenues had fallen at an accelerated rate notwithstanding recent increases in both freight rates and passenger fares.

INTERSTATE ACTION

In view of the crisis facing the New Haven Railroad, Governor Rockefeller of New York, Governor Ribicoff of Connecticut, Mayor Wagner of New York City, and County Executive Michaelian of Westchester County, met on October 25, 1960, and determined upon joint action. This was the beginning of the multi-lateral effort by the States and the communities concerned, together with the Federal Government and the railroad, to surmount the immediate crisis and develop plans to enable the carrier to continue adequate service, both freight and passenger, between New York and southern New England in the years ahead.

A cooperative program was announced as follows:

"1. We will recommend to our respective legislative bodies and vigorously support a cooperative remedial tax relief program.

"2. We have directed our staff representatives to develop a formula detailing equitable relative responsibilities for the States and the communities served by the railroad.

"3. Any such relief will be contingent upon the provision by the railroad of improved commuter service.

"4. We urge prompt, favorable action by the Interstate Commerce Commission on the New Haven Railroad's application for a \$6 million federally guaranteed loan which will provide the essential funds for current operation of the railroad. This action will provide a 'breathing spell' necessary for the development of a longer term solution to the railroad's basic problems.

"5. Because of the substantial interests of our respective States and communities, we have designated key members of our respective staffs to work together as a committee to confer immediately with the Interstate Commerce Commission on measures to insure uninterrupted service."

An interstate staff committee on the New Haven Railroad was appointed by the chief executives concerned. Dr. William J. Ronan, secretary to Governor Rockefeller, was elected chairman. The committee proceeded immediately to carry out the announced program.

Subsequently, Governor Del Sesto of Rhode Island and Governor Furcolo of Massachusetts pledged their cooperation and appointed representatives to the interstate staff committee. Governor Furcolo indicated that State constitutional limitations might require any financial assistance from that State to take a form other than tax relief. Governor Volpe of Massachusetts, recently elected to succeed Governor Furcolo, designated a representative to participate in the committee's discussions.

The interstate staff committee convened the next day and met in continuing session until October 31, 1960. On that date the committee met in Washington, D.C., with the entire Interstate Commerce Commission. After assurance by the committee that definite tax relief or alternative financial assistance would be recommended to the legislative bodies of the several States, the Commission approved \$4.5 million of the New Haven's requested \$6 million federally guaranteed loan, and subsequently, on December 29, approved the guarantee of an additional \$3.5 million loan.

The "breathing spell" provided by the loans enabled the interstate staff committee to turn its attention to the task of determining the tax relief and other

financial assistance that could be provided by the four States and the communities as well as measures that might be taken by the Federal Government, the railroad management, and others. The committee has conferred at length with officers of the New Haven Railroad, representatives of the Interstate Commerce Commission, representatives of labor organizations and others with a view to determining not only the relative responsibilities of the States and the communities served by the railroad but also the responsibilities of others, industry, management, labor, bondholders, and the Federal Government.

IMPORTANCE OF THE NEW HAVEN RAILROAD

The New Haven Railroad is a vital transportation link for the northeastern part of the United States, providing essential freight and passenger service. Indeed, it provides the only rail connection between New York, New Haven, Hartford, Springfield, Providence, and Boston.

Southern New England is a densely populated, highly industrialized region. Both New England and New York industries would be seriously handicapped without this rail service. Even in the poor year 1959, the New Haven carried 680,096 carloads of revenue freight. Certainly the discontinuance or marked curtailment of the New Haven would be a major blow to the economy of the northeastern part of the United States.

The importance of the New Haven's interstate noncommuter passenger operations which carry millions of passengers annually between such points as Boston, Springfield, Providence, Hartford, New Haven, and New York is emphasized by the fact that these passengers account for almost two-thirds of the total passenger revenues of the railroad. In 1959, the railroad carried a total of 34,253,091 passengers on all its lines.

The commuter passenger service provided by the New Haven is a crucial element in the transportation network of the metropolitan area embracing New York City, Westchester County, and the western counties of Connecticut.

Furthermore, the New Haven is a major employer in the four States and provides approximately 12,400 jobs with an annual payroll of \$79 million.

The New Haven, however, encounters intense competition from water carriers that bring coal, petroleum, and other bulk products to seaport and river cities, and from public and private motor carriers operating over a network of modern express highways. In 1959, there were 43 common carriers of general commodities providing intercity highway service within the New England area. Not only is the New Haven particularly vulnerable to highway and water competition but it has the further disadvantage of being a short-haul road, with an unbalanced traffic pattern, incurring heavy per diem charges for off-line freight cars that return empty to connecting lines.

On the other hand, the unique advantages offered by the New Haven's rail services have been noted by the Interstate Commerce Commission in its recent report on the railroad and should be considered in planning for the future of the road:

"Whatever the New Haven does about its future, it has this advantage: It has an absolutely unimpeded 'highway' upon which a rigid schedule may be imposed. It is the only form of transport which has unimpeded access to the great urban complexes in the area. And, it is this singular advantage which makes the continuation of its commuter service an absolute necessity. This advantage should also enable the New Haven to compete successfully with the airlines for other passenger traffic especially if various promotional inequities are eliminated."

In our judgment and the judgment of the Commission, the factors noted above require the continuation of the New Haven in the public interest.

NEW HAVEN'S MANagements

The mistakes and misjudgments of past and present managements of the New Haven have been documented by the recent reports of the ICC and the Connecticut Public Utilities Commission. Nonetheless, whatever judgment one may make on previous management decisions, the reality of the present situation of the railroad must be faced.

We have already noted that for many years New Haven's passenger services have been deficit operations carried by the substantial net operating income earned by its freight services. Since 1957, however, net operating income from freight services has been declining so that freight revenues have been insufficient to cover the deficits from passenger operations. The present crisis reflects in

part the substantial addition to its burden of debt occasioned by the disastrous 1955 floods. Recent national economic conditions and a systemwide strike on the Pennsylvania Railroad, which had an adverse effect on all connecting railroads, have aggravated the continued deterioration of the railroad's finances. Despite its financial difficulties, the New Haven, except for the tax relief accorded under New York's 1959 tax relief legislation, has continued to be subject to taxation largely unrelated to current earnings. In consequence of these and other factors, including the diversion of freight and passengers to recently opened highways, the railroad has exhausted its working capital.

PRESENT FINANCIAL SITUATION

Beginning in 1957, the New Haven's net operating income from freight declined to a point where freight earnings could no longer absorb its passenger service deficits. In 1959 its net operating income from freight was \$3,478,959, and the loss from its passenger-train operations was \$12,644,078, resulting in a net railway operating loss of \$9,165,119. The trend in the New Haven's financial affairs during 1960 became increasingly adverse.

Preliminary figures indicate a net railway operating deficit of about \$16.5 million. (See chart accompanying table 2.) It is clear that the New Haven has not had and does not now have freight revenues to sustain its heavy passenger-train losses. The business community certainly has a responsibility to re-examine its attitude toward using the railroad's freight services.

The cash position of the New Haven as shown on its books at the end of the year 1960 declined to \$3,876,000. (See table 3 and accompanying chart.) This figure must be considered in the light of the \$4.5 million loan guaranteed by the Interstate Commerce Commission on October 31, 1960, the large volume of postponed payments on accounts payable at the end of 1960 and the New Haven's obligation to pay substantial debt service charges early in January, 1961. Because these postponed payments and the prospective debt service exceeded the cash balance at the end of 1960, the New Haven applied for and received an additional \$3.5 million federally guaranteed loan. Since October 1960 the New Haven has thus received a total of \$8 million in federally guaranteed loans.

REORGANIZATION UNDER BANKRUPTCY ACT

A combination of unfavorable conditions such as those confronting the New Haven would ordinarily have spelled receivership and reorganization, but this offers no easy escape either for the carrier or the governments concerned, Federal, State, and local. The railroad's flood disaster loans, totaling \$16 million, and recent loans for equipment and other purposes, totaling \$18 million, are guaranteed by the Federal Government. Cash generated by suspending payments on its other indebtedness would be insufficient to make up its annual net deficit. Further, the attraction of new private capital funds through reorganization of the distressed corporation seems an unrealistic expectation for the New Haven.

From the standpoint of the public, bankruptcy could present several serious threats to passenger and freight service. In view of the heavy losses sustained in passenger operations it is conceivable that a bankruptcy court would move to effect a drastic curtailment in passenger service, particularly in commuter areas. Similarly a bankruptcy court might approve a receiver's recommendation to abandon certain branch-line freight services important to southern New England. Furthermore, mortgage foreclosure on valuable nontransportation properties of the New Haven could seriously imperil its basic financial structure and jeopardize its ability to continue rail service.

The Interstate Commerce Commission has also concluded that bankruptcy is no solution to the problems faced by the New Haven. In its recent report on the railroad, the Commission stated:

"Reorganization under the Bankruptcy Act appears to hold little promise for a successful New Haven future. In 1935 the New Haven went into a reorganization proceeding under section 77 of the Bankruptcy Act. At that time the carrier's fixed charges were \$17,600,000 a year. Taxes amounted to \$4,400,000 a year and the payroll was \$33 million a year. When the New Haven came out of reorganization in 1947, the fixed charges had been pared to \$6,600,000, taxes had increased substantially and the payroll had increased from \$33 to \$90 million a year. In 1959 the fixed charges are only about \$6,700,000 but taxes are now \$11,900,000, as compared to \$4.4 million in 1935, and the payroll

is about \$79 million a year. Thus, in 1935, fixed charges were 53.3 percent of the payroll, while in 1959, they are only 8.4 percent."

In the above report the Commission also concluded that merger with other railroads was no solution to the New Haven's basic problems.

THE FINANCIAL NEED

Deficit in working capital

On the basis of an analysis of the New Haven's 1959 and 1960 operations, a projection has been made of income, expense, fixed charges, and nonoperating income—in other words, a complete cash-flow statement—for the period 1961 through 1964. This statement reflects the railroad's best estimate of its needs, its operating and nonoperating expenditures, including principal payments on debt, and reflects as well the railroad's resources for meeting those needs.

As shown in table 3, it is estimated that cash disbursements will exceed cash receipts in each of the 4 years 1961 through 1964 with the annual cash deficit ranging from \$5.2 million in 1964 to \$7.6 million in 1962. For the current year the net cash deficit is estimated at \$7.2 million.

Additional working capital

Even if financial assistance is provided in an amount equal to the estimated cash deficit in 1961, the railroad will experience repeated financial crises throughout the years 1961–64 due to unevenness in the cash flow. Therefore, additional working capital will be required and, from data available regarding the monthly flow of cash, it is estimated that \$1.5 million annually will be needed for this purpose.

Cars and service

The most pressing need from the standpoint of passenger service is the improvement of the railroad's fleet of 658 passenger cars and the lease-purchase of 75–90 new commuter cars under the New York State commuter car equipment program.

To rehabilitate the present fleet will require capital expense to establish a car facility for this purpose and annual charges as well for the actual labor and materials cost. The railroad estimates that this program, extended over the 4-year period 1961 through 1964, will cost an estimated \$4 million per year. In addition, the lease-purchase of 75–90 new commuter cars will require the annual expenditure of an additional \$1 million for principal and interest payments. These programs involve new expenditures of \$5 million per year.

Summary of financial needs

To keep the railroad in operation with the improvements indicated the New Haven will require annually for 4 years \$13,700,000 as follows:

Estimated cash deficit.....	\$7, 200, 000
Additional working capital.....	1, 500, 000
Equipment improvement and lease-purchase of new commuter cars.....	5, 000, 000
Estimated total amount required.....	13, 700, 000

ACTION REQUIRED

As set forth above, the committee has estimated the financial need of the New Haven Railroad for 1961 to be \$13.7 million. This sum annually will be required for each of the succeeding 3 years to carry out the interim program. To raise this amount, the committee recommends financial assistance as follows:

1. Tax relief and other financial assistance by the 4 States and the local communities served by the railroad.....	\$6, 200, 000
2. Additional revenue from the repeal of the Federal excise tax on passenger business (other than commutation fares not subject to the tax) with no reduction in prevailing fares.....	3, 000, 000
3. Additional revenue from a further 10-percent increase in commutation fares and an increase of 5 cents per ride on other passenger fares.....	1, 500, 000
4. Other reductions resulting from cooperative action by bondholders and by labor and management in effecting savings from a reduction in operating costs and other expenditures.....	3, 000, 000
Total.....	13, 700, 000

Tax relief and State financial assistance

The interstate staff committee concluded that a practical apportionment of the \$6.2 million in tax relief and other financial assistance among the 4 States and local communities would be as follows:

New York State:

Acceleration and modification of 1959 railroad tax relief program-----	\$1, 515, 000	
Exemption of transportation facilities used exclusively in rail passenger service-----	790, 000	
Assumption by Westchester County localities of annual maintenance costs for 9 passenger stations (exclusive of the cost of acquisition)-----	270, 000	¹ \$2, 575, 000

Connecticut:

Repeal of gross receipts tax on railroads-----	1, 200, 000	
Financial assistance from other sources-----	530, 000	1, 730, 000

Rhode Island:

Repeal of gross receipts tax on railroads-----	187, 000	
50 percent abatement of present real property taxes levied by local governments on railroads-----	483, 000	670, 000

Massachusetts: Financial assistance from sources to be determined-----		1, 225, 000
Total-----		6, 200, 000

¹ This is in addition to benefits already received under the 1959 railroad tax relief program amounting to \$244,000.

It is the committee's considered view that in return for the tax relief and other financial assistance outlined above, the taxpayers and local communities affected should require definite commitments from the railroad for the continuation and improvement of its rail services. As one means of insuring the continuation and improvement of such services in the public interest, the committee suggests that each State designate an appropriate official to act as a member of a four-State group to maintain continuous official contact with the management of the railroad. In the opinion of the committee the recommended assistance should be granted on condition that the railroad undertake the obligation and perform the services specified in the 4-year program. The form of agreement is under study.

It must be emphasized that while the committee considers the assistance herein recommended for adoption by the States and communities served by the railroad to be substantial, cooperative action by other interested parties, including management, labor, bondholders, and the Federal Government, is essential. Among the major recommendations of this committee are management-labor actions to effect a reduction in expenditures and the repeal of the Federal excise tax on passenger business, the urgency of which the committee respectfully suggests should be presented to the congressional delegations from each State.

The long-range solution

The committee's main objective in its inquiry and deliberations has been to develop immediate means of keeping the New Haven Railroad in operation with improved service until its long-range needs and prospects are thoroughly explored.

It is the opinion of the committee that through the financial assistance outlined above, as graphically shown on the chart entitled "The Four-Year Program," it should be possible during the next 4 years for the railroad to operate without a net cash deficit to allocate \$4 million annually for passenger equipment rehabilitation and plant improvement, and to pay \$1 million annually to finance the lease-purchase of 75 to 90 new commuter cars.

The committee recognizes that this program will not meet all the capital improvement needs of the New Haven. It can, however, keep the railroad in operation, with increasingly better service and maintenance than the railroad is now providing. The committee will continue its studies and deliberations looking to formulation of a long-range program for the improved operation of the New Haven before the end of the 4-year interim.

It is the conviction of the committee members that the solution to the railroad's problems will require the intensive efforts of all concerned. Of particular significance is the most efficient operation of the railroad. In view of the substantial contributions being asked of the taxpaying public and the commuters, the highest degree of management-labor cooperation is indicated if the cost of operation is to be reduced without a corresponding reduction of service.

CONCLUSIONS

As directed, we respectfully submit the above recommendations so that appropriate State legislation can be considered to carry out the tax relief and other financial assistance which we have found necessary to meet the immediate needs of the New Haven Railroad.

Assistance from the Federal Congress is crucial and the cooperation of labor and management in reducing costs is essential if the railroad is to continue operation.

The committee expresses its deep appreciation for the understanding, full cooperation and assistance of the members of the Interstate Commerce Commission. The committee also wishes to note that the management of the railroad has cooperated fully in furnishing any and all information requested. The committee appreciated the full cooperation of the representatives of railroad labor, business organizations and all others approached during the course of its deliberations.

Respectfully submitted.

New York State: William J. Ronan, secretary to the governor, chairman, the Interstate Staff Committee, on the New Haven Railroad; Arne C. Wiprud, director of the office of transportation.
 New York City: Lyle C. Fitch, city administrator; Maxwell Lehman, deputy city administrator; Abraham D. Beame, director of the budget; James Felt, chairman, city planning commission.
 Westchester County: Harry G. Herman, county attorney.
 Connecticut: Eugene S. Loughlin, chairman, public utilities commission; Carl Lalumia, executive aide to the Governor.
 Massachusetts: Joseph F. Maloney, executive director of mass transportation commission; Nathan S. Pavan, legal counsel of mass transportation commission.
 Rhode Island: George A. McLaughlin, deputy public utilities administrator; Louis T. Cote, tax administrator.

TABLE 1.—*Passengers transported and passenger train revenue, 1950-60*

Year	Passenger revenue ¹	Number of passengers	Year	Passenger revenue ¹	Number of passengers
1950.....	\$59,488,510	42,630,228	1956.....	\$67,207,674	45,703,199
1951.....	64,146,440	42,244,290	1957.....	69,021,306	45,019,223
1952.....	67,161,427	43,616,463	1958.....	67,601,873	39,397,696
1953.....	67,439,281	45,461,398	1959.....	63,017,565	34,253,091
1954.....	64,901,636	45,772,600	1960.....	² 60,000,000	² 31,000,000
1955.....	62,635,777	44,797,373			

¹ Includes mail and express revenue.

² Estimated.

Passenger fare revenues, by States, 1959

[In thousands of dollars]

	Commuta- tion and multiple ride	All other	Total
Interstate.....	8,170	26,237	34,407
New York intrastate.....	5,570	1,611	7,181
Connecticut intrastate.....	449	967	1,416
Rhode Island intrastate.....	76	70	146
Massachusetts intrastate.....	1,160	180	1,340
Total.....	15,425	29,065	44,490

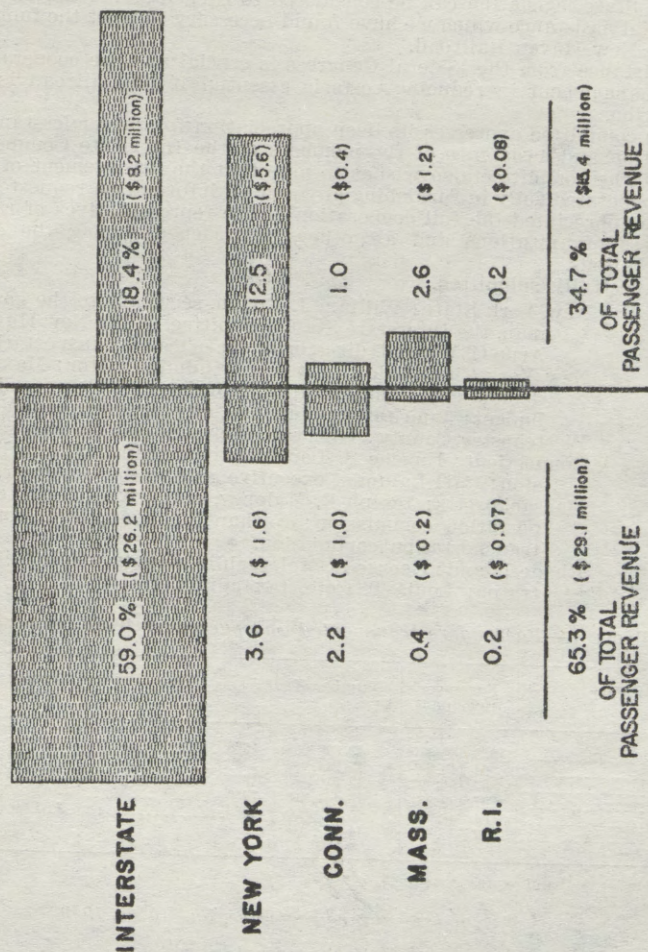
PASSENGER REVENUES

(1959)

NEW HAVEN RAILROAD

PASSENGER OTHER THAN COMMUTATION

COMMUTATION*



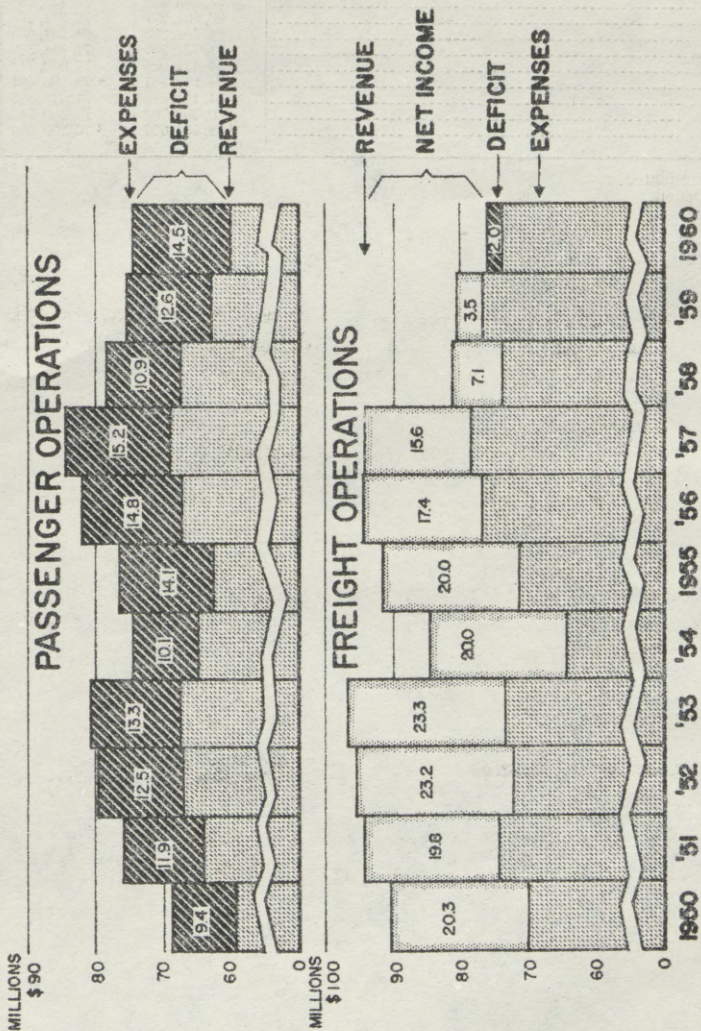
*Including Multiple Rides

TABLE 2.—*Freight revenues and expenses—New Haven Railroad, 1950–60*

Year	Freight revenue	Operating expenses	Net railway operating in- come, freight
1950.....	\$90,398,892	\$70,129,984	\$20,268,908
1951.....	94,355,235	74,547,585	19,807,650
1952.....	95,593,165	72,433,331	23,159,834
1953.....	96,901,297	73,574,179	23,327,118
1954.....	84,364,308	64,931,650	19,432,658
1955.....	91,732,257	71,744,388	19,987,869
1956.....	94,427,098	77,032,712	17,394,386
1957.....	94,278,581	78,660,404	15,618,177
1958.....	81,144,595	74,015,840	7,128,755
1959.....	80,369,704	76,890,745	3,478,959
1960.....	¹ 74,100,000	¹ 76,100,000	² (2,000,000)

¹ Estimated.² Deficit.

NEW HAVEN RAILROAD PASSENGER DEFICIT vs. FREIGHT INCOME



Cash flow—New Haven Railroad

[In thousands]

	1959	1960	1961 ¹	1962	1963 ¹	1964 ¹
Cash at beginning of year.....	\$6,260	\$3,133	\$3,876	² (\$3,330)	² (\$10,950)	² (\$17,207)
Receipts.....	231,787	228,706	232,835	229,335	229,335	229,335
Disbursements.....	234,914	227,963	240,041	236,955	235,592	234,535
Net change in cash position....	² (3,127)	743	² (7,206)	² (7,620)	² (6,257)	² (5,200)
Net cash, end of year.....	3,133	3,876	² (3,330)	² (10,950)	² (17,207)	² (22,407)

¹ Estimated.² Deficit.

NEW HAVEN RAILROAD PROJECTED CASH POSITION WITHOUT AID

NET CASH, END OF YEAR (MILLIONS OF DOLLARS)

ESTIMATED

1959 1960 1961 1962 1963 1964

\$ 3.1

3.9

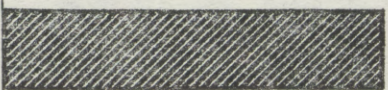
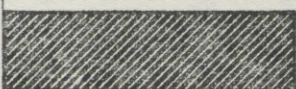
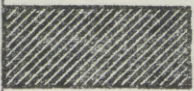
\$ 3.3

11.0

17.2

22.4

DEFICIT



The CHAIRMAN. I think every member of the committee has had a copy of that made available to him, but we will receive it for the record for the benefit of the members.

Mr. ALPERT. That concludes my statement. I am sorry to have taken so much time, but this is, I think, a very, very vital matter, and I hope you will forgive me.

The CHAIRMAN. Mr. Flynt, do you have a question?

Mr. FLYNT. Yes, Mr. Chairman.

Mr. Alpert, I was impressed with your statement about seeking some tax relief. Do you know of any of the areas of taxation mentioned by you, that either this committee or this Congress has jurisdiction over?

Mr. ALPERT. No, I do not think that this committee or this Congress has jurisdiction of any of our real estate taxes, which, in our area, are either levied by the State or by the municipality. The only taxes which we pay—we do not pay any income taxes, so you can forget that part of it. But the only taxes that we pay that are a very important item are the unemployment and retirement taxes, which are very high in the railroad industry. I think as against the 3.5 or some 3.6 percent, or whatever the percentage is on social security, I think the railroads pay close to 7 percent. It is pretty burdensome. I think our bill for unemployment and retirement taxes on the New Haven runs about \$5 million a year.

Those taxes, of course, answering your question, the Congress would have something to do about it, but the other taxes, Congress has nothing to do with.

Mr. FLYNT. How long have you been pursuing this approach for tax relief with the four States in which the New Haven operates?

Mr. ALPERT. Well, I think I started about 1957. We had a very troublesome situation in Massachusetts when the company was in reorganization back in the 1930's. The court, when it left the company out of reorganization, provided that the Old Colony Branch of our service, which runs from Boston down to beautiful Cape Code, which is one of the delightful spots in New England, if you have never visited it—

Mr. FLYNT. You have, along that line, certainly acted commendably, and I hope you are successful. I do wish you success. But from some of the facts and figures contained in a statement of accounts of the Bureau of Accounting of the Interstate Commerce Commission dated June of last year, during which time there was pending an application on behalf of the New Haven for increased passenger fares, at that time the Commission went into the question of managerial salaries, policies, and efficiency of operation. This statement is preceded, it is under oath incidentally, by Mr. Matthew Paoli, who is an accountant employed by the Interstate Commerce Commission as Assistant Chief of the Field Section of Bureau of Accounts.

He says:

This information contained in this statement has been obtained from an examination of the accounts and records of the New York, New Haven & Hartford Railroad Co., conducted by staff members of the Field Section of the Bureau of Accounts under my direct supervision.

In that, he indicates that there was a statement filed by the railroad that your salary was \$60,000 whereas he says that by virtue of a contract whereby you are to be paid for 12 years after you terminate your services, under your contract, at the rate of \$25,000 per year for those 12 years after you end. Mr. Paoli says that the effect of this arrangement is that you will be compensated at the rate of \$120,000 yearly for 5 or 6 years. Do you question his conclusion?

Mr. ALPERT. I question that characterization. I shall be glad to tell you the circumstances.

Mr. FLYNT. I wish you would, because I do not want to do you an injustice on it.

Mr. ALPERT. I am very happy to tell you what the circumstances are.

From 1919, when I was admitted to the Massachusetts bar, to 1956, I practiced law in Boston. And, with due modesty, I shall say I had a fairly successful practice. Finances did not bother too much, all right, I did fairly well.

In 1954, there was a controversy which ended in a proxy fight in the New Haven Railroad. I had absolutely nothing to do with it. But as counsel for the biggest shipper that the New Haven had, the Boston Market Terminal Co., which received some 20,000 cars a year, the controversy arose with the New Haven which resulted in litigation. I became very unfriendly with the then management of the New Haven.

The people who started the proxy fight against the then management came into my office. I owned no stock in the New Haven, had nothing to do with it, and they asked me, since they wanted somebody from Boston on the slate, would I be willing to serve. I was in a frame of mind to serve because of this litigation and I allowed them to put my name on the slate and I became elected, to my amazement, because it was one of the few times in my life I have ever won in any kind of contest, especially a political contest, and I became a director of the New Haven Railroad.

I attended meetings, and then I began to acquire a good deal of stock and became a large stockholder on the New Haven, because, from the information I was receiving, it looked as though it would do pretty well. The economy was good. It was—there was a disposition to get rid of the passenger service and I thought then that it was a pretty good idea. I have since taken the other position, that is neither here nor there.

Then the floods came, and that caused quite a rumpus. Then, in January 1956, the then new president of the New Haven Railroad resigned and we were left without any president.

The board of directors thought this thing over, and they finally proposed to me that I become chairman of the board, and they looked around for a president and there did not seem to be any available, so they asked me if I would take the presidency temporarily. I took it temporarily in January 1956.

At that time, I went to Washington to negotiate this \$16 million loan with the Government resulting from the flood relief. There were many banks involved and a group of preferred stockholders involved that had tremendous claims. They took the position that one of the troubles with the New Haven Railroad has been too many

changes in management. First there was a reorganization, then Mr. DeMain, Sr., then junior, then Mr. McGinnis, then I came along, and when is this going to stop; why cannot we have a stable management.

I said, "I am not your man, I am practicing law."

Well, they said, "Will you take the thing for 5 years? We think you can work it out."

They were very laudatory, and they really touched my pride. I really began to think I could work it out. So we made an arrangement I would stay for 5 years, give up the law practice. I closed the law office, turned it over to others, and I was a railroad president.

Now, the question of salary came up. If you will take a look at the form A reports filed with the Interstate Commerce Commission, the \$60,000—that \$60,000 salary is not a high salary for a railroad of this size. I think that they run—I will not mention any railroads, but you have men here who get a great deal more than that for a business not as great as this.

Mr. FLYNT. That is not my question, Mr. Alpert.

Mr. ALPERT. I am coming to that. Just forget the troubles we have come to, just forget all that. But \$60,000 is not an unfair compensation. But the position I took at the time was—the law, I learned, in law school, is a very jealous mistress. If you do not keep after it every minute, you cannot be in the forum in the courts, and with all the regulations that get out and all the acts that get out from the Congress, you cannot get out of a law business for 5 years and then pick it up again very easily. So I said:

"If I get out at my age"—I was 57 then—"what am I going to do at the end of 5 years? How am I going to live? I have a few dollars, but I am not a rich man; how am I going to live? If you want me to continue at this indefinitely, fine. But if at the end of 5 years, you do not want me here any longer, or I do not want to stay, I think I ought to get what is the equivalent of retirement of \$25,000 a year for the next 12 years."

I said, "I do not want the directors to make this decision; it is a little unusual and I do not want anybody to say that the directors made this decision. I will not do it—unless at the next stockholders meeting, you put it up to the stockholders. If they think it is a good idea, fine."

You must remember at the time, the flood had just occurred, there was a question of whether we would get the loan in Washington, there was a question of real estate interests on Park Avenue. I thought it was a fair arrangement, and so the arrangement was made. Five years, and if at the end of that time, there is not any talk of my leaving, and there is not any talk of it yet—

Mr. FLYNT. That 5-year period will expire in June of this year, will it not?

Mr. ALPERT. Yes, and if at that time they do not want me there any further all right.

Mr. FLYNT. As far as you know, there is no contemplated change, and the \$25,000 retirement figure would not come into effect as long as you are the active manager.

Mr. ALPERT. Right, and the statement implying that I get \$120,000 a year is nonsense. I wish I had, but I did not. I do not think it is

any unreasonable request, after spending the time I have, 18 hours a day, for 5 years, with no vacation, and fighting this battle against many interests for 5 years, to say, if at the end of 5 years, I am worn out and they do not want me, that I should be able to live with my family.

Mr. FLYNT. In this connection, was that made clear to the Interstate Commerce Commission at the time that the application for increased passenger fares was made, and was that also made clear and set out at the time of the application for the loan, or did that just happen to be uncovered by this accountant who went into the records to verify the statements which had been contained on the application?

Mr. ALPERT. If there is any act of mine that has caused a concentration of public attention in the last 5 years, through the newspapers, and in political circles, it is my salary and my retirement. I do not know why it is, but it has been kicked around everywhere. This is not the first time; that is why I do not have to look a note to give you the information.

I testified before the Public Utilities Commission in Connecticut; I testified before the legislative committee in Massachusetts; I do not remember whether I specifically testified on the terms of the contract before the ICC. Nothing was uncovered here. It was filed with the SEC in our proxy material; 94 percent of the stockholders voted in favor of it. What is this all about, about a secret arrangement?

Mr. FLYNT. It is this. Were these facts of record, and were they disclosed at the time the application was filed for the loan that was guaranteed by the Government?

Mr. ALPERT. If they were not disclosed, I am certainly ignorant of that fact, because I did not file the papers. There was certainly knowledge of this by the stockholders, and I think Mr. Paoli's statement—is this the fare increase?

Mr. FLYNT. This is the fare increase right there, but I am wondering if that thing is a matter of record and if full disclosure was made. If it was, I have no quarrel with it, none whatsoever. But if your salary is, in fact, reported at less than half of what it actually is, then I wonder if there are other facts which are not similarly undisclosed in connection with applications of the New Haven for these guaranteed loans.

Mr. ALPERT. Mr. Kuhback, our financial officer, says that an application for loan, on the flood loan, went to the stockholders and various applications went to the stockholders, and all this information was contained in that proxy material and must have been known to the Interstate Commerce Commission.

I can assure you of one thing, whether the Interstate Commerce Commission had a copy of the contract or whether they had not, I cannot say. All I can say, certainly, is that nothing was ever kept from the ICC; nothing was concealed in the ICC report; there were many transactions prior to my becoming president—stock transactions, all kinds of transactions. All I can say is nothing like that has ever happened while I have been president. We have not bought a share of stock or anything.

Mr. FLYNT. The reason I asked for Mr. Webb's report this morning is I want to see if, in the records down at the Commission, full disclosure of these things were made. If it was, there is no problem. If

it was not made, I think full disclosure ought to be made before this committee to see whether loans guaranteed by the Government are going for matters not properly made part of the record.

One more thing, and then I shall conclude, Mr. Chairman.

Who is general counsel for your railroad?

Mr. ALPERT. Mr. John Gardner.

Mr. FLYNT. In addition to your general counsel, do you have general attorneys?

Mr. ALPERT. He is the general attorney and general counsel. He is head of our law department.

Mr. FLYNT. Another thing that this report, this report of June 1960, discloses is that more than \$556,000 were paid in law fees to the law firm of Alpert & Alpert and to associate counsel retained by Alpert & Alpert, by the name of J. J. Mulhern during a 3-year period.

Mr. ALPERT. That is right.

Mr. FLYNT. I am not being critical of those fees at this time because I do not know what was involved, and it is altogether possible that they were quite in line with normal fees for the services performed. But I find it difficult to tie that in with the fact—are you a member of the law firm of Alpert & Alpert?

Mr. ALPERT. No, sir, not since I have been president of the New Haven Railroad.

Mr. FLYNT. Is any member of your family a member of the firm?

Mr. ALPERT. Yes, my son is a member of the law firm.

I got no part of that compensation.

Mr. FLYNT. Before you became president, had Alpert & Alpert done any legal work for the New Haven that would bring in approximately \$175,000 of legal fees to your firm?

Mr. ALPERT. Yes, sir. Well, no—I did not get those fees while I was—I did not get those fees. What happened was, when I was elected director of the New Haven Railroad we had a very difficult tax situation in Boston. In Boston, we have a tax rate now of \$100 per \$1,000. I claim that is practically confiscatory. Furthermore, the assessments are very high. On South Station, for example, I think they are 300 percent of what I think fair value is. I was asked by the then President of the New Haven Railroad if I would handle these tax abatement cases in the Massachusetts Board of Appeals. That is an area with which I was very familiar. I had spent a good deal of my time in tax abatement work before I became connected with the railroad. I took that job. I tried 12 of the cases before the board of tax appeals, but before the cases were decided, I was elected president, and having been elected president and put on a salary, I refused to take any of the fees, even though I had done the work before.

But my firm, my previous firm, continued in the case, and they got the fees when the decision came down. Usually in a tax abatement case in Massachusetts, the fee will vary anywhere from 20 to 35 percent of the amount coming back from the taxing authorities, depending on the size and the amount of work. In this case, I think the recovery was close to \$4 million, or \$3.5 million as a result of the work I did in 1954 and 1955. The fees were set, not on the basis of 20 or 30 percent but on the basis of 16 percent. That 16 percent included the services of all the experts.

Mr. FLYNT. These records show that these were about one-sixth.

Mr. ALPERT. That is right, including the experts' fees, which was very unusual. I have no apologies to make for those fees, even though I did not get them.

Mr. FLYNT. The thing that concerned us was when a railroad is in the precarious position which the New Haven admittedly is in, for fees and salaries in excess of \$1,100,000 over a partly 3- and partly 5-year period, it simply generates a cause for wonderment as to whether the managerial policies of the railroad of which you are president—and, as I say, I hope you will come out of the difficulties you now find yourself in—but if this policy is very widespread and if there should be 10 or 12 other similar operations that may or may not be disclosed when we finally get Commissioner Webb to report back, that may account for the deficit the New Haven Railroad is operating at. I wanted to be clear on that point.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Macdonald?

Mr. MACDONALD. I do not have many questions, Mr. Chairman.

I would like to compliment you, Mr. Alpert, on a very forthright and straightforward depicting of the transportation troubles that we have in Massachusetts and New England. I know of my own knowledge that the matter concerning your salary and so forth has been kicked around more than the ball in a Harvard-Yale football game for some years now; up in Massachusetts.

I also know how hard you have been working on this transportation problem in bringing it to the attention of local groups and trying to arouse local enthusiasm to your side.

However, in answer to a question—maybe I did not understand it correctly—but I thought that the gentleman from Connecticut, Mr. Sibal, asked you if one of the reasons you are in trouble financially was that the Federal and State authorities have refused to let you discontinue passenger service, and I thought you answered "Yes." Is that correct?

Mr. ALPERT. No; I do not think that question was asked of me.

Mr. SIBAL. I asked that question of the Commissioner, not Mr. Alpert.

Mr. MACDONALD. Just to get the record clear, was the Commissioner's answer yes to that?

Mr. SIBAL. As I recall it, he did not indicate it was the reason, but he indicated it was a contributing reason.

Mr. MACDONALD. In line with that, Mr. Alpert, I was wondering, do you agree with the Commissioner's characterization of your troubles?

Mr. ALPERT. I think that, rather than make a categorical statement that I do or do not agree, I would put it this way. I pointed out that I think the passenger business is the losing part of the operation. Now, if it is, there is a division of opinion in the railroad business itself as to what course should be taken. There are those who say, since the business is losing money, why not get out of it if you can, put all the pressure you can on to get out of it, then. It is like a fellow in the clothing business. If he is manufacturing skirts at \$100,000, and he is manufacturing pants and making \$100,000, but he is losing money on the pants, the question is: Should he get rid of them? If he gets rid of the pants, then he loses \$100,000; whereas, if he keeps

them both, he breaks even or perhaps a little worse. That is one line of thought.

That has been taken by some people, whereas, for example, all railroad business has been discontinued in Maine—all passenger business—under a decision of the court. It has been discontinued on various lines in other parts of the country, because there is a feeling that if you do not get rid of the passenger business you are in trouble.

My line of thought is in the other school. I claim that where passenger service is essential to the economy of the area, where the welfare of the people depend upon passenger rail service, then it is not the way to remedy the situation by making it worse; the way to remedy it is not to get rid of the passenger service and say "I do not care what happens to the public; we have to take care of the railroad." The thing is to find out how you can save this essential passenger service and still save the railroad.

I have come to the conclusion that if you do not nationalize the railroads in that situation, and if you do not liquidate them, then the only answer is to give them equal treatment. When I read the other day that a CAB examiner made the recommendation that the Riddle Airlines get a \$2 million cash subsidy which is authorized by the Congress to improve that airfreight service—now moving into the freight business on subsidies—it makes me feel pretty terrible. Because if you are going to support the freight business through the subsidies that you give the airlines and the helicopters and everybody else in the transportation business, and you are going to say to the railroads, "Go ahead and improve your service"—I had a question asked—there was a question asked of Mr. Hutchinson, "Do you not think it is the proper thing to do, before you give these people any money, to insist that they upgrade their service?" You can insist until doom's day that they upgrade their service, but if they do not have the money to upgrade the service, how can it be done? How are you going to make a passenger car toilet look a little bit better if you do not have the money?

We spend millions of dollars in the last 5 years on wheels, the trucks, and I am happy to say that both the Congress and the Interstate Commerce Commission have made recommendations saying that we have a safe railroad, and that is what I am interested in. The esthetic part of it is of no concern to me; if we are late occasionally, that is of little concern. We have to preserve this passenger service if we can, because that is the nature of our area, the concentration of population, that chaos would result if we discontinued it.

The only way I can figure it out is equality in the field of taxation and subsidy. If you can come to any other conclusion, I have yet to hear it.

MR. MACDONALD. I did not really hear an answer to my question either.

MR. ALPERT. The answer to your question is that in my opinion we do not want to discontinue essential service. It is only if we have a line from Waterbury to Winsted, which is used by four people a day, I am afraid they will have to go elsewhere, because that is not a matter of public welfare. But if you have a line from Springfield to New Haven, or from Boston to New York, or from Westport

into New York City and you discontinue that, you will have chaos and I am against that.

Mr. MACDONALD. Just to make my question perhaps even more specific, are there any other passenger curtailments planned by your railroad in Massachusetts?

Mr. ALPERT. We have no applications for curtailment or reduction of passenger service in Massachusetts or anywhere else, to my knowledge at this time. Studies are being made. If we find that there is not any need for service, that is one thing. But that is not up to us to decide on that. But as far as the main lines and the concentrated area of population, we have nothing.

Mr. MACDONALD. In conclusion, I would like to point out that I was very interested in your remark about the railroads hitting the area of the Smithsonian Institution. I thought you would be interested in knowing that in my district, they took away one of the railroad passenger terminals and brought it up to an amusement park, where the children of the district can go pay a quarter to see what a passenger terminal is like. I did not know if your remarks were prophetic or if you felt this would also happen to the New York, New Haven, & Hartford if the present trend is continued.

Mr. ALPERT. Since that incident did not occur on my railroad, and since I do not want to get into a controversy with the gentleman, who is a good friend of mine, who is running the other railroad, I shall withhold comment.

Mr. MACDONALD. I was wondering what you did do with the passenger terminals of the Old Colony.

Mr. ALPERT. They are still there. As a matter of fact, I might tell you the purpose of the meeting in Massachusetts tonight is on this Old Colony situation. We finally discontinued the Old Colony because the court decreed we could do it if we were losing as much as \$250,000 a year, and we were losing \$2.5 million a year. So we discontinued it. There was great controversy about it, and they immediately appropriated \$100,000 a year to make a study.

They made a study, which provided for rapid transit, not to Cape Cod, but from Boston to Braintree. It would acquire our tracks for \$1.5 million or so. Then they put in rapid transit. But this rapid transit would cost somewhere around \$30 or \$40 million. They would have to electrify the tracks and put in signals, and so forth.

When that came before the legislature, it had a little sobering effect. After all, having rapid transit is fine, but when it costs \$30 or \$40 million, that is the horse of a different color. There has not been any service on the cape since June or July of 1959, as you know.

Now, when the new Governor came in, he asked me to step up and we talked about it. He said—asked—if it were not possible to resume railroad service. I said there was absolutely nothing that cannot be done, all I ask is that we break even. I said, "If you can show us some way we can break even, we shall give you any service you want."

I said, "We shall give you the use of the tracks for nothing, free, and you go ahead and run it, create an authority, buy your equipment, or if you want to make a contract with the railroad, no charge for the tracks, and we shall run it on a cost-plus-zero basis."

That interested him, and so we are meeting tonight to see whether we can work it out, and you may have service, if the railroad lives, on the Old Colony next summer; I do not know.

Mr. MACDONALD. I am delighted to hear that.

Thank you, Mr. Chairman.

Mr. ALPERT. I am trying; that is all I can say.

The CHAIRMAN. Mr. Alpert, did you say the Government had provided \$2 million for development of aircargo?

Mr. ALPERT. The Government has not provided it yet. The statute under which the CAB operates provides for such loans if the CAB recommends or makes them. Now, the examiner of the CAB, just 2 weeks ago, recommended a \$2 million subsidy to the Riddle Airlines to improve its airfreight service. This is a new departure. This is the first freight subsidy I have heard of.

The CHAIRMAN. That is overseas.

Mr. ALPERT. No, this is in the United States.

The CHAIRMAN. Riddle is in the United States?

Mr. ALPERT. Yes, right here. The Riddle Airlines, I think, is a north-south carrier. This is distinguishable from the subsidies to Allegheny, for example.

Allegheny has just moved into our territory in Connecticut, and they are advertising a commuter service by feeder airlines. Now, Allegheny put out a prospectus to show how excellent their stock was. They said, "We carried 500,000 passengers last year, and from those 500,000 passengers, we collected a certain amount, but it is not sufficient; we are losing money."

Therefore, they applied to the CAB, which gave them a \$3,300,000 cash subsidy. It had nothing to do with mail or any loan, or any mortgage, just cash on the table.

The CHAIRMAN. There has been no appropriation for any subsidization of any aircargo yet.

Mr. ALPERT. I do not know about appropriations; I have not read that in the budget yet. But certainly there is an appropriation for the feeder airlines and helicopters, because they are getting the money now.

The CHAIRMAN. That is true, but not for cargo. I was under the impression that the recommendations for Riddle Airlines was that—was for that part developing cargo for oversea purposes.

Mr. ALPERT. That is not how I read the news dispatch. I have not seen the official report, but as I read the news dispatch, it is north-south in the United States.

The CHAIRMAN. I understood it was north-south, but from the United States to South America.

Mr. ALPERT. You may be right. I read it in the newspaper.

The CHAIRMAN. Well, anyway, that can be confirmed one way or the other.

Mr. Avery?

Mr. AVERY. Mr. Alpert, I shall try to condense my questions, because you have been a very helpful witness, and your time is running out and so is ours.

You told the committee that the States of New York, New Jersey, and the city of Philadelphia—and possibly one other entity—had made

some overtures in way of concessions to the New Haven Railroad. You mentioned the amounts. Just in what way did they come about? Was that relief from taxation; were those appropriated funds, a gratuity, or what?

Mr. ALPERT. They are right in this report which the chairman has received.

New York State, the acceleration and modification of 1959 railroad tax relief program—that is the one I told you about. Instead of waiting until 1963, they are accelerating it to 1961. That will account for \$1,515,000.

Also, in New York State, exemption of transportation facilities used exclusively in rail passenger service will account for \$790,000.

Mr. AVERY. Is that exemption from taxation now?

Mr. ALPERT. Yes.

Assumption by Westchester County localities of annual maintenance costs for nine passenger stations, exclusive of the cost of acquisition—this is not for taxes, but to relieve us of the cost of maintaining those stations, \$270,000. So in New York, we are to get \$2,575,000.

Mr. AVERY. Just to move rapidly to Philadelphia—

Mr. ALPERT. I do not run in Philadelphia.

Mr. AVERY. I thought you mentioned Philadelphia.

Mr. ALPERT. I did say that the city of Philadelphia has given a subsidy to the Pennsylvania Railroad and the Reading Railroad. I referred to that as a straw in the wind, that people are beginning to think of this as a solution.

Mr. AVERY. That is a cash subsidy as a gratuity?

Mr. ALPERT. Yes.

Mr. AVERY. As a token of public responsibility to the railroad service?

Mr. ALPERT. That is what I understand.

Mr. AVERY. You mentioned the cost of the strike on the Pennsylvania Railroad being reflected in your receipts, and also the tugboat strike. Have you reduced that to a figure as to what those strikes may have cost your line?

Mr. ALPERT. I think we have that.

Mr. AVERY. If you do not—

Mr. ALPERT. We can supply it. Do you want the Pennsylvania strike and the tug strike?

Mr. AVERY. Yes, as those two strikes affected the earnings or receipts of the New Haven Railroad, and was that on a calendar or fiscal year.

Mr. ALPERT. I shall do that.

Mr. AVERY. Just one final question. I am sure you read the President's proposed amendment to the financing of the Interstate Highway System. In your opinion, Mr. Alpert, if Congress were to accept all the recommendations made by the President in the way of increased excise taxes on highway users, primarily on motor carriers, would those proposals be helpful to the railroad industry in a way of balancing tax responsibility, and more particularly on yours?

Mr. ALPERT. I think it would be a step which would certainly be calculated to help the railroads because of the inequity which exists now. It has been my argument—I think it was brought out in the

Interstate Commerce Commission report of June or May 1959, after a 3-year investigation, that there is an inequity which exists between the trucks and the railroads because of the facilities which are furnished for the benefit of the trucks, for which they do not pay user charges to the full extent.

Now, one of the things I was impressed with in the President's message, and I do not know what its fate will be, but the truckers claim, as I understand, that they are paying user charges, that the tax on automobile tires and the tax on automobile tubes, and the gas and other excise taxes which have been imposed upon the trucking industry, are user charges which pay for the highways. I do not think they are anything of the kind, and I think the President said the same thing in his message, because these excise taxes, just as the 10-percent excise tax on passenger fares, were imposed originally for general revenue purposes; they go into the general funds. That was the purpose of these excise taxes. It was only in the Highway Act of 1956 that, by a stroke of the pen, they were designated as user charge taxes, taken out of the general fund, and put in the highway fund.

If that is so, what happens is that the taxes which the railroad pays go into the general funds, and those are used for oversea relief, we shall say, but the taxes which the trucks pay, which should go into general funds, are used for highway funds, and we end up paying the bill. This does not seem fair to me, and I think the President's message is very sound, even though I am a Republican.

Mr. AVERY. Thank you. I somehow have a feeling that service will be restored to Cape Cod next year.

Mr. ALPERT. We shall certainly try. We have now from New York to Cape Cod, but not from Boston to Cape Cod.

The CHAIRMAN. I shall have to ask your indulgence to give the other members opportunity to ask questions.

Mr. O'Brien?

Mr. O'BRIEN. I have no questions.

The CHAIRMAN. Mr. Collier?

Mr. COLLIER. Mr. Alpert, you mentioned in passing the leasing of equipment by the railroads. Could you, for my own edification, just give me a little idea as to what extent the process and procedure of equipment leasing is done by a railroad?

Mr. ALPERT. By our railroad?

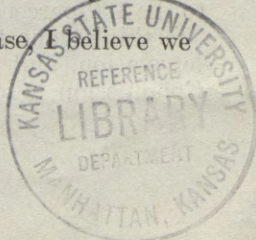
Mr. COLLIER. Yes.

Let me say that the figures are not exactly what I was interested in. Just briefly, the type of equipment and to what extent is equipment employed by the railroad that is on a leased basis, shall we say, as compared to equipment on trust certificates?

Mr. ALPERT. I think most of our equipment goes back quite a few years, and that was all on equipment trust certificates. In recent years, during my administration, we acquired 30 locomotives, called FL-9 locomotives from General Motors, diesels, and those we have on lease from General Motors. These cost \$150,000.

Mr. COLLIER. You subsequently take over the equipment by reason of payments, do you?

Mr. ALPERT. When they are paid for under the lease, I believe we have the privilege, the right, of renewal.



We have a right to renew them, but the effect of it will be during the effective life of the equipment, it would not cost us a great deal more, I believe, than acquiring them under equipment trust certificates.

The important consideration for us is if we acquire them on equipment trust certificates, we must pay down 25 percent of the cost, and that is a very substantial item. By leasing them, we avoid that downpayment.

Mr. COLLIER. Is substantially the same practice used by many of the trucking firms?

Mr. ALPERT. Right.

Mr. COLLIER. Thank you very much.

The CHAIRMAN. Mr. Moss?

Mr. MOSS. As I understand it, you have two principal recommendations: One, that the provision for a finding of reasonable assurance of repayment be stricken from section 504, and the other is the one Mr. Collier just discussed, on leasing.

Would not the removal of the one and the addition of the other change substantially the character of the type of loan or guarantee which the Government is going to undertake?

Mr. ALPERT. I doubt it.

Mr. MOSS. You doubt it?

Mr. ALPERT. Yes.

Mr. MOSS. A loan made with a reasonable assurance of repayment would not be substantially different from a loan made because it was needed to maintain a public service?

Mr. ALPERT. No; to carry out the purposes of this act.

Mr. MOSS. Well, we seem to have disagreement on the purposes. I enjoyed your testimony very much. I think much of it was directed at legislation entirely different from that which we have before us today, which is a simple extension of the act to permit the guaranteeing of loans. I was here at the time of the passing of the 1958 act and after hearing it described by yourself and Mr. Hutchinson, as to the intent of the committee, I sent out for a copy of the report we filed at the time we reported the bill. I find in reading that report that it appeared to be the principal concern of the committee that we facilitate the acquisition and improvement of equipment.

Starting over on page—actually, it starts on page 9 of the report, if you have it there, and it goes over on page 10. That seems to tie in with my recollection. At that time, we were in a recession and there was concern about stimulating the economy. We were going to get some of these projects for improvement of equipment and facilities off the drawing board and underway, in the hope that this would be beneficial to the railroads and to the economy. I direct your attention to all of page 10, which I think is very clear—very clear—on that. As I say, it matches precisely the recollection I had as a member of the committee. I would suggest that it might more accurately spell out the intent of the committee at the time of this action.

I did not recall that we were undertaking a program of very high risk guarantees; in fact, there was a little resistance in the committee to the 100-percent feature; substantial resistance.

I think your testimony has been excellent for a different type of legislation, and I am not cognizant of the fact that anyone in the Commission here has been urging either nationalization or subsidy.

But I submit, sir, you spelled out a very strong case, and inferentially placed a very persuasive plea before us for subsidy. Is that what you seek?

Mr. ALPERT. No; not here. I do not seek subsidy. I think this ought to be a loan as distinguished from subsidy.

Mr. MOSS. If it is a loan, should not we here make certain that it is a good and a sound loan? We are using your tax dollars.

Mr. ALPERT. That depends on the answer to one question.

Mr. MOSS. I am perfectly willing to try to answer your question.

Mr. ALPERT. All right. The question that I ask is this: If the loan is to help railroads which are in distress, as I read this same document you are referring to, because I read from page 10 to the top of it, where it says that some railroads particularly in the East are in grave economic difficulties, and the committee had testimony to the effect that it would be doubtful that some of them would be able to solve their problems, were some of the major railroads to go into receivership, the resulting impact would be serious, not only to the industry, but to the country as well.

Mr. MOSS. I would suggest, reading that, that it is further amplified with the financial assistance provided by this bill, and I direct your attention to the part which says that the committee has been reliably informed that many carriers immediately would reinstitute many already authorized programs. Such action without further delay for the drawing board or blueprint stage straightaway would provide substantial reemployment by the railroad industry and through the purchase of materials, equipment, and supplies, would afford a great stimulus to the industries supplying them. This stimulus is extremely important and timely right at this moment.

It is very difficult in taking from context; it is important to read the whole.

Mr. ALPERT. That is right.

Mr. MOSS. I think the whole more correctly conveys the attitude which existed at the moment the document was written.

Mr. ALPERT. Of course, Mr. MOSS, you have a slight advantage over me; you were on the committee and I was not. I have to take it from this printed report. Taking it from the printed report, I want to call your attention to the fact that the three loans we got carried out the thought that the committee should take; that is to improve employment and get new equipment. Because our loan for 30 FL-9's, back in 1958 or 1959, was for that very purpose, to keep people working on the trains and keep the trains running.

The shop loan, that made work for the people who maintain our equipment, the loan of \$1 million, and the people who make the machinery the same thing.

I think there are two purposes to this act: First to acquire equipment, which I have not talked about, because our other loans were in the other category, to keep the railroads alive. It would be well to keep an industry employing 12,000 people alive, as it would be—

Mr. MOSS. If we could agree that that loan, under the conditions prevailing at the time of the loan, provided a reasonable assurance of repayment under the terms and conditions of the loan.

Mr. ALPERT. Well, that brings me to my question.

Mr. MOSS. Well, you have a lot of ifs appended onto this, have you not? If you get the tax relief from the State governments, if you get

the relief from local jurisdictions, if these things occur, then the loan meets the requirement that it provide a reasonable assurance for repayment. But I think by your own testimony, lacking this additional relief, there is little prospect of repayment.

Mr. ALPERT. Right. I think if we do not get the relief I have been talking about in the tax area, there is very little prospect of repayment. And now I put my question.

Mr. MOSS. That is the point I have been making. As I studied this, this was a loan-guarantee program under conditions affording reasonable assurance of repayment. The only way you could examine the condition which affords the reasonable assurance is to look at the condition which exists at the time the loan is approved.

Now, if we are going to go into this highly speculative area, a much riskier guarantee being assumed on the part of the Government, then I think we have fundamentally changed the purpose in mind at the time the guarantees were authorized by this committee.

Mr. ALPERT. I get your point, Mr. Moss, and I think we are not at all in disagreement. I think we only disagree on—the only disagreement that I see is that I do not think that you can say that with the progress that has been made in the four States, with the assurances of the Governors and the legislative leaders, particularly the majority of the party leaders in some of these States, that there is not reasonable assurance that the loan will be repaid. I think there is very good assurance.

I think one of the things the Interstate Commerce Commission undoubtedly had in mind, and that is why I refer to their action as statesmanship—they knew the States had to have this service, and the only way we could get action from the States is to tell them if we do not get this, you are down the drain. That, I think, the Interstate Commerce Commission accomplished.

Now, if we get the relief, I think there is reasonable assurance. Now I think the important question here is, if a railroad is in this condition, the question arises whether the railroad is going to survive or is going to disappear. What is more important, that you follow the standard of a banker to make sure you get the pot of gold back, or is it more important to save the railroad for the welfare of the public? I personally think that the welfare of the public comes first.

Mr. MOSS. I think that question has fine emotional appeal.

Mr. ALPERT. I did not intend it as emotional.

Mr. MOSS. And perhaps on just generalization, I could agree with you completely. But we are examining into an agency's operation under the law spelled out by this Congress, which does not, in my judgment, give them this broad latitude to be so statesmanlike if the policy direction from this Congress is more restrictive. If that was the condition they encountered, then perhaps they should have asked for a broader authority. Because apparently, this is not going to meet your needs, applying this to your future requests will not meet your need.

Mr. ALPERT. I would agree with you 100 percent, Mr. Moss, except for one thing, that I think that when the people from the four States come down to visit the ICC and the representatives of the four Governors went right to Washington, to the Interstate Commerce Commission Building and sat down with the Interstate Commerce Commission, on the basis of the assurances given to the ICC, they

were perfectly proper in making a finding that there was reasonable assurance that this money would be repaid.

Mr. MOSS. Well, we shall say that in some of the States, you have had a change in administration.

Mr. ALPERT. This was after the election.

Mr. MOSS. After the election?

Mr. ALPERT. Yes, sir; these are new Governors.

Mr. MOSS. And they were all in a position at this time to have a pretty good grasp of what their legislatures will do?

Mr. ALPERT. That is something you will not get me on. I will not speak for any legislature in my neck of the woods.

Mr. MOSS. You have to on some of these things.

Mr. ALPERT. We are talking about reasonable assurance. I think there is reasonable assurance.

Mr. MOSS. I think there are highly speculative assurances.

Mr. ALPERT. I went before the finance committee of the State of Connecticut, Mr. Sibal's State. The bill is to relieve us of \$1,200,000 on our gross earnings tax; that is in lieu of real estate taxes that go to the State. I do not know what they are going to do, but I can tell you these facts, that the Republican caucus and the Democratic caucus and the Governor all agreed that this bill should pass. I think there is reasonable assurance that it will, but if you want me to guarantee it, I cannot.

Mr. MOSS. Well, I remember in my legislative days, I introduced bills with more coauthors than it took to pass it, and it got to the floor and did not get enough votes to make me feel respectable. So I would not want to bank on some of these assurances.

But now you have made this other proposal of permitting the guarantee of leases. I ask again, is not this a fundamental departure from the type of loan envisioned in the drafting of this act? What security do I have on a lease if I merely guarantee the payment of the lease?

Mr. ALPERT. Well, I do not know. There is not the security you have on equipment costs, of course.

Mr. MOSS. Nowhere near the security, is there? In fact, there is very little, if any, recourse, is there not?

Mr. ALPERT. Except I suppose the guarantor could take the benefit of the railroads' use under the lease and could assign those.

Mr. MOSS. He might. He could impose conditions, certainly, in making the arrangement, but it would not be as satisfactory. This would be considerably a broadening, and approaching again this area of what finally might be, in fact, subsidy.

Mr. ALPERT. Well, I do not know.

Mr. MOSS. If we are going to get into subsidizing, let us look at it honestly, face up to it and do it. Let us not go in the back door to it.

Mr. ALPERT. I did not intend to go in the back door. I wish this legislation involved the simple issue, shall we or shall we not have subsidy. I could argue that at great length with you.

As you say, this does not involve that. However, if it is a subsidy and you think the subsidy is wrong, then we should not have that amendment.

Mr. MOSS. I am not expressing judgment on the subsidy, sir. I am merely expressing my judgment on this type of proposal in connec-

tion with the type of loan envisioned here, the type you are asking us to extend.

Mr. ALPERT. I think the security is as good on a lease and, furthermore, it avoids the necessity of a 25 percent downpayment. That is the thing that appeals to me.

Mr. MOSS. I have no more questions.

The CHAIRMAN. Mr. Devine?

Mr. DEVINE. I have no questions.

The CHAIRMAN. Mr. Jarman?

Mr. JARMAN. I have no questions.

The CHAIRMAN. Mr. Hemphill?

Mr. HEMPHILL. I would like to ask you, Mr. Alpert, how much does the New York, New Haven & Hartford owe now?

Mr. ALPERT. How much does it owe to whom?

Mr. HEMPHILL. To all the creditors, including the banks which the Government has given the loan guarantee to of various items composing \$21 million plus?

Mr. ALPERT. Well, we owe on the 30 FL-9, present balance, \$8,159,-400. I shall be glad to furnish this in a tabulation to the committee if you want it.

Mr. HEMPHILL. If you would, we could forgo further questions and might save some time.

Now, Mr. Chairman, I ask that the gentleman be allowed to send us the information to be included in the record at this point.

The CHAIRMAN. Without objection.

(The material referred to follows:)

THE NEW YORK, NEW HAVEN & HARTFORD RAILROAD CO.,
New Haven, Conn., March 9, 1961.

HON. OREN HARRIS,
House of Representatives, Washington, D.C.

DEAR MR. HARRIS: During the course of my testimony before your committee on March 2 in connection with H.R. 1163, I was requested to furnish a tabulation of the amounts owed by the New Haven on Government guaranteed loans. Attached is such a tabulation in duplicate.

I was also requested to furnish the information showing the cost to the New Haven of the Pennsylvania Railroad strike and the New York Harbor tugboat strike. The cost of the Pennsylvania Railroad strike to the New Haven, including lost revenues, was \$637,000. The cost of the New York Harbor tugboat strike, including lost revenues, was approximately \$1,400,000.

The Honorable Everett Hutchinson, Chairman of the Interstate Commerce Commission, was requested by the Honorable John J. Flynt, Jr., to furnish certain information in connection with the investigation of the New Haven in ICC Docket No. 33332, including the verified statement of Matthew Paoli. In my opinion the direct and cross-examination of Mr. Paoli in that docket with respect to his verified statement should be included in any consideration of that statement. Enclosed are two copies of his direct and cross-examination, which I respectfully submit for your committee's consideration.

At the hearing you will recall I referred to the recent report of a Civil Aeronautics Board examiner which recommended a \$2 million subsidy for Riddle Airlines to provide the United States with north-south all-cargo freight service. I think that you asked the question whether this was not a subsidy for oversea transportation and I stated at the time that my recollection was that it would apply to freight service between major U.S. cities. Since my return to New Haven I have checked this and enclosed herewith is a copy of the article in the Wall Street Journal of Wednesday, February 15, 1961, from which my information came. So far as I can make out, this subsidy is recommended for freight service between major cities within the limits of the United States.

Sincerely,

GEORGE ALPERT, *President.*

New Haven guaranteed loans

GUARANTEED 90 PERCENT BY TREASURY DEPARTMENT

		Date	Original amount	Present balance	Maturity	Interest rate (percent)
Flood loan.....	Secured.....	Sept. 25, 1956	\$16,000,000	\$13,362,000	Serially to Dec. 30, 1965....	4½

GUARANTEED 100 PERCENT UNDER TRANSPORTATION ACT OF 1958

		Sept. 29, 1960 Oct. 28, 1960 Nov. 29, 1960 Oct. 29, 1959 July 7, 1960 Jan. 15, 1960 Nov. 3, 1961 Feb. 17, 1961	\$8,159,400 1,500,000 500,000 4,500,000 3,500,000 3,500,000	\$8,159,400 1,400,000 400,000 4,500,000 3,500,000 3,500,000	Serially to June 1, 1975.... Serially to Jan. 1, 1974.... Serially to Jan. 1, 1965.... Nov. 3, 1961..... Nov. 3, 1961..... Nov. 3, 1961.....	5½ 5 5½ 5 5 5
30 FL-9's.....	Secured.....					
Shop loan.....	do.....					
Maintenance-of-way equipment and machinery.....	do.....					
Emergency loans.....	Unsecured.....					
Total.....			37,659,400	34,821,400		

[From the Wall Street Journal, Feb. 15, 1961]

CAB AID ASKS ONLY FLYING TIGER, RIDDLE, BE ALL-CARGO LINE; URGES RIDDLE SUBSIDY

The U.S. air cargo industry should be regrouped for a new, federally subsidized invasion of the freight business being handled by railroads and trucks, a Civil Aeronautics Board examiner said in Washington.

He conceded subsidies would help divert traffic from railroads and trucks, but he said the CAB is charged by Congress with the "promotion, encouragement, and development of civil aeronautics" and subsidies were fashioned by Congress as a tool for the CAB to use in carrying out its promotional responsibility.

The examiner, Merritt Ruhlen, recommended the number of all-cargo airlines flying within the United States be reduced to two from four. The two remaining would be the strongest financially, Flying Tiger Line, Inc., and Riddle Airlines, Inc. They would get long-term authority to provide all-cargo service between all major U.S. cities. Slick Airways, Inc., and AAXICO Airlines, Inc., the other two, which have suspended scheduled service because of financial problems, would lose their routes. Slick issued a statement condemning the examiner's recommendation and said it would be taken to the full CAB.

Two big passenger-carrying airlines, American and Delta, would get long-term authority to fly all-cargo service on a limited number of routes where they are not authorized to make passenger flights. All the big all-purpose passenger lines would keep their present authority to operate all-cargo flights on the routes awarded them for passenger service; in addition, small amounts of cargo are carried on many passenger flights.

Mr. Ruhlen ruled out any all-out takeover of the air cargo business by the big passenger-carrying lines. He said failure of many of the big lines to provide all-cargo service in the mid-1950's "demonstrates that the public cannot rely on the all-purpose carriers to develop all-cargo (air) transportation."

An independent airline that has to rely solely on cargo to earn a profit will make "greater effort and exercise managerial ingenuity" to promote cargo business than will the passenger-carrying lines, Mr. Ruhlen said.

He argued that air cargo, still in a "developmental and experimental stage," should, as a matter of principle, receive Federal subsidies, just as the 13 local service airlines are subsidized to make passenger service available to smaller U.S. cities. Specifically, he suggested Riddle Airlines should receive about \$2 million a year to provide the United States with north-south all-cargo service, though Flying Tiger shouldn't need a subsidy to fly its east-west routes and the all-purpose passenger lines shouldn't get any subsidies to provide cargo service.

Mr. Ruhlen's recommendations came in his initial decision on a broad investigation of the air cargo business that the CAB ordered in 1958. He was told to look into such questions as whether the all-cargo lines should be continued or the passenger lines be allowed to take over the cargo business completely, and whether any cargo operators should be subsidized. His recommendations now go to the five-member CAB for final decision.

Mr. Ruhlen noted air-freight traffic has grown, but not as much as expected. In 1959, he said, some 387 million ton-miles (1 ton flown 1 mile) of air freight were transported; in 1949 the CAB estimated the potential at more than a billion ton-miles a year. He suggested the difficulties have included high rates, planes unsuitable for economic cargo operations, and financial problems of the all-cargo operator.

Some airlines started all-cargo flights shortly after World War II, and in 1949 the CAB authorized Slick and Flying Tiger to fly an extensive system of east-west transcontinental routes across the United States. They competed in serving many cities. In 1955 the Board authorized Riddle and AAXICO to operate north-south routes but the two lines generally did not compete directly. All the route awards were temporary, usually for 5 years. And none of the all-cargo lines has ever been subsidized.

The east-west routes Mr. Ruhlen would award to Flying Tiger would embrace much the same system it has been flying, but it would be a permanent-type award. Slick Airways' authority to fly the east-west system would be ended because competition between two all-cargo lines is not "necessary, economical, or justified at the present time," the examiner said. Flying Tiger would get rights to fly between major west coast cities, including Los Angeles, San Fran-

cisco, Portland, and Seattle, and the east coast with stops at all the major cities between.

Riddle would get long-term authority to fly its own routes plus that that formerly were held by AAXICO. Riddle's new system would extend from Boston, New York, Chicago, and other northern U.S. cities to Miami and New Orleans with rights to service all big cities between.

American Airlines would be allowed to fly all-cargo service between San Antonio and a group of cities including New York, Chicago, and Cleveland; between Houston and San Francisco; and between Detroit and San Francisco.

Delta would get an all-cargo route between Houston and Dallas.

Slick issued a statement by Earl F. Slick, chairman, that the examiner's decision contained "so much inconsistent reasoning within itself." He said all reasons given for renewing Flying Tiger's and Riddle's certificates are "equally valid" for renewing Slick's.

He conceded Slick hasn't operated any scheduled flights since February 1958, but said the company "is still planning to resume its historic air-freight business." Mr. Slick said the company has ordered \$11 million of jet-powered planes and "there can be no question today as to its financial stability or fitness."

Slick also issued its financial report for 1960, which showed profit rose to \$1.30 a share from 17 cents a share in 1959. A. W. Johnson, executive vice president, said 80 cents a share of 1960 earnings came from operations under military air transportation contracts and 50 cents a share stemmed from operations of the Illinois Shade Cloth division since Slick acquired it last July 1. Mr. Johnson said the Shade Cloth unit's operations are continuing at about that profit rate: Close to \$1 a share a year.

MR. HEMPHILL. Now, if this legislation is extended by Congress this year, does the New Haven contemplate making any further applications to the Interstate Commerce Commission for loan guarantees?

MR. ALPERT. Well, as I said, the refinancing of these last three loans, which were on a 1-year basis—of course, we obviously could not pay them in November, but we have a stockholders' meeting in April, at which time we expect to get approval to have them run for 15 years under the act; that we propose to do.

Then there is a statute in New York; there has been a great deal of agitation in Connecticut and New York for new commuter cars. They look with disfavor on some of our equipment, for which I cannot blame them. The New York Legislature passed a statute under which the Port of New York Authority, which runs many transportation facilities, would purchase so-called multiple-unit cars which we use in our westend New York commuter service, and lease them to us on very favorable terms, long amortization and low interest rates, relatively low interest rates.

Now, unfortunately, we need about 100 of these cars. Under the law as it now exists, as I understand it, in New York there is only \$20 million available from the treasury for this purpose. That would take care of about half, a little over half of this thing. They are preparing a constitutional amendment in New York so they will be in a position to finance this whole thing. But it may be possible that in order to carry out this program, we may ask the ICC under this act to finance the other cars, the multiple-unit cars.

MR. HEMPHILL. To the extent of \$20 million more?

MR. ALPERT. No, it would probably be \$8 or \$10 million.

MR. HEMPHILL. Now, when was the last—since you have been president of the railroad, has the railroad ever showed a net operating profit?

MR. ALPERT. Yes.

Mr. HEMPHILL. What year?

Mr. ALPERT. We showed a small net operating profit in 1956.

Mr. HEMPHILL. How much was that profit?

Mr. ALPERT. I think I have it right here; \$261,000 in 1956, sir.

Mr. HEMPHILL. And since that?

Mr. ALPERT. Since that, we have been in the red; in 1957, \$2,300,000; in 1958, \$4,200,000.

Mr. HEMPHILL. What is the fiscal year you run on?

Mr. ALPERT. The calendar year.

Mr. HEMPHILL. You are on the calendar year?

Mr. ALPERT. Yes.

Mr. HEMPHILL. You had a \$14 million deficit in the calendar year 1960?

Mr. ALPERT. Right.

Mr. HEMPHILL. And you contemplate what deficit for 1961?

Mr. ALPERT. That is a hard thing to say. If we get this tax relief, it will be a great deal lower. I think we can make great progress with the tax relief we contemplate. It will cut our expenses down at least \$6,200,000 to start with. If there is any improvement in the economy, and I expect there will be—there is a bill pending before the Congress now, the so-called Williams bill. This is a very important bill with which the American Municipal Association was involved, to try to help the commuter railroads into many cities in New York. It would make money available not to the railroads, but to the municipalities. It is part of the urban renewal program.

This bill passed the Senate last year and got bottled up somewhere in the House. I think it may pass this year, and that bill will make money available to the municipalities to contract with the commuter roads for commuter service. I think that will benefit the New Haven Railroad, with the amount of commuter service we have.

So when you ask me, with all of these things in the wind, whether we shall have a deficit and if we do, what it will be in 1960, I cannot answer you. But we hope that if we get the money we do not—we will not have any deficit. After 35 years of no dividends on the stock, people are beginning to wonder if this is a good thing.

Mr. HEMPHILL. You said you owe \$8,159,400. If you put in the multiple-service cars you described, that will probably be another \$8 million, and that will mean that you owe now \$26 million—something to the various banks that the Government has made the loan guarantee to. Do we add to that \$14 million deficit, or is that included in that?

Mr. ALPERT. The \$14 million does not have anything to do with that.

Mr. HEMPHILL. That is aside from the deficit?

Mr. ALPERT. The \$14 million is an operating deficit. That includes, for example, about \$9 million of depreciation.

Mr. HEMPHILL. In other words, \$9 million of the \$14 million would be what you wrote off for depreciation? The \$9 million would be?

Mr. ALPERT. That is right.

Mr. HEMPHILL. What net worth do you show when you take the assets of your railroad over its liabilities?

Mr. ALPERT. Mr. Kuhbach, our financial officer, is here and I am not an expert on figures. If it is all right, I would like to have him tell you.

Mr. HEMPHILL. Certainly.

Mr. KUHACH. At the present time, we are just about even, as far as assets and liabilities. Our current position is very bad. In other words, we have no working capital, because our current liabilities exceed the current assets.

Mr. HEMPHILL. Your current liabilities exceed your current assets, and you show no net worth?

Mr. KUHACH. That is right.

Mr. HEMPHILL. Therefore, if you were to borrow \$8 million more from the banks than the Government would give the loan guarantee to, what would that \$8 million represent—a loan on the cars which you expect to purchase as collateral?

Mr. KUHACH. Yes.

Mr. HEMPHILL. And that would be a 100-percent loan on 100 percent collateral?

Mr. KUHACH. And the \$8 million would be payable over 25 years.

Mr. HEMPHILL. It occurs to me you have some rather, almost insurmountable difficulties. The thought occurs to me to try to preserve the service, which I think is a very commendable attitude on your part, but trying to preserve the service, instead of the Government making the loan guarantees, which would let the money keep on going down the drain, if it is going down the drain—and I am almost convinced that it is—perhaps you might investigate the action which the Seaboard Airline took some years ago, in which they went into receivership, which was a very drastic undertaking.

But out of the receivership came an operating railroad which is doing very well today, and the railroad kept running, and the people are still employed, and the impact on the economy of the section through which the railroad ran its tracks was not drastic at all. At least that is my recollection, and I live in that section.

Now, that receivership, it seems to me, would be a lot less drastic than bankruptcy, a lot less social—and since you are a Republican, I assume you call that socialism—than nationalization. I assume that has been considered by your organization?

Mr. ALPERT. It certainly has, and as I testified a little bit ago, we have very heavily considered it. The Interstate Commerce Commission has passed on it, the Public Utilities Commission of Connecticut passed on it, the Governors committee has passed on it.

They all feel that reorganization is not the solution, because if this company goes into reorganization, there is not enough in the fixed charges, which I am sure in the Seaboard case were the reason for the reorganization and receivership.

Mr. HEMPHILL. That is correct.

Mr. ALPERT. In our case, we have no more fixed charges today than we had in 1946—perhaps a half million dollars more a year; \$6,700,000, I think, and about half of that is on equipment trust certificates.

So all you could possibly do here is get rid of about \$3.5 or \$4 million in fixed charges, and that is against the losses you are taking now.

Your solution is not what it was in the Seaboard case, or even what it was in the New Haven case. We have considered it very carefully. Still, there are those who think that is the solution. I think it would be disastrous, because I think you would lose the service, and that is the thing I am trying to avoid.

Mr. HEMPHILL. Well, the thing we are trying to avoid is losing the service, losing the money, losing the loan, and that is something that is our responsibility, over and above the broad policies which you describe to us here now.

The reason we have investigated this so thoroughly is because we are trying to find out whether the Interstate Commerce Commission, in its decision in making this guaranty of a loan, had some real solution. Apparently they had none—I mean no disrespect.

Apparently you have no solution that you can actually say is concrete. I think you have some very fine plans, apparently, and it concerns us considerably to realize that here is \$21 million we may lose.

I mean, if you do not have a good year this year, you are going to be in real trouble, are you not?

Mr. ALPERT. Why, of course, and it is a calculated risk and I know it. But I ask you again, Mr. Hemphill, as I suggested to Mr. Moss, what is the important consideration here, that the Government get back the money? Is that the thing? Is this a banking deal, where you make sure you get back the money? Or is it for the protection of the public welfare, where you want to have a railroad in a very highly concentrated area of the United States? I cannot argue with you. If you feel it is important to get this money back and have ample security so that nothing can happen to it, and you are in the position of a bank, that is up to you.

All I say is the people I have seen and talked to, realizing that we are an important area in the United States, I think there is a duty on the Congress, as a national matter, to preserve a railroad if it is possible to preserve it. I am satisfied there will not be a bankruptcy; the railroad will be dismembered. I am satisfied it will not be done unless somebody helps it temporarily, and I think that is the job you have given to the Interstate Commerce Commission, and I think they have done everything that could be done with it.

Mr. HEMPHILL. I think your purpose is very strong; I subscribe to it. But I still have a responsibility to the taxpayer so that the Government can get back the money, if it can.

Now, I understand that since you have been the president, there have not been any dividends paid, have there?

Mr. ALPERT. Oh, no, no, no.

Mr. HEMPHILL. And only on the preferred stock—have you paid interest?

Mr. ALPERT. I think there was a dividend on the preferred stock in 1954-1955.

Furthermore, if there is any question of dividends, the Interstate Commerce Commission has very appropriately made a restriction that no dividends will be paid.

I wish I came to the point of making a decision on it; I do not think I will.

Mr. HEMPHILL. The Government has made a policy in small business and other loan guarantee operations to say to a corporation that it is not going to pay dividends as long as its indebtedness is outstanding and of such a nature that it has to come to the United States for help.

Mr. ALPERT. It is right in the act. We are subject to that; no quarrel about it.

Mr. HEMPHILL. I think that is fine.

All right; I have no more questions. Thank you.

The CHAIRMAN. Mr. Thomson?

Mr. THOMSON. I have no questions.

I would just like to commend Mr. Alpert for the service he did me in relating the conditions that existed, that must have motivated the Congress in passing this law. It has been most helpful to me as a new Member.

The CHAIRMAN. Mr. Rogers of Florida?

Mr. ROGERS of Florida. No questions.

Mr. AVERY. I have another question, Mr. Chairman.

The CHAIRMAN. Mr. Avery.

Mr. AVERY. Did I understand you to say that the New Haven Railroad has not paid any dividends for 35 years?

Mr. ALPERT. I do not think there has been a dividend on the common stock for 35 years. It is what the lawyers call "from time immemorial."

Mr. AVERY. I think from the investors' standpoint, I could not agree more.

What is the par value?

Mr. ALPERT. I think it is somewhere around four. I do not follow it very closely these days, but I think it is around four.

The CHAIRMAN. Thank you very much, Mr. Alpert. I hope you will be able to get your plane out in time. We appreciate your testimony and the information you have given this committee.

Mr. ALPERT. Thank you.

The CHAIRMAN. Mr. Moloney?

STATEMENT OF WILLIAM M. MOLONEY, GENERAL SOLICITOR, ASSOCIATION OF AMERICAN RAILROADS

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. Back on the record.

Proceed, Mr. Moloney.

Mr. MOLONEY. I will try to make it as brief as possible, Mr. Chairman, and with your permission, then, I will skip passages in reading with the understanding that they will be entered in the record.

The CHAIRMAN. You may do that, and your entire statement will be included, together with the tables and appendixes if you desire. I believe you should identify yourself, however.

(The statement of Mr. Moloney is as follows:)

STATEMENT OF WILLIAM M. MOLONEY, GENERAL SOLICITOR, ASSOCIATION OF
AMERICAN RAILROADS, MARCH 1, 1961

My name is William M. Moloney and I am general solicitor of the Association of American Railroads. I would like to express my appreciation for the oppor-

tunity to make the following statement and hope that it may be of some benefit to this committee.

This statement is submitted in behalf of the association and its member railroads which operate over 95 percent of all the railroad mileage in the country. I appear this morning to express and lend the support of the railroad industry to H.R. 1163. During the course of this hearing I and other witnesses will propose certain amendments to the provisions of the bill.

H.R. 1163 would amend section 510, part V, of the Interstate Commerce Act by striking out the date "1961" and by inserting in lieu thereof the date "1962". Thus, the bill would continue for a period of 1 year beyond the present expiration date of March 31, 1961, the authority granted the Interstate Commerce Commission to guarantee certain loans made pursuant to the provisions of sections 501 to 510 of the Interstate Commerce Act.

Part V was enacted as a part of the Transportation Act of 1958 in Public Law 85-625, 85th Congress, approved August 12, 1958. As stated by this committee in its report during the 85th Congress on H.R. 12832, the Transportation Act of 1958 represented the culmination of some years' consideration by this committee of problems in the field of surface transportation. During the months of April and May 1958 the Subcommittee on Transportation and Communications conducted extensive hearings which led to the enactment of the Transportation Act of 1958, including sections 501-510 of the Interstate Commerce Act. In its report on H.R. 12832 (H. Rept. No. 1922, 85th Cong., 2d sess.) dated June 18, 1958, this committee set forth certain economic factors underlying its favorable report. I should like to call attention to those factors as they existed at that time, and to discuss briefly the trends and results that have taken place since 1958.

Following the economic recession of 1954, business activity in the United States resumed its postwar trend of expansion and growth and these favorable conditions continued throughout the years 1955 and 1956 and most of 1957. The rate of corporate net earnings, as measured in relationship to corporate net assets, ranged between 10 and 12 percent in those 3 years. While railroad net earnings in 1955 and 1956 showed improvement, such was only in relation to the low level to which such railroad earnings had fallen in the recession year 1954. In neither 1955 nor 1956 did the rate of railroad net earnings equal as much as one-half the rate of earnings for industries in general. In 1955 the rate for all industries was 11.9 percent, while the rate for the railroads was 5.7 percent. In 1956 the all-industries rate was 11.3 percent and the railroad rate was 5.3 percent. In 1957, the latter part of which was adversely affected by the early stages of the 1958 economic recession, the rate of industrial earnings fell to 10.6 percent of net assets, while the railroad earnings dropped relatively more to 4.4 percent. Thus, in 1957, the rate of railroad earnings was but little more than two-fifths the rate of general industrial earnings.

This widened spread between the earnings of general industry and of the railroads continued in the recession year 1958, the rates being 8.9 percent and 3.8 percent, respectively. It was still further widened in 1959, when the rate of industrial earnings increased to 9.8 percent, while the railroad rate declined further to 3.4 percent, reaching a level little more than one-third of the rate for general industry. The railroad rate for 1960 will be about 2.6 percent, probably considerably less than one-third the rate for general industry.

The foregoing gives a brief understanding of the relative position of the railroads compared to all industries immediately preceding and during the year 1958. Considering the railroad industry as such, the picture was even worse. The declining position of the railroad industry, both relative and absolute, was one of the principal factors which the Congress had before it when the Transportation Act of 1958 was enacted. One of the features of that act, provided as a temporary measure of relief for financially hard-pressed railroads, was the granting of authority to the Interstate Commerce Commission to guarantee loans up to an aggregate principal amount of \$500 million. Such loans were to be for the specific purpose of providing funds for capital improvements to or for maintenance of railroad physical properties. Nothing has since transpired to make the need for such legislation any less great today than at the time the law was enacted. The financial condition of the railroads is even more critical now than it was in 1958.

On page 4 of this committee's report previously mentioned, there is set forth a table showing the drop during the then past 20 years in the percentage of total traffic carried by the railroads. During the period 1939 to 1957 the rail-

roads' share of interstate freight traffic in the United States had declined from 62.4 percent to 47.2 percent. The greater portion of this decline had taken place during the years 1948 to 1957, when the decline was from 61.9 percent to 47.2 percent. Since that report, further declines have taken place, the percentage for 1958 being 46 percent and for 1959, 45.4 percent.

On page 5 of this committee's report it was stated that the situation existing had been seriously aggravated by the effects of the then current (1958) recession in the national economy. And, further, on page 10, the committee referred to "the uncertainty surrounding predictions of the depth and duration of the recession." The observations by the committee might well have been written about the present recession in the national economy generally and in the railroad economy in particular.

Operating revenues of class I railways in 1958 were \$9,564.6 million, while preliminary figures for 1960 show operating revenues of \$9,514.3 million, or a decline of some \$50 million. Operating expenses, net rents, and taxes, on the other hand, increased in 1960 over 1958 by some \$128 million. Thus, there was a further loss in net railway operating income of some \$178 million, or 23 percent, between the years 1958 and 1960, when net railway operating income fell from \$762.3 million to \$584 million. In terms of rate of return on net investment, the drop was from 2.76 percent in 1958 to 2.13 percent in 1960.

Looking to the amount available for additions to property, reserves and dividends, net income for 1960 of \$444.6 million was \$157.1 million below 1958.

In enacting the loan guarantee provisions of the Transportation Act of 1958 the Congress was particularly concerned with the situation then prevailing in eastern territory and it is appropriate to consider what has since transpired in that territory. In 1958 operating revenues of class I railways in the eastern district (excluding the Pocahontas region) were \$3,342.6 million, while in 1960 such revenues were \$3,324.1 million, or a decrease of some \$18.5 million. At the district (excluding the Pocahontas region) were \$3,342.6 million, while in 1960 over 1958 of \$32.6 million. As a result, net railway operating income for these railroads in 1960 was \$51.1 million less than in 1958. Their rate of return on net investment was only 1.13 percent in 1958 and dropped to 0.62 percent in 1960. The net income of these roads in 1958 was \$31 million, while in 1960 they had a deficit in net income of \$25 million.

Some 20 class I railways in the eastern district (excluding the Pocahontas region) operated during the year 1960 at deficits in net income totaling \$81,541,642. Among these lines were:

Railroad:	Net income	Railroad—Continued	Net income
Boston & Maine-----	¹ \$3, 829, 987	Lehigh Valley -----	¹ \$3, 240, 185
New York, New Haven		Central Railroad of	
& Hartford-----	¹ 14, 698, 640	New Jersey-----	¹ 4, 186, 307
Erie-Lackawanna ---	¹ 19, 995, 614	Pennsylvania -----	¹ 7, 819, 112

¹ Deficit.

Against the \$81,541,642 net income deficit for 20 eastern railroads, there were some 20 eastern railroads with net income totaling \$56,205,360, leaving for the district as a whole the \$25 million deficit in net income above mentioned.

The situation with respect to the class I railways in the eastern district (excluding the Pocahontas region) may be summarized by saying that, with a net investment in transportation facilities of close to \$10 billion, those railroads together in 1958 earned a net income of only \$31 million and in 1959 a net income of only \$33 million. They had a deficit of \$25 million in 1960. Some of the eastern railroads failed in the past 3 years to earn enough to cover their operating expenses and taxes, let alone to meet their interest and other fixed obligations.

To sum up what I have said thus far, there has been no lessening of the need of members of the railroad industry for the guarantee loan provisions of part V of the Interstate Commerce Act. On the contrary, every indicator points to a continuing and greater need than at the time those provisions became law.

I have taken most of the tables contained in this committee's report on the Transportation Act of 1958 and have up-dated those tables by adding the years 1958, 1959, and 1960. They are designated as tables 1 through 7 and are appended to my statement. I suggest they be incorporated in the record of this hearing.

I should like at this point to summarize the applications that have been filed with the Interstate Commerce Commission since the enactment of this part of the Interstate Commerce Act in 1958.

Up to March 1, 1961, the Interstate Commerce Commission had received and had acted on 19 applications from 9 railroads seeking loan guarantees aggregating \$105,792,460. The application of one railroad, involving a loan guarantee of \$800,000, was denied in full, as also was one of three applications submitted by another railroad (\$200,000). Two other applications were denied in part, to the extent of \$4 million. Finally, withdrawals of and amendments to original applications reduced the number of applications by one and the amount by \$14,975,100. Thus, to the extent of \$85,817,360, the Interstate Commerce Commission has approved 16 applications involving 8 railroads. The 16 approvals involved the following railroads:

Railroad	Number of approvals	Amount
1. New York, New Haven & Hartford	6	\$21,659,400
2. New York, Susquehanna & Western	1	300,000
3. Boston & Maine	2	6,000,000
4. Georgia & Florida	2	1,934,960
5. New York Central	1	40,000,000
6. Lehigh Valley	2	10,923,000
7. Norfolk Southern	1	2,000,000
8. Chicago & Eastern Illinois	1	3,000,000
Total	16	85,817,360

The purposes for which these loan guarantees were sought were—

- (a) To finance the purchase of new freight cars, locomotives, and maintenance facilities and machinery (\$11,094,360);
- (b) To finance other planned capital improvement work (\$2,481,111);
- (c) To finance planned maintenance programs (\$4,729,696);
- (d) To refinance outstanding equipment obligations (\$1,167,127);
- (e) To reimburse company treasuries for capital expenditures previously made (\$66,345,066).

I said at the outset that the railroad industry supports the provisions of H.R. 1163 and that I and other witnesses would also suggest amendments that were deemed needed or desirable. The particular amendment which I suggest is that in line 5 of H.R. 1163 the date "1962" be stricken and that there be inserted in lieu thereof the date "1963." We believe this amendment to be justified by the uncertainties surrounding the duration and depth of the present economic recession in industry generally and its much greater impact upon the railroad industry in particular.

Moreover, even with an upswing in the economy, it should be apparent from the factors which I have outlined that the debilitating effects of the recession will not be easily or rapidly thrown off by substantial segments of the railroad industry. Indeed, an upswing in traffic on those roads would inevitably lead to greater demand for equipment and increased maintenance requirements. Such demand might well outpace or outstrip any immediate improvement in financial position.

Other amendments which, while principally advocated by individual railroads, are supported by the industry fall into such categories as the proposals to extend the provisions of the act so as to cover the Railway Express Agency, to permit the guarantee of loans for refunding of bonded debt securities maturing after the date of the amendment or to reimburse the carrier for expenditure of its own funds in full or partial payment of bonded debt securities maturing on or after January 1, 1960. These will be discussed by witnesses who follow me. We urge their most careful and serious consideration by this committee.

TABLE 1.—*Cars of revenue freight loaded—Railroads of class I in the United States*

Week ended	1961	1960	1959	1958	1957
Jan. 7	439,193	589,801	570,666	569,807	561,201
Jan. 14	516,210	605,793	586,342	572,886	680,766
Jan. 21	490,049	587,407	555,710	551,088	677,269
Jan. 28	476,403	603,195	582,476	570,732	605,745
Feb. 4	497,630	587,981	565,752	532,396	647,972
Feb. 11	486,347	580,170	567,188	533,186	665,251
Feb. 18	502,334	570,099	583,741	494,919	675,966
Total, 7 weeks	3,408,166	4,124,426	3,991,895	3,804,814	4,554,170

Percent decrease in carloadings, 1st 7 weeks of 1961 below:	Percent
1st 7 weeks of 1960	17.4
1st 7 weeks of 1959	14.6
1st 7 weeks of 1958	10.4
1st 7 weeks of 1957	25.2

Source: Car Service Division, Association of American Railroads.

TABLE 2.—*Operating revenues and expenses—Railroads of class I in the United States*

Year	Operating revenues	Operating expenses, rents, and taxes
1957	\$10,491,389,960	\$9,569,056,396
1958	9,564,568,052	8,802,271,984
1959	9,825,060,205	9,077,383,608
1960	9,514,294,066	8,930,261,475
Percent decrease, year 1960 below:		
1957	9.3	6.7
1958	.5	11.5
1959	3.2	1.6

¹ Increase.

TABLE 3.—*Net railway operating income and rate of return on net property investment—Railroads of class I in the United States*

Year	Net railway operating income	Rate of return (percent) ¹
1957	\$922,333,564	3.36
1958	762,296,068	2.76
1959	747,676,597	2.72
1960	584,032,591	2.13
Percent decrease in net railway operating income, year 1960 below:		
1957	36.7	
1958	23.4	
1959	21.9	

¹ Represents the relationship of net earnings from railroad operations (before the payment of interest and other fixed charges) to the net investment in railroad physical properties (after deducting accrued depreciation) plus working capital (cash and material and supply inventories).

TABLE 4.—*Net income available for additions and betterments to property, reserves, dividends, etc.—Railroads of class I in the United States*

Year:	Net income	Percent decrease, year 1960 below:
1957	\$737,430,947	1957 39.7
1958	601,737,247	1958 26.1
1959	577,719,089	1959 23.0
1960	444,657,153	

TABLE 5.—Operating revenue and expenses—Railroads of class I in the eastern district (excluding Pocahontas region)

	Operating revenues	Operating expenses, rents and taxes
1957.....	\$3, 876, 967, 893	\$3, 636, 577, 899
1958.....	\$3, 342, 648, 414	\$3, 231, 822, 986
1959.....	\$3, 437, 886, 629	\$3, 299, 236, 083
1960.....	\$3, 324, 103, 183	\$3, 264, 430, 214
Percent decrease, year 1960 below—		
1957.....	14.3	10.2
1958.....	.6	11.0
1959.....	3.3	1.1

¹ Increase.

TABLE 6.—Net railway operating income and rate of return on net property investment—Railroads of class I in the eastern district (excluding Pocahontas region)

Year	Net railway operating income	Rate of return (percent) ¹
1957.....	\$240, 389, 994	2.44
1958.....	\$110, 825, 428	1.13
1959.....	\$138, 650, 546	1.43
1960.....	\$ 59, 672, 969	.63
Percent decrease year 1960 below:		
1957.....	75.2	
1958.....	46.2	
1959.....	57.0	

¹ Represents the relationship of net earnings from railroad operations (before the payment of interest and other fixed charges) to the net investment in railroad physical properties (after deducting accrued depreciation) plus working capital (cash and material supply inventories).

TABLE 7.—Net income available for additions and betterments to property, reserves, dividends, etc.—Railroads of class I in the eastern district (excluding Pocahontas region)

Year:	Net income	Year—Continued	Net income
1957.....	\$123, 896, 533	1959.....	32, 976, 488
1958.....	31, 009, 938	1960.....	25, 336, 282

¹ Deficit.

Mr. MOLONEY. My name is William M. Moloney, and I am general solicitor of the Association of American Railroads. The statement that I am making is submitted on behalf of that association and its member railroads that operate over 95 percent of the railroad mileage in the country. I am appearing for the purpose of expressing and lending the support of the railroad industry to the principles and provisions of H.R. 1163.

The Transportation Act of 1958—excuse me. Mr. Chairman, would it be all right if I do omit these parts?

The CHAIRMAN. Yes. I gave you that permission at the outset, and your entire statement will be included in the record, together with the tables that you submit therewith.

Mr. MOLONEY. Thank you.

Then I would like to skip to page 2 of my statement, and in reference to the discussion that has taken place as to what must have motivated the Congress, including this committee and the committee on the Senate side, as well as both Houses, in enacting the Transporta-

tion Act of 1958 and the provisions of part V of that act, and whether or not the Congress had in mind entering the banking business on the same sound principles that banking business is conducted on, and whether the loans that the Congress had in mind the Commission would guarantee would be adequately secured by ample collateral with better than a 50-percent chance, or a great chance, of repayment and so on, I would like to give a few of the economic statistics that were before this committee when it made that consideration.

Following the economic recession of 1954, business activity in the United States resumed its postwar trend of expansion and growth, and these favorable conditions continued throughout the years 1955, 1956, and most of 1957. The rate of corporate net earnings as measured in relation to corporate net assets ranged between 10 and 12 percent in those 3 years. While railroad net earnings in 1955 and 1956 showed improvement, such was only in relation to the low level to which such railroad earnings had fallen in the recession year of 1954. In neither 1955 nor 1956 did the rate of railroad net earnings equal as much as one-half of the rate of earnings for industries in general. In 1955 the rate for all industries was 11.9 percent, while the rate for railroads was 5.7 percent. In 1956 the all-industries rate was 11.3 percent and the railroad rate was 5.3 percent. In 1957, the latter part of which was adversely affected by the early stages of the 1958 recession, the rate of industrial earnings fell to 10.6 percent, while railroad earnings dropped relatively more to 4.4 percent. Thus, in 1957, the year before the Transportation Act of 1958 was enacted, the rate of railroad earnings was but little more than two-fifths of the rate of general industrial earnings. And I might say that this rate that I am referring to here, of course, is not rate of return on investment; it is return rate on net book assets.

This widened spread between the earnings of general industries and of the railroads continued in the recession year of 1958, the rates being 8.9 percent and 3.8 percent. It was still further widened in 1959 when the rate of industrial earnings increased to 9.8 percent, the railroad rate declined further to 3.4 percent, reaching a level little more than one-third of the rate for the industry generally.

In 1960 the railroad rate, which is still preliminary, will be approximately 2.6 percent, or considerably less than one-third of what will, in all likelihood, be the rate of industries generally.

Now this gives some understanding of the relative situation of the railroad industry in the general industrial picture at the time this committee and Congress had before it the Transportation Act of 1958. One of the features of this act was the guarantee loan provisions that we are here considering today. It was provided, we think, principally as a temporary measure of relief for the financially hard-pressed railroads. Nothing has transpired since the time that act was passed that makes the need any less today than it was at the time the statute was put on the books. Indeed, everything that has transpired shows a greater need today than even existed at the time this committee originally considered the statute.

At page 4 of this committee's report on the Transportation Act of 1958 there is set forth a table showing the drop during the then past 20 years in the percentage of total traffic carried by the railroads. During the period 1939 to 1957 the railroads' share of inter-

city freight traffic in the United States had declined from 60 to 47.2 percent. The greater portion of this decline had taken place between the years 1948 to 1957, when the decline was from 61.9 to 47.2 percent. Now since the report of this committee, which had in it those figures, further declines have taken place and the percentage for 1958 was 46 percent and for 1959 was 45.4 percent.

On page 5 of this committee's report it was stated that the situation existing then had been seriously aggravated by the effects of the then current 1958 recession in the national economy. And on page 10 of the committee's report there was referred to "the uncertainties surrounding predictions of the depth and duration of the recession." The observations by this committee made at that point might well have been written about the situation as it exists today in the national economy, and as it exists in the railroad economy in particular.

The operating revenues of the class I railroads in 1958, the year this statute went on the books, were \$9,564 million. Preliminary figures for 1960 show operating revenues will be \$9,514 million, or a decline of some \$50 million in operating revenues—1960 below 1958.

On the other side of the book, operating expenses, net rents and taxes have increased in 1960 over 1958 by some \$128 million. Thus, there has been a further net loss since 1958 in net railway income of some \$178 million, or 23 percent, between the years 1958 and 1960. The net railway operating income in 1958 was \$762 million, while in 1960 it is estimated at \$584 million.

In terms of rate of return on net investment, the drop was from 2.76 percent in 1958 to 2.13 percent in 1960.

Now carrying through to the net income, or to the earnings that are available for additions to property, reserves, dividends and the like, the net income in 1960 of \$444 million will be, or is \$157 million below the year 1958 when the statute was put on the books.

In enacting the loan guarantee provisions I think it beyond any question that this committee and the Congress were particularly concerned with the situation as it existed in eastern territory, and I think it pertinent to put into this record the trends and the results that have taken place to the eastern territory since that time.

In 1958 the operating revenues of the class I railroads in the eastern district were \$3,342 million and in 1960 \$3,324 million, a decrease of \$18 million. At the same time, their expenses, net rents and taxes show an increase of some \$42 million. As a result of this, the net railway operating income for the eastern district excluding the Pocahontas region, was \$51 millions less in 1960 than in 1958.

Their rate of return in 1958 was only 1.3 percent, and I invite your particular attention to the fact that that rate of return for 1960 is below 1 percent, or 0.62 percent.

The net income of these railroads in 1958 was \$31 million, while in 1960 they had a deficit in net income of some \$25 million.

There are actually 20 class I railroads in the eastern district, excluding the Pocahontas region, that operated during the year 1960 at deficits in net income totaling \$81,541,000 odd.

Among those lines having the deficits in their income were the Boston & Maine with a deficit of \$3 million 800 some odd thousand; the New York, New Haven & Hartford with a deficit of \$14 million 600 odd thousand; the Erie-Lackawanna with a deficit of \$19 million

900 odd thousand; the Lehigh Valley with a deficit of \$3 million 200 odd thousand; the Central Railroad of New Jersey with a deficit of \$4 million 186 thousand, and the Pennsylvania with a deficit of \$7 million 819 thousand.

Now against these 20 railroads having a deficit in net income of some \$81 million, there were 20 eastern railroads, again excluding the Pocahontas region, that had a net income of some \$56 million. And the net deficit then for the district as a whole in net income was \$25 million deficit in 1960.

The situation with respect to these eastern railroads may be summarized by saying that with a net investment in transportation facilities of close to \$10 billion—and I might say that that net investment figure tends to bear out to a great degree Mr. Alpert's statement as to the essentiality of these eastern railroads to the economy of that territory of the United States—these railroads, together in 1958, had a net income of only \$31 million, and in 1959 a net income of only \$43 million, and in 1960 a deficit net income of \$25 million. Some of the eastern railroads for the last 3 years have failed to earn enough to cover even their operating expenses and taxes, let alone to meet their interest and fixed obligations.

Now obviously from the record I have shown to you, both what this committee had before it when this became the law, and what has taken place since the statute was put on the books, if there was any justification whatsoever for the enactment of this law, there is certainly every justification, and greater justification, for the extension of the positions of the law.

The part of my statement on page 6 dealing with the applications before the Commission has been adequately covered by the Chairman of the Commission. There are a few comments that I should like to make in addition to the statement.

For instance, at the hearing this afternoon Mr. Alpert, while on the stand, mentioned the proposed report of an examiner for the CAB proposing some \$2 million subsidy to Riddel Airlines. A question was raised as to whether Riddel Airlines is a domestic carrier or an oversea carrier. I might say that the railroads are vitally interested in that proceeding.

I think this committee knows that historically we have taken little or no interest in oversea activities. Riddel Airlines is a domestic carrier. The docket before the CAB is referred to as Domestic Cargo Mail Proceeding.

The proposed recommendation is that there be two principal domestic freight airlines in the United States, Riddel, north-south; and Flying Tiger, east-west. The routes that Riddel covers are from Boston, Mass., to Miami, Fla., and intermediate points; from Miami, Fla., to Cleveland, Ohio, and Detroit, Mich., and intermediate points; and Boston to New Orleans and intermediate points.

I merely wished to put on the record, to answer what seemed to be the problem, that it is a domestic carrier.

Now I try to follow very carefully, and I read, Chairman Hutchinson's statement. The railroad industry generally agrees with much, if not all, that the Chairman had to say, both in his written statement and many of his oral comments. I do think, however, that he pointed

out one thing and called one thing to the attention of this committee which I think is very significant.

Neither this committee, in the beginning, when this became the law, nor do I believe today, or any member of the railroad industry or any Member of Congress, is deceived in any way to thinking that the guaranty loan provisions of the Transportation Act of 1958 constitute a permanent solution to the problems of the railroad industry.

The problems of the industry are much deeper. The Congress knew that at the time this law was passed. I think it was clear that this was a temporary measure to aid the more ailing members of the railroad industry.

I can conceive of only one reason for the Government, for instance, to guarantee loans. It is because no one else is particularly interested in that kind of credit, those kind of loans, unless there is a guaranty.

You placed a statute on the books and told the Commission that the first thing they must do is have the railroads come in and show us what? Show us that they just cannot get this loan from any other place under any kind or reasonable terms. So then when we get into the question, or attempt to discuss the question, it is quite interesting from the principles of banking whether it is adequately secured, it is a good loan.

Well, if it is a good loan, I do not think the Commission would have to guarantee it. If it is that kind of a good loan, if it is a loan in the public interest, if there is a reasonable expectation, taking the public interest into consideration, that it will be repaid, and the Commission makes that finding, then the loan, under the statute, is a loan that should be made by a private lending institution and guaranteed by the Commission.

There was one question raised yesterday, a proposal, for instance, that a provision of this bill be amended so that the loans could be paid for a period of 25 years.

The railroad industry generally would favor such a provision and does favor such a provision. At the time I believe Congressman Younger asked the question as to what was the depreciation period on railroad property and would it be realistic to have a loan that exceeded the depreciation period.

He was told that there were two depreciation periods, one for the Interstate Commerce Commission regulatory purposes and the other for the Federal Bureau of Tax purposes. I would like to put in the record at this time a brief description of those periods used for tax purposes so that the committee may have that in considering the 25-year proposal.

If you consider freight cars, each class or each type of freight car will generally have a different depreciable life for tax purposes, that is, a different period of time over which the car is fully depreciated because of the nature of the car, the commodities that move in it, the traffic that it carries, the wear and tear that it takes. I may be different for flatcars, for hoppers, and so on. But taking all of those, all types of freight cars, generally speaking, the depreciation periods will range from, say, 28 to 33 to 35 years. And taking all of them and averaging them, you come up with a depreciation period, or life, on freight cars generally, of about 30 years; 30 to 31 or 32 years.

In other words, on freight cars, thrown into the part and averaged out the industry generally has an annual depreciation rate of about 3 percent; slightly in excess of 3.

Now, turning to fixed properties, keep in mind that a large part of your AB's, additions and detriments and improvement of plant and the like are in fixed properties, not just rolling stock. And when we move to the fixed properties we find that there is a depreciation period there ranging up to, well, with no exaggeration, 100 years; 60, 70, 80, 90 years is not unusual at all on bridges, structures, and things of that nature.

Then if you take that and throw that property in with your equipment, you come up with an overall annual depreciation rate of about $2\frac{1}{4}$ to $2\frac{1}{2}$ percent.

We, frankly, have not had a great amount of experience as yet with depreciation on diesels. While they have been with us for quite a few years they are relatively new. Generally speaking, now, diesels today I think are being depreciated on a basis of around 15 to 20 to 22 years, and probably average out about 20 years.

So the 25-year loan period would not be undue in answer to that question.

Mr. AVERY. Could I interrupt just for my own interest at that point?

What depreciation schedule did you carry on the old steam locomotives, the later models?

Mr. MOLONEY. I am sorry. I might be able to furnish the answer for the record if he would be interested.

Mr. AVERY. It is not important.

Mr. MOLONEY. I think, for instance, you get into the question of class repairs, class III repairs. I am not sure how much of that is affected. But if you would wish, I would put it in.

Mr. AVERY. No, thank you.

Mr. MOLONEY. There has been some mention and discussion and use, I should say, of the term "subsidy." In closing I would like to say that the railroad industry does not consider the present law to be a subsidy. We do not consider that an extension of the law would be a subsidy. And, as a matter of fact, we feel that it is awfully difficult to characterize as a subsidy any loans, grants or anything else that might be given to an industry that is told "You cannot go out of business."

Now when a person cannot go out of business, when a person cannot just fold up his shop and walk away, the question of whether you are subsidizing him or not begins to take a little different tone.

That is the situation the railroad industry is in. If the service is needed by the public, if authority is not obtained to abandon your line of railroad, you have to run that railroad. You have no choice. It is not a question of "subsidize me so that I can stay in the business that I wish to be in."

You have heard many railroad witnesses say that there are many areas of business that are unprofitable; that they may wish to withdraw from that. That management is not entirely free.

So in an area of this kind, and in the atmosphere that this legislation was enacted, and I trust in the atmosphere that that committee will consider the proposal to extend it, that this question of subsidy,

whether it is or is not, or you are or you aren't, just won't get into the picture.

Mr. ROGERS of Florida (presiding). Thank you very much, Mr. Moloney.

Are there any questions? Mr. Younger?

Mr. YOUNGER. The depreciation you gave, Mr. Moloney, is that the tax depreciation?

Mr. MOLONEY. Yes, sir.

Mr. YOUNGER. That is what I understood.

Now, I would like to ask you another question in regard to the operation of the Interstate Commerce Commission, and these loans which you enumerate in your statement. Do you consider that the ICC has properly carried out the congressional act in making those loans?

Mr. MOLONEY. Yes, sir.

Mr. YOUNGER. Would you be willing, and would the railroad people be willing, to have the Government make these loans without the clause in there that there is a reasonable expectancy for repayment? Do you think that clause ought to be taken out?

Mr. MOLONEY. I would rather answer that question this way, that I think it would behoove this committee and this Congress to look at what it did in the language in the statute because the section that you mentioned is preceded by the section that I mentioned, and that is that I have to show that I cannot get it anywhere else, and I have to come to you and prove that it is a good loan.

If you are going to construe this reasonable expectation of repayment as saying this is a fine loan, this is the kind of a loan that the bankers make, then I say we better change something.

And I would suggest, for instance, that the language in the guarantee loan provision of the feeder airline situation might not be a bad consideration. I merely point out that there may be a possible inconsistency somewhere.

It is not clear to me, for instance, Congressman, how I can come to the Commission and show that I cannot get this loan on any reasonable terms from anyone else, but that I am going to turn around and fully protect the Government and assure the repayment on every day that it is due.

I think you ought to consider that.

Mr. YOUNGER. I think there is a vast difference between a reasonable expectancy of receiving the payment than assurance that the payment is going to be paid. I think there is a vast difference between these terms.

Mr. MOLONEY. I agree with you 100 percent, I think there is a very vast difference. But during the course of this hearing I have heard questions asked of witnesses that indicates that some other members of this committee might not place that interpretation on it.

Mr. YOUNGER. Well, on the other hand, I am not quite willing to just open the door and say that these guarantees shall be issued when you know there is no expectation whatsoever of getting the money back.

Mr. MOLONEY. No, sir.

Mr. YOUNGER. And I do not think the railroads want that.

Mr. MOLONEY. The railroads do not ask for that.

Mr. YOUNGER. Because if that is the situation, it would be better to have the railroads go into reorganization, or into bankruptcy and clean the slate and start over again. I think that would be preferable than to just open the gate without the reasonable expectancy being in there.

I interpret the reasonable expectancy clause far differently than some of my colleagues.

Mr. MOLONEY. That is the point that bothers me.

Mr. YOUNGER. I have been in the lending business all my life, and there are a lot of loans that you would almost be willing to guarantee when they are made, but unfortunately they are never paid, and there are other loans that were made that you were doubtful about, but they were paid rather promptly. So terminology is not the whole story.

Mr. MOLONEY. Well, a large part of the questioning that disturbed me—as I said, that some of the other members of the committee might not take this view—and it was expressed by one or more members, that this committee, at least those members of this committee, and I am sure they meant the entire committee, had an obligation to protect the taxpayers' money—to recover the taxpayers' money, in this instance.

I think that is a very commendable position to take, and I trust that the members of this committee feel that it is so important to protect some of the taxpayers' money will feel equally as strong in considering such matters as adequate user charges and things of that nature, and take that out of the public till.

Mr. YOUNGER. Do you recall, or can you tell the committee, which term is used in the Maritime Guaranty?

Mr. MOLONEY. No, sir. I do not recall, I am sorry to say.

Mr. YOUNGER. That is all.

Mr. ROGERS of Florida. Mr. Avery?

Mr. AVERY. Mr. Moloney, as I recall and deduce from my notes, do you recall Mr. Alpert made three suggestions, recommendations, or changes in the present act. You have addressed yourself to one of them in your colloquy with Mr. Younger. There were two others. In the course of your remarks did you comment on them? If you did we won't belabor it.

Mr. MOLONEY. I did not.

Mr. AVERY. One was the guaranteed lease as an appropriate item, item for the usage of the proceeds of the loan?

Mr. MOLONEY. Well, the industry would be in favor of that and I think, having in mind what Congressman Younger has said about the type loans that are made in the financial world, if we lay aside this question of security, of adequate security, I think there is every reason to guarantee the loans made for the purpose of leasing the equipment that will be placed in the public service as there is for buying it. After all, the question of the security in the first place runs to the private lender—I mean the physical property. And it happens in the lease situation, the fellow who is leasing you the property has the title to the security, so to speak.

Mr. AVERY. Those comments will probably be appropriate for the other suggestion, and that was that in order to use the proceeds to

rebuild equipment, that the rebuilt equipment, as I understood it, then would become security at its new value for the loan?

Did I interpret that right, his position right?

Mr. MOLONEY. Yes, sir. I am not sure I follow how the rebuilt equipment then becomes security for the new loan. I frankly will prefer just not to attempt to explain that particular proposal. It is one that I have not heard of, and I have not had time to think about or to think through.

It might be that when I understand it that industry would be 100 percent for it. I just do not know.

Mr. AVERY. That is all, Mr. Chairman.

Thank you, Mr. Moloney.

Mr. ROGERS of Florida. Mr. Thomson?

Mr. THOMSON. No questions.

Mr. ROGERS of Florida. Thank you very much, Mr. Moloney. We appreciate your taking time and giving the committee your testimony. It was very helpful.

The next witness will be Mr. W. R. Gerstnecker.

**STATEMENT OF WILLIAM R. GERSTNECKER, TREASURER,
PENNSYLVANIA RAILROAD CO.**

Mr. ROGERS of Florida. We are glad to have you, Mr. Gerstnecker.

Mr. GERSTNECKER. Thank you.

Mr. Chairman, with your permission I would like to file my statement, but I would request also permission to spend perhaps 5 minutes in summarizing it.

Mr. ROGERS of Florida. That will be fine, and without objection the statement will be made a part of the record at this point, and we will be delighted to hear your remarks.

(The prepared statement of Mr. Gerstnecker referred to is as follows:)

**STATEMENT OF WILLIAM R. GERSTNECKER, TREASURER, THE PENNSYLVANIA
RAILROAD CO.**

My name is William R. Gerstnecker and I am treasurer of the Pennsylvania Railroad Co. My office is located at Philadelphia, Pa. I have been in the financial department of the company since 1932 when I was first employed. I became assistant treasurer in 1951 and have served as treasurer since April 1, 1955. I report directly to the vice president of finance and, under his direction, my duties have given me a familiarity with the problems involved in financing the capital and other money requirements of the company and its many subsidiaries. This, of course, has given me general knowledge of the present credit position of the railroad industry and the many problems incident to the raising of capital for railroad purposes.

At the outset, I wish to express our support for the principle embodied in the bill, H.R. 1163. It is quite apparent to everyone that the loan guaranty authority of the Interstate Commerce Commission has been very helpful to certain railroads and is, in fact, still essential for them. Also, I wish to associate myself with the position taken by the witness for the Association of American Railroads in urging that this authority be extended, not just until March of 1962, but for at least 2 years beyond its present expiration date. The principal purpose of the present arrangement is to aid the railroads in acquiring and maintaining adequate facilities so as to encourage the employment of labor and preserve a sound national transportation system. To accomplish this purpose involves considerable advance planning, engineering and research on the part of a railroad, and it would materially enhance our ability to do all of these things

if the possibility of obtaining loan guarantees is assured for a reasonable time in the future.

In addition to urging extension for at least 2 years, I strongly urge an amendment to the present law broadening the ICC's authority to include the guarantee of loans made for the purpose of refunding bonded-debt maturities. This should apply not only to maturities on or after the date of the amendment, but also to reimbursement of funds used to pay the whole or any part of such a maturity which has occurred since January 1, 1960. I make this suggestion because, as I will show in some detail, the present law is deficient in not permitting loans in connection with debt refunding. As a matter of fact, the purposes and objectives which Congress had in mind in the 1958 act cannot be fully achieved without taking into account the important consequence to certain railroads of having to refund substantial debt maturities without the aid of Government guarantee.

There has been a steadily deteriorating trend in the credit position of railroads during recent years and their securities are no longer generally acceptable in financial markets. There are a host of reasons why this is so, but one of the basic causes has been the steady reduction in railroad working capital, even in the case of a road as large and fundamentally sound as the Pennsylvania. I know of no more revealing demonstration of this than to compare working capital as it stands today with the situation which existed only 5 years ago. By working capital I mean the difference between current assets and current liabilities, less maturities due in 1 year and materials and supplies. In 1955 it amounted to more than \$550 million and was equal to almost a month and a half of payroll. By the end of last year it had declined to about \$110 million and was equal to only a little more than 1 week's payroll. On the Pennsylvania our working capital in 1955 stood at \$20 million, but this has now been eliminated entirely and we are in a deficit position of \$54 million. Bear in mind that this has taken place on the Pennsylvania even though we have succeeded in selling off properties no longer required, in an average amount of over \$10 million a year. However, we have now reached the point where we can no longer rely on this source of cash for the future, and I have no doubt the same condition exists for many roads.

This virtual disappearance of working capital has meant a drastic reduction in capital budgets and maintenance expenditures because railroad managements are compelled to conserve cash wherever they can. A most unfortunate consequence has been a precipitous decline in railroad employment with which you are all familiar. In addition, we are left without any cushion against unexpected emergencies such as sharp declines in business or costly work stoppages. An example of the latter was the 12-day complete shutdown of our operations last September due to a strike of some of our maintenance unions. This alone cost us \$40 million in revenues, and came before we had recovered from the effects of the 3½-month steel strike the previous year. Add to this, if you will, the burdensome costs of severe winter weather and floods such as have been experienced recently. In other words, we do not have the cash resources to withstand emergency situations to the degree which every business simply must have.

Under these circumstances, one of our most difficult problems is meeting our debts as they mature. Unlike other industries which may be able to make substantial cash payments on their debts at maturity, most railroads must be in a position to refund them to a maximum extent because the cash is not in hand. There is only one way of meeting this situation and that is to have an available source of credit when it is needed for maturity refunding. On the Pennsylvania we were able to take steps a number of years ago to alleviate this situation by arranging for a standby commitment with a group of banks to lend us \$50 million at a favorable interest rate, and this credit continues to be available to us. Unfortunately this type of arrangement would not have been available to all railroads and would probably be available to only a few at the present time, even though the need for this kind of credit insurance is more urgent than it ever was.

It should be emphasized that this whole matter of debt maturities by its very nature imposes limitations upon the ability of a company to undertake necessary improvement programs. I think I can best illustrate this by our own experience on the Pennsylvania. Last year we carried out one of the largest equipment acquisition programs ever undertaken by any railroad at one time. It involved 23,500 freight cars. We would not have been able to do this if we

had not, over the period from 1952 to 1960, reduced our total system debt from about \$1,116 million to \$853 million, including the advance acquisition of a substantial amount of bonds maturing in 1960 and yet to fall due in 1965. Thus, we carried out a continuing program of debt reduction which involved getting our large maturities down to manageable levels, and this contributed materially to our ability to undertake a major equipment program. In other words, the reduced maturities which we faced provided assurance that we would be able to find a normal source for the credit to refund those securities.

For the railroad industry as a whole the debt maturity situation can be shown by a few statistics. Bonded debt maturities of all class I railroads, including their leased lines, in the years 1961, 1962, and 1963 will be between \$50 million and \$60 million annually. Looking ahead to the year 1965 the total of these maturities will aggregate over \$400 million. This problem does not face the industry as a whole but may actually bear most heavily upon a very few railroads, many of whom may be in a poor position to meet it.

To give you a clearer picture of what this problem can mean, I would point out that today the form of railroad security most attractive to investors is railroad equipment securities. However, there are actually only two financial houses bidding for these securities and they are not willing to handle more than \$5 million worth at any one time. With this picture before you, I think you can understand how much more serious is the problem to railroads generally, and particularly to those in a weaker financial position, of successfully marketing securities in connection with the refunding of mortgage and other general obligations secured by railroad plant, including passenger stations and facilities.

I can now summarize the reasons for broadening of ICC guaranty authority to include loans in connection with bonded debt maturities. First, as I have pointed out, the existence of this authority will help to a degree in preventing further drastic decline in railroad employment as a result of reduced capital budgets and maintenance programs. Second, it will give the financial officers of railroads which are faced with substantial bond maturities the essential means and flexibility for meeting such maturities without serious consequences in other areas. Finally, as I have already mentioned, some of these debt maturities are secured by liens on passenger terminal properties and you can understand why the present money market is not interested in that type of security. Yet at the same time, the Federal Government as a matter of policy seeks to preserve adequate railroad passenger transportation facilities to meet the needs of the public and of the national defense. My own company participates, for example, in the ownership and use of the Union Station at Chicago, which is owned by Chicago Union Station Co. That terminal company is presently faced with a bonded debt maturity in the amount of about \$46 million which will come due in 1963 and which will have to be refunded. In fact, over the next 5 years the bonded debt maturities of all switching and terminal companies owned by class I railroads will aggregate more than \$90 million. This is another area in which availability of Government-guaranteed loans may be required to relieve railroads from continuing economic pressure to reduce or eliminate such facilities.

I am concerned that the next year or so may bring about a further decline in the credit position of the railroads and that some of them may be faced with maturities which they cannot handle. If that develops, the only present recourse is to default in the payment and resort to bankruptcy or other reorganization proceedings. I think you will want to take whatever steps are necessary to prevent this from happening and I, therefore, urge that you give favorable consideration to the amendment I have suggested.

Mr. GERSTNECKER. My remarks in the statement which is filed are concerned with two principal areas.

First, we are urging and recommending the extension of this authority for at least 2 years. It is our feeling that managements and people handling financial policy will do more toward enhancing the purposes of the bill by planning expenditures which take considerable research and engineering if they are assured that the authority and the availability of the guaranty will be there for a reasonable

time in the future. And it is our feeling that a year does not assure managements adequate time to program basic improvements.

The second point is we are considerably concerned, and I am particularly as I have tried to raise money for the Pennsylvania Railroad, about the impact of impending maturities upon the railroads. So I am urging that in the extension it be made possible for railroads to have a loan guaranteed whose purpose was to refund a maturity.

I know on the Pennsylvania we have serious maturity problems in the decade of the sixties. We set about a program about 8 years in advance to reduce those maturities to manageable proportions, and it was not until we had done so that we found the public was willing to lend us any money to carry on improvement programs that were really vitally necessary. And as a result of the program we adopted, which reduced maturities below the risk area, we were able last year to accomplish an equipment acquisition program covering 23,500 cars that involved the expenditure of \$260 million, which was for one company alone a larger amount than for the rest of the industry combined.

I know there are some railroad companies, who, during the period of the next few years, have maturities coming upon them for which there is no ready refunding market.

These maturities are secured by, in many cases, passenger terminals, railroad property generally, and there just is no ready market for them to refund those maturities as they come due. And I think this is important. We have a situation in the market where even the most acceptable and attractive railroad security; namely, an equipment trust certificate, cannot be offered and sold in the market in amounts in excess of \$5 million at any one time.

There are only two investment banking houses which bid on those securities. The source of funds is extremely limited.

It is for that reason that I feel that if managements knew there was a source of credit to refund a maturity, they would be much more likely to carry on programs that would employ more labor, bring about better service, and be more inclined to take the risk of doing this than they are now.

I would call your attention particularly, speaking of class I railroads as a whole, that in 1946 the working capital amounted to \$1½ billion. That was equivalent to four and a half months' payroll.

By 1955 that had been reduced to \$500 million, equivalent to about 1½ months of payroll. As of the end of this year the situation is that it has been reduced to a point where the working capital is equal to 1-day's payroll. I think it is 1 day. I would like to check my records on that.

On the Pennsylvania Railroad alone our situation has been that we have seen, since 1955, a decline in working capital from \$20 million to an actual disappearance of working capital, and we now have a deficit position of \$54 million. And in such stringent cash circumstances, this imposes on us real budgetary controls over our capital expenditures, and all the things which I think create the labor and expenditures this loan authority is intended to create.

Mr. ROGERS of Florida. Thank you very much, Mr. Gerstnecker—excuse me.

Mr. GERSTNECKER. I do want to give you that figure accurately if I may.

Mr. ROGERS of Florida. All right.

Mr. GERSTNECKER. It is 1 week.

Mr. ROGERS of Florida. One week.

Mr. GERSTNECKER. It has declined from 4½ months to where it amounts to just 1 week's payroll.

Mr. ROGERS of Florida. Thank you.

Mr. Younger?

Mr. YOUNGER. I would like to ask the witness in regard to these maturities, they are all secured?

Mr. GERSTNECKER. Yes, sir; I would say most of them are; yes, sir.

Mr. YOUNGER. And you would have in mind continuing as far as the loan guarantee is concerned, the same security that secures the maturities now?

Mr. GERSTNECKER. Yes, sir, I would.

Mr. YOUNGER. What would be your idea to issue a bond or—

Mr. GERSTNECKER. Well, I think I might use just an example. I am not indicating that this might happen, but Chicago Union Station Co., where we are a part owner, has maturities coming due in 1963, and they amount to \$40-odd million. The bonds which have been issued and which mature on that station are a first lien on the station properties.

Without the guarantee of the railroads, and perhaps even with the guarantee of the railroads, if there is not an improvement in earnings by that time, I think it can be very likely that those bonds cannot be refinanced satisfactorily or perhaps not at all. Passenger facilities are not attractive security for loans. Yet I think it may very well be reasonable for the station company and the users to repay that debt. It is being paid off every year. It is a matter of happenstance as to just exactly when a maturity happens to hit a railroad company.

I think the railroad company has shown an excellent record of retiring debt, and I would suspect that the Chicago Union Station could reasonably repay this loan. I put myself in the investment officer's position of an insurance company, and I question whether I would have, with the current demand for money, an inclination to buy a Chicago Union Station bond as compared to the many other attractive issues, and I would probably have no alternative but to turn them down.

We found this out when the Pennsylvania had a \$35-million maturity, which we met in 1960. We planned for it. We think we were fortunate that we were able to refund \$35 million successfully. I think it may not have taken very much poorer market conditions for us not to have been able to meet that maturity.

Mr. YOUNGER. Is that \$40 million on the Chicago Union Station the total balance?

Mr. GERSTNECKER. Yes.

Mr. YOUNGER. Or is that just one—

Mr. GERSTNECKER. No, all Chicago Union Station debt comes due in 1963, in August 1963.

Mr. YOUNGER. Is that the total debt?

Mr. GERSTNECKER. The debt is higher than that right now. By 1963 that is where it will be. It is the total debt, yes, sir.

Mr. YOUNGER. Now at the time we passed the 1958 law, the Pennsylvania Railroad president was here and made an appearance and indicated that they would have to have this guarantee. You found no necessity for it, I take it, because you did not show up on the list of loans.

Mr. GERSTNECKER. To date we have not found it necessary to use it, that is correct, sir.

Mr. YOUNGER. That is all.

Mr. GERSTNECKER. I would like, if I may, to add to some discussion I heard about that. I think it is not quite fair to consider the value of the guarantee as related to the number of railroads who have used it. What I am saying is that because it is available we have been able to operate at lower levels of working capital and plan differently than we would have been able to plan had we not known that we had the assurance if we ran into any difficulties that the loan guarantee was in existence.

Mr. ROGERS of Florida. Yes.

Mr. AVERY. Isn't that about the same as the FHA works on housing? There is a substantial capital available for individual loans on houses that would not be available if it was not for the psychological factor of the FHA as a potential it up. And that is a pretty good illustration of what you guarantee.

Mr. GERSTNECKER. I think that is right, sir.

Mr. AVERY. Just to refine your discussion with Mr. Younger here, are you suggesting that a further amendment be added to this 1958 act whereby the ICC would be authorized to guarantee loans for maturities?

Mr. GERSTNECKER. Yes, sir.

Mr. AVERY. Which presently is not authorized under the act?

Mr. GERSTNECKER. Yes, sir.

Mr. AVERY. Would you like to prepare an amendment to that effect and have it available to us by the first of the week?

Mr. GERSTNECKER. We will have counsel supply that to the staff.

Mr. AVERY. All right.

Mr. YOUNGER. We are going to meet in the morning so we better have it.

Mr. GERSTNECKER. You can have it here tonight.

Mr. YOUNGER. Leave it with our secretary.

Mr. AVERY. Do not construe that question as any assurance it will be included in the action of the committee. But if it is to be considered, and you have one prepared, it might save us a lot of time in providing it to us.

One more question, and this is a matter of public record, or public conjecture at least. What do you figure the 1960 strike cost the Pennsylvania Railroad?

Mr. GERSTNECKER. The strike of our shop employees, which closed us down completely, cost us \$40 million of revenue. How you convert that into what the income would have been we are not sure, but our figures show \$40 million of revenue had been lost, a good deal of which we do not think we will get back. And that came on top of the prolonged steel strike, before we had a chance to recover

from that. And basically a steel strike, during which we have to operate the rest of the railroad is more costly and has a worse effect on us, even, than closing down in a strike of our own. Because we were carrying on all of the very costly operations without any of the beneficial traffic. And that lasted $3\frac{1}{2}$ months. And these are the things that we think today are giving us problems but we are optimistic about in the future. We are going through a period similar to the thirties when many of us had Government loans, all of which were repaid, and during that time we made very beneficial improvements. The Pennsylvania electrified its line from New York to Washington and repaid every nickel of that money.

Mr. Avery. Thank you, Mr. Gerstnecker.

Mr. ROGERS of Florida. Mr. Gerstnecker, I may ask this for the record: If the act is broadened to include these refundings which you suggest, what do you feel about the limitation as to paying dividends? I think that is section 504(b).

Mr. GERSTNECKER. I think it should not apply to refundings. On the other hand, I agree that it should to the maintenance as it does today. But I do not think it should apply here.

Mr. ROGERS of Florida. Thank you very much. We appreciate your patience in sitting with us and testifying at this late hour.

Now Mr. P. B. McGinnis, president of the Boston & Maine Railroad. Is Mr. McGinnis present?

All right, we will move on to Mr. W. B. Johnson, president of the Railway Express Agency.

STATEMENT OF WILLIAM B. JOHNSON, PRESIDENT, RAILWAY EXPRESS AGENCY, NEW YORK, N.Y.

Mr. ROGERS of Florida. Mr. Johnson, we are pleased to have you here.

Mr. JOHNSON. I want to thank the committee for staying with us, because I have a suggestion to make which I think could be of great importance to our company, and I am indebted for the opportunity.

Mr. ROGERS of Florida. Do you have a statement?

Mr. JOHNSON. Yes, I do.

Mr. ROGERS of Florida. Would you like to file that for the record?

Mr. JOHNSON. I would like to file that and just talk for a few minutes to save the committee's time.

Mr. ROGERS of Florida. Without objection your statement will be made a part of the record at this point, and we will be pleased to hear your remarks.

Mr. JOHNSON. Thank you.

(Mr. William B. Johnson's statement follows:)

STATEMENT OF WILLIAM B. JOHNSON, MARCH 1, 1961

My name is William B. Johnson. I am president of Railway Express Agency, Inc., which we now call REA Express. The address of the company's headquarters is 219 East 42d Street, New York, N.Y.

I appear to urge that the loan guarantee provisions of the Transportation Act of 1958 (secs. 501 through 510 of the Interstate Commerce Act, 49 U.S.C. 1231-1240) in addition to being amended to extend the termination date also be amended to include express companies within its provisions. This can be done by inserting in section 501 after the words "common carriers by railroad"

the words "and express companies," and by inserting in sections 503 and 504(b) after the words "common carrier by railroad" the words "or express company."

REA Express serves approximately 23,000 communities in all 50 States, plus a few in Canada, through approximately 10,500 offices. We have through-bill-of-lading service to and from 41 foreign countries through agreements with carriers operating to, from, and within these countries. In the United States REA operates over approximately 153,000 miles of railroads, 132,000 miles of highway, 6,800 miles of water, as well as 132,000 miles in the air. We have about 32,000 employees. We are essentially a small shipments carrier handling 66 million shipments per year with an average weight of 48 pounds. We are subject to both parts I and II of the Interstate Commerce Act and to the regulatory authority of all 50 State commissions as well as 3 other Federal commissions.

I have testified before congressional committees on a number of occasions with reference to the extreme difficulties in which the express business found itself in 1958 and 1959 and I shall not repeat this story in detail. I must, however, refer to it in order to show why we desire to be included within the loan guarantee provisions.

Express traffic has dwindled steadily since the end of World War II and the express portion of the railroads' passenger service deficit remained large through most of these years. It was estimated that on a bare out-of-pocket basis the railroads lost about \$40 million on the express business in 1958. It was evident that this situation could not continue and it appeared almost inevitable early in 1959 that the business would either be liquidated or nationalized—probably the latter. However, by reason of drastic measures and a reorganization of the terms of the express contract between REA and the railroads the continuation of the business for a trial period was accomplished. We are still in the trial period and much remains to be done.

The evil days of the express business were due both to external—principally the below-cost competition of the Government's parcel post service—and internal causes. The important internal causes were the necessity of operating the business on traditional, outmoded, and uneconomical lines and the provisions of the express contract relating to accounting to the railroads for their portion of the gross revenues from the business. In a word, the express company collected the gross revenues from the public for the complete express service, paid its own expenses (largely incurred in terminal service including pickup and delivery) and turned over the remainder to the railroads which perform inter-city transportation of express. The express company always broke even—it could not have either a profit or a loss. Its management not only did not have the incentive and discipline of a profit-and-loss statement, it had no way of measuring the unit cost of line-haul transportation. As I said earlier, the amounts actually turned over to the railroads were insufficient to cover the out-of-pocket expenses incurred by them in furnishing the line-haul transportation.

When the railroads concluded in 1959 to continue the express business for at least a trial period there were two chief objectives which they determined to achieve. First, they determined to terminate within a reasonably short time the out-of-pocket losses which they had been incurring. Second, they concluded that this could best be achieved by giving the express company a much greater degree of independence in managing the business. The new contract gave REA the right henceforth to conduct its operations in the most efficient and economical manner without regard to traditional methods of routing traffic and handling at origin and destination. It was also given the opportunity, commencing July 1, 1961, of making a profit or suffering a loss. If the business is to continue for any considerable length of time, it must of course yield profits rather than losses.

In order to achieve this result many changes in operations are necessary and many of these require substantial capital expenditures. Many of our terminals are badly outmoded and inefficient. A few new ones, all of relatively small size, have been completed and put into service—at Kalamazoo, Mich., Lakeland, Fla., and three on Long Island. Several more are in the course of construction: in Westchester County, N.Y., in Evanston and Waukegan, Ill., and Rochester, N.Y. A major rearrangement of terminals is about to commence in the San Francisco area, one is planned in the Boston area, and intense study is being made of facilities in New York City. Much more remains to be done. Not only must new terminals be constructed but they must be equipped with con-

veying and sorting machinery. Some present terminals which are adequate for the time being as to size and location must similarly be equipped.

Although our motor vehicle fleet has been partly replaced by new vehicles during the last few years, we are still operating many trucks, tractors, and trailers of excessive age. In addition to the replacement problem, a greater number of units will be required due to the wider terminal areas which we are putting into effect and to the increase in short-haul over-the-road truck routes made necessary in large part by the discontinuance of uneconomical short-haul and branch-line passenger train operations.

To summarize, the company has made substantial strides in the last 2 years and the express deficit of the railroads has been reduced from \$40 million in 1958 to an estimated \$10 million in 1960 (it would have been about \$7½ to \$8 million had it not been for the disastrous snowstorms in December). Further progress can undoubtedly be expected, but only with the expenditure of substantial amounts for capital improvements. These expenditures are extremely important to the assured continuation of the express business in private enterprise transportation.

All of these capital improvements must be financed and practically all on a 100 percent basis. We do not have money for downpayments. I have referred to the fact that the express company for many years has never been able, under its accounting arrangements, to make a profit. As a result, all capital improvements had to be made from depreciation accruals and there was no opportunity whatsoever to build up a fund for such purposes. At the end of 1959 REA had \$96,500 of capital stock outstanding, some \$27½ million of notes representing advances from the stockholders (64 railroads), and a little over \$20 million of equipment obligations. And, of course, there is no surplus or undivided profits reflected on the balance sheet except nominal amounts.

Added to this financial picture is the fact that we require 100-percent financing, with the purchase price of the property to be paid almost entirely out of its own depreciation account. It should be clear that financing under these conditions solely through private means may prove difficult. Financial institutions can be expected to be particularly reluctant to extend loans on a 100-percent basis over the entire useful life of the property. The railroads are also understandably reluctant to put more money into the business until it has been demonstrated for a certainty that it will no longer be a losing business. In addition, as the committee well knows, many railroads at the present time are unable to make such investments even if willing. At the same time I am confident that with the improvements in operations which will result from the contemplated expenditures we will actually be able to meet our obligations.

I believe these facts warrant the inclusion of express companies within the loan guarantee provisions and that such inclusion will be in the public interest as a possible emergency measure for preserving the express business in private enterprise.

Mr. JOHNSON. Mr. Chairman, and members of the committee, I am the president of Railway Express Agency which we now call REA Express. I think you all know that it is a very old organization, or at least its predecessors are—122 years old.

We are primarily in the small shipments business. We handled 66 million shipments last year for the public, operating in all 50 States of the Union and with direct through service to 41 foreign countries. We are wholly owned by the railroad industry. Sixty-four railroads own our stock. The railroads acquired the stock and the ownership of the company in 1928 at urgings, I understand, of the Interstate Commerce Commission.

The purpose of my appearance here today, to put this in focus, is to suggest and request that the act, if extended, be expanded to include application to express companies subject to part 1 of the Interstate Commerce Act. We are subject to part 1, and I think we are the only express company that is subject to part 1.

I have suggested in my statement language by which that might be done, and it is very simple, but just to clarify it, we have worked out

here the precise language which would be necessary to do it, and if I could, Mr. Chairman, I would like to file this language also, because it shows exactly what would be necessary to put us under this law. And in view of the committee meeting tomorrow, I would be very anxious to file this.

Mr. ROGERS of Florida. Well, suppose you give that to our committee clerk and he will take it before the committee.

Mr. JOHNSON. As I say, we historically are a railroad-owned company. We do, however, use all forms of transportation. We use motor common carriers, we operate trucks of our own, we use railroad-owned trucking operations. We have a \$50 million air express gross revenue a year. We have contracts with virtually all railroads in the country, virtually all airlines in the country, some water carriers, and I think we have 490 contracts with motor common carriers. Our business is primarily that of handling, gathering, distributing, and handling small shipments, and in terms of ton-miles we are operating primarily on passenger trains. Now perhaps the members of the committee have read, or heard, that the express company has gone through a succession of crises, and the worst by far and the most important, I think, being one which began in Christmas of 1958. At that time we had about 37,000 employees. Our gross revenue was about \$400 million a year. As I say, we were providing this national coverage. We had 10,500 offices opened—well, more than that, actually, at that time. We were handling, I think, about 72 million shipments a year. And in spite of all that, the out-of-pocket express loss incurred by the railroads in 1958 was about \$40 million as a result of this business. The crisis became so acute in the New York Central Railroad, which was losing a great deal of money—and you remember things were so bad in 1958 that the Central concluded it just could not take these losses any more and exercised their right to withdraw from the uniform type of contract.

Under that agreement, which has been approved by the commission, this opened the path for only one conclusion, liquidation of the express company. This was a prospect which, of course, no one liked, putting 37,000 employees out of a job and discontinuing a service to over 20,000 communities in this country, which would have been, as one of the members of the preceding administration's Cabinet told me, a major adverse development on economy.

Today is my second anniversary as president of the company. That was the situation we were in when I took the presidency, and my mission, given me by the board, was to try to get the company reorganized, or to find a way out of this crisis.

To do that we resorted to some very drastic economy measures. We consolidated departments internally, we necessarily laid off some 3,300 employees that we figured we could do without in order to save money, and we reduced our payroll and other expenses within a short period of about 5 months by an amount equal to \$24 million a year.

By doing that we cut the out-of-pocket express deficit down enough so that all the railroad stockholders and other contracting parties were able, with some degree of hope, to address themselves to the possibilities of reorganization of the company in its operations.

It was necessary because of the terms of the agreement to secure unanimous consent of 178 railroads in order to do that. And unani-

mous consent of Congress, I understand, is a little difficult to get sometimes, but, gentlemen, unanimous consent of 178 railroads to a new contract with about 60 pages is very difficult. But we did secure it, and on the basis of that were able to write new contracts which have really changed the way of life for the express company.

Also we negotiated new agreements with all the airlines, and in what I think is a rather short time, about 10 months, we had completely rewritten the foundations of the contracts by which the company is operated.

If we had not done that at that time, liquidation of the business would have been a necessity. The only other alternative that was likely was nationalization, and there has been talk about nationalization here today.

I think we are the only company that has actually had a bill introduced in the Senate, Senate Resolution 8, in 1959, providing for nationalization of the Railway Express Agency.

So we know what it is to stand face to face with the prospect of having our entire company, all of its national and international operations nationalized, acquired by the Federal Government and operated by the Federal Government under Government ownership.

Our effort has been to modernize, to economize, to improve our service, and to try to get the company in a position to stand on its own feet. The express losses go into this passenger deficit category, the passenger deficit loss. And as I think you all know so well, the railroad industry was in no position to absorb these big passenger deficit losses, and it had to be borne proportionately by all the railroads, including the New Haven, the New York Central, the Boston & Maine.

Now, the reorganization contemplates, first, that we stand on our own feet and pay our own way. The thought is that the express business, this much of it, must stand on its own feet. The railroads cannot subsidize express losses in the future.

Secondly, to do that the decision was made for the railroads to surrender all traffic rights which they had previously retained under contracts, requiring routing by rail, exclusively, and the railroads agreed to give the management authority to route the traffic the best way, by motor, air or whatever it might be, or to divert from one railroad to another, to discontinue rail service entirely in certain areas on some certain lines, and to do whatever was necessary to get the maximum efficiency in the operation.

Well, we have used that authority extensively, and I think with care, but we have used it, I believe, with a good bit of success. I think we saved about \$6 million a year by that authority.

In addition, we have straightened out our rate structure, made rates which are more realistic. I think we have moved along.

Now, I would just like to say, as an indication of what I believe we have been able to accomplish, we have reduced in 2 years that out-of-pocket express losses on an annual basis from \$38 million, when I took the presidency 2 years ago, and in 1 year had it down to \$14 million, and last year, in 1960, I think the out-of-pocket express loss was about \$10 million, \$10.5 million.

So we have eliminated about 75 percent of the out-of-pocket express loss, which was \$38 million, within 2 years. That would have been a

somewhat better record but for the strikes that we have been talking about, and snows, and cold weather.

But I believe that the express company can be operated on a break-even basis or better. I believe it has a great capacity for service through its national coverage and use of all forms of transportation, and I think it is something that the public has—I know the public has—a great interest in, because the shippers tell me so.

I believe it is in the public interest for this company to stay in business, and to stay in business in private enterprise rather than in Government ownership, as was contemplated by the resolution introduced in the Senate in 1959. And actually, a hearing was held on that.

Now, this is why I am here. We have 12,000 trucks; we have a lot of terminals. A lot of these terminals are owned by us but are on railroad-owned land. A lot of these railroads, because of their drastic financial condition, have been forced to sell their land out from under us, and we have had to get new terminals. And even if they had not been forced to do it, and this is happening every day, almost, even if we hadn't been forced into other quarters, the terminals were inherited, most of them, 20 or 30 years ago when the company was organized from the old American Railway Express Co., and they are obsolete, they are not automated, their working conditions are not good in many cities such as Harrisburg on the Pennsylvania Railroad, and many others. They are not efficient.

One of our major tasks is to modernize our terminal facilities. This is where our men work. I think about 20,000 of our people work in our terminals.

As to the trucks, we have a great many trucks which are overage. Now, we have spent, and I think this is an accomplishment, in spite of the fact that this company was on the verge of liquidation or nationalization, with no foreseeable way of life, just 2 years ago—we have since that time reorganized the company, renegotiated all the contracts, started out on a new way of life, and committed \$16 million in capital expenditures. But that money is all on 100 percent loans for trucks, or it is taken out of depreciation.

We have excess depreciation of about \$6 or \$5.5 million a year, and we have just taken that money and put it into new terminals, and the returns are very good. And they had better be good, because this is one of the few methods that we have for eliminating the remaining \$10.5 million of that out-of-pocket deficit.

So this is the course that, with the approval of the railroad board of directors, we have proceeded along to try to get the company on a sound basis and preserve its services and the jobs of its 32,000 employees. But we are in a transition period. Beginning in July of 1961, we are scheduled to lose all the railroad assurance of subsidy, the underwriting of our operating losses by the railroads. We go on a fixed-payment basis on July 1, 1961, and from that time on we will be obligated to pay our bills to the railroads as well as to others.

Previously the railroads never charged us for line haul service, they just gave it to us and at the end of every month we just gave them all the money we had left. The result is, we do not have a nickel of reserve; we do not have any funds that we can fall back on.

Now, if our expenditures, including the payments to the railroads for line haul service—and heaven knows they have made them as low as they possibly could—if those expenditures exceed our operating revenues, we will be bankrupt in a very short time. It could happen in 2 to 3 months after July 1961. We do not think it will happen, and our forecasts indicate we are going to be all right, with a little upturn in economy.

I think we can continue to borrow some money for motor carrier equipment on 100-percent loans, but certainly the banks advise me that they are going to ask whether there is a reasonable prospect of repayment. With no reserves, and with a fixed obligation to pay the railroads for line haul service, the banks will not have the lien on the gross revenue of the company as they have historically, and, therefore, there has to be something in the nature of establishment of credit in order for us to borrow money to keep our truck fleet in good condition and to modernize our terminals and to put the company in the black.

My primary interest in seeking inclusion here is founded on the knowledge that our difficulties come in part from the difficulties of the railroads, which this bill is designed to do something about. The railroads do not have capital to put into this company any further. They cannot subsidize their operating losses. And there is certainly a question mark, or will be, as to what will happen to us in this new attempt to stand on our own feet after this transition takes place in July of 1961. I think we need about \$20 million for terminals. I think we have to borrow all the money because we do not have any for down payments.

All of our money went to the railroads for transportation, and even that was not enough. And terminal modernization is vital if this company is to do a good job for the public at reasonable rates, and we certainly know that our future depends on our doing that. That is our purpose, and it is the only way that we will survive. That is why we simply ask that we, as part of the railroad family, subject to the same problems and tied in with the railroads' difficulties resulting from the passenger deficit and those resulting from a lack of capital and from the fact that the railroads are selling our land out from under us because they have to do that in order to survive, be included. We see the definite possibility that we might need to look for Federal guaranteed loans. I hope we do not. But it is my job to look ahead. And in this transition, if we are going to keep the express company in service, do a good job for the public, I have to think of the possibility that to modernize our facilities we may need some guarantee under these provisions. And, of course, I would join the others in saying that 1 year would be too short a period for us, probably, to do much good. I think we will have a pretty clear picture of the future of the express company in 2 years. And I do not think we need any subsidies, but I think our credit, because of our 30 years of accounting in a way which gave us no reserve whatever, may need some bolstering.

Also I would like to comment on Chairman Hutchinson's mention of the extension from 15 to 25 years. That would be of particular importance to us because, unfortunately, we are depreciating some of our terminals on a 50-year basis, which is absolutely asinine. They do not last that long. They will be obsolete. We are in a transportation revolution, and we need to depreciate on a shorter period. And I

think 25 years would be a reasonable period, and that period of loan would then coincide with the reasonable depreciation. So I would just like to endorse those two suggestions also.

I will be glad to answer any questions. I know it is late.

The CHAIRMAN. Any questions?

Mr. ROGERS of Florida. No. I would just like to say, Mr. Johnson, I think you did a very fine job in pointing out your need for relief.

The CHAIRMAN. Mr. Avery.

Mr. AVERY. I would just like to say this: If the committee would not see fit to include the authority that you are requesting, Mr. Johnson, I would not be discouraged. You have impressed me today, that consideration should be given to your suggestion. On the other hand, it is a rather bold step to take if we are going to try to take final action on this bill tomorrow morning, with four of us hearing your testimony this afternoon, and then try to explain it to the full committee tomorrow in time to take final action.

I would like to suggest that you explore the possibility of having a bill introduced seeking to do what you are suggesting, if it is not included here tomorrow in the final action taken by this committee, either on this side or maybe over on the Senate side.

Mr. JOHNSON. I appreciate that suggestion, sir, and I certainly would be interested. However, as you cautioned the previous witness, I would hope that I should not accept that as a suggestion that it won't be given consideration.

Mr. AVERY. Of course it will be given consideration.

Mr. JOHNSON. Well, I will take that into consideration. I find, however, that we have, for some purposes, always been treated as part of the railroads, and some of that I regret, to tell the truth. However, for other purposes we seem to be forgotten when consideration is given to the conditions of the railroads. And this is one of those instances where I think perhaps we slipped in not being here earlier.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Johnson.

Mr. Shoemaker.

STATEMENT OF PERRY M. SHOEMAKER, VICE CHAIRMAN OF THE BOARD, ERIE-LACKAWANNA RAILROAD CO.

Mr. SHOEMAKER. Mr. Chairman and gentleman, I appreciate the privilege of testifying before the committee.

My name is Perry M. Shoemaker. I am one of the railroad presidents who has marged himself out of a job. After 8 years with the Lackawanna, I became vice chairman of the merged Erie-Lackawanna last October. I have enjoyed some experience in Government work, having been Chairman of the second Hoover Commission Transportation Study Group.

I would like to endorse the statement which Mr. Johnson just made to the committee with respect to the Railway Express Agency. I am a director of that agency and have been for some years. I share Mr. Johnson's hope that we will not need to come to the resort of a Government guarantee for funds for the agency, but it is vital to the future of that organization that its terminals be modernized. Equipment

probably can be financed, but terminals must be modernized, and it is going to take money to do it. And I think Mr. Johnson's request shows due managerial prudence in attempting to find an avenue of funds for an organization that has no history of income credit.

I think your suggestion, Mr. Avery, is very pertinent in case the committee is not able to consider it favorably at its meeting tomorrow.

Now section 510 of the act made available to the railroad industry a source of funds through the guarantee provisions under which an individual railroad with limited credit, or no credit, would have some possibility of securing cash. Now understandably, and in spite of the precarious financial position of many of the eastern railroads in particular, there has been that limited utilization of this credit device.

The industry has been involved in conflicting economic pressures during a time of rapid change in distribution practices; during a time of rapid expansion of Government-provided competition in transportation facilities and a general business recession came into the picture not long after the Transportation Act of 1958 became a statute.

No businessman desires to increase the indebtedness of his company unnecessarily. No businessman invests in new equipment and facilities if there is uncertainty in his mind as to the payoff of such investment in the light of changing conditions, and certainly the railroad industry has been impressed with its responsibility for self-help.

Among the steps taken for self-help has been the merger of the Erie and Lackawanna Railroads.

The current hard-goods recession has had a seriously adverse effect upon the Erie and Lackawanna Railroads, both before and since merger. We had a net income deficit in 1960 of almost \$20 million. Our cash position deteriorated approximately \$10 million. Storm and strike situations since the middle of December have caused us to lose another \$2.5 million in lost revenue and extraordinary expenses.

In the meantime, labor injunctions against furloughing or transferring people have impaired the consolidation of merger and the development of savings therefrom. In Erie-Lackawanna's case, with \$13.5 million in merger savings anticipated, we find ourselves in a cash-and-credit position under which we would be unable to carry out the necessary physical changes and facility improvements necessary for successful merger without the usage of the guarantee provisions of this act. We filed the day before yesterday with the Commission application for a \$15-million Government guarantee on loans which could not otherwise be secured.

There will be other mergers. Every student of transportation knows that there is a surplus of transportation facilities in the East, and certainly we in the railroad business have the economically impelled obligation to press the elimination of unnecessary trackage, duplicate lines, duplicate facilities and duplicate service. The field of opportunity for this is tremendous. Aside from all other problems relating thereto, accomplishment will take cash and credit.

Were this act to expire in the light of the present financial position of the eastern railroads, a "body blow" would be struck at the industry and its potential for merger. I have no hesitancy in making the prediction that first-quarter earnings for 1961 will be shocking to the country as a whole. In some cases help is obviously neces-

sary to sustain life pending merger, coordination or other rehabilitation.

I strongly support H.R. 1163, which would extend section 510 for 1 year, thus establishing an expiration date of March 31, 1962, for the loan-guarantee authority of the Interstate Commerce Commission.

My criticism of H.R. 1163 is that it does not go far enough. It is my opinion that a 1-year extension is inadequate. I would strongly endorse the principle of this act becoming permanent legislation and the guarantee provisions thus becoming a revolving fund for the broad purposes envisioned by the original act.

The CHAIRMAN. Does that conclude your statement?

Mr. SHOEMAKER. Being as late as it is in the day, Mr. Chairman, I do not think I should impose upon the committee any enlargement, beyond answering any questions you may have.

The CHAIRMAN. Well I want to thank you for your statement. It is very concise and to the point.

Off the record.

(Discussion off the record.)

The CHAIRMAN. Back on the record.

Mr. Rogers, do you have any questions?

Mr. ROGERS of Florida. I just want to join in with the chairman about your statement.

The CHAIRMAN. Mr. Avery?

Mr. AVERY. Off the record.

(Discussion off the record.)

The CHAIRMAN. Back on the record.

Thank you very much, Mr. Shoemaker.

Mr. SHOEMAKER. Mr. Chairman, I appreciate the courtesy of the committee.

The CHAIRMAN. We have here a letter from Arthur J. Winder, vice president and general counsel of the Norfolk Southern Railway Co.

(The document referred to follows:)

NORFOLK SOUTHERN RAILWAY CO.,
Norfolk, Va., February 24, 1961.

Re H.R. 1163.

HON. OREN HARRIS,
Chairman, House Committee on Interstate and Foreign Commerce,
House Office Building, Washington, D.C.

DEAR SIR: Norfolk Southern Railway Co. urges the enactment into law of H.R. 1163.

This company applied to the Interstate Commerce Commission in finance docket 21121 for guarantee of a loan of \$2 million under the provisions of part V of the Interstate Commerce Act. This application was granted. Without this guarantee we would have been unable to secure this loan on reasonable terms, if at all. Last September our 5-mile timber bridge extending across the Albemarle Sound in North Carolina was very badly damaged by Hurricane Donna, with more than a mile and a half of the bridge being completely destroyed. The major portion of the \$2 million loan proceeds will be expended on this bridge. Without the loan proceeds this company would have been extremely hard-pressed financially to continue to survive.

Our sources of credit today are no better than they were when we filed our application with the Interstate Commerce Commission to guarantee the \$2 million loan. Unless the guarantee provisions are extended as proposed by H.R. 1163, we will, in all probability, be unable to obtain additional much-needed financing on reasonable terms and conditions.

Respectfully yours,

ARTHUR J. WINDER,
Vice President and General Counsel.

(The statement of Jose R. de Capriles, vice president and general counsel, Lehigh Valley Railroad Co., submitted to the committee is as follows:)

STATEMENT OF JOSE R. DE CAPRILES, VICE PRESIDENT AND GENERAL COUNSEL,
LEHIGH VALLEY RAILROAD CO.

I am here to urge that this committee act quickly to keep available to the railroads the loan guarantee provisions contained in the Transportation Act of 1958.

The prevailing situation which led to the enactment of part V in 1958 is not substantially different today. Many railroads, especially in the East, are in serious financial difficulties. For most of us the past 4 years have certainly not improved our credit rating and, without a Government guarantee, we would be unable to borrow funds urgently needed to tide us over a bad period. Every loan is being repaid with interest, so we are not here seeking a handout. Government assistance in this connection is little enough when we consider that countless millions are being spent to provide bigger and better airports, highways, and seaways for our competitors.

I won't take up this committee's time with a case history of Lehigh Valley Railroad but I believe our experience is pertinent. We have had to request the guarantee of \$5.9 million in 1959 and \$5 million in 1960. Without these two loans Lehigh Valley would have been unable to survive yet in each case we could not find a lender willing to put up the money without a Government guarantee. We've cut costs in every possible area and have hopes for the future but it may still be necessary to seek an additional \$2 million this year.

Every study that has been made in recent years calls for prompt Government action to strengthen and preserve our industry.

We know full well that loans are not a real solution to the railroads' basic problems, but until a sound remedial program can be effected they do provide an essential breathing spell.

The purpose of the Transportation Act of 1958 is to assist the railroads and to foster the development of an adequate national transportation system. To deprive us of this assistance at this time would be a dangerous gamble with the basic ingredient of any sound national transportation system—the railroads.

The CHAIRMAN. This will conclude the hearings, and the committee thanks all of those who have participated in the hearings.

The committee will adjourn.

(Whereupon, at 5:15 p.m. the committee was adjourned.)

