Volume Title: Federal Lending: Its Growth and Impact

Volume Author/Editor: Raymond J. Saulnier, Harold G. Halcrow, and Neil H. Jacoby

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Chapter Title: Objectives and Scope of the Study

Chapter Author: Raymond J. Saulnier, Harold G. Halcrow, Neil H. Jacoby

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FEDERAL FINANCIAL AIDS to American business, agriculture, and homeowners have been subjected for the first time to a comprehensive economic analysis, under a project initiated in 1951 by the National Bureau of Economic Research. The massive study, covering federal government activities from 1917 to 1953 in extension of credit, guarantee and insurance of loans, was made by Professors R. J. Saulnier of the National Bureau and Columbia University, Harold G. Halcrow of the University of Connecticut, now of the University of Illinois, and Neil H. Jacoby of the University of California, Los Angeles. It was supported by a grant from the Trustees of the Banking Research Fund of the Association of Reserve City Bankers.

The results of the study will appear in book form under the title *Federal Lending and Loan Insurance*.[1] A sketch of the main findings is presented in the following pages.[2]

Objectives and Scope of the Study

Several major issues are inevitably raised by federal credit activities. Paramount are the questions whether it is appropriate for the federal government of the United States to enter this field, and if so, by what means. Another issue is stated by the authors as follows: "whether [federal credit programs] have in fact caused resources to be allocated through the community in a manner significantly different from what would have

[1]The full report is to be issued for the National Bureau of Economic Research by Princeton University Press. For brevity, it is cited hereafter as *Federal Lending*.

[2]Charlotte P. Henry wrote the summary paper in final form, aided especially in selection of material by Neil H. Jacoby on behalf of the authors and by George Soule of the National Bureau's Board of Directors, and drawing upon H. Irving Forman's chart designs and Catherine P. Martin's statistical knowledge. Mary Phelps, as editor, coordinated the work, with special help from Dorothy Chesterton and William A. Robinson, Jr.

resulted if credit had been available only through the channels of private finance, and if so, whether the changes have promoted the general welfare. . . . A much argued point is whether the federal government, through credit extensions, should allow further access to economic resources to firms which have not prospered, and which, lacking this aid, might be forced to liquidate."

Both issues are highly controversial, involving basic social and economic beliefs. It was not the purpose of this study to decide if the public interest is served by federal credit programs. Nevertheless, the facts and analysis presented in it clarify vital aspects of these questions, and supply a much-needed basis for informed judgments.

A third major question concerns the broad economic and financial impact of federal credit activities: their effect on the allocation of productive resources, on cyclical swings in business activity, on inflation and deflation, and on credit markets and lending practices. These influences are admittedly troublesome to isolate, but the investigators making the study were nevertheless able to reach some interesting conclusions about the main effects of federal lending and loan insurance programs.

Finally, the possibility that federal credit programs have conflicted among themselves or with other federal programs raises questions as to how government should be organized to administer credit activities. The present study was not intended to supply an answer, but it sheds light by revealing the whole range of programs involved and by showing the various credit services that each program offers. With these facts in mind, specific reorganization proposals can be better evaluated.

Thus, the objectives of the authors were to show how the credit programs developed and where they stand today; to describe the services they offer; to record the experience of the federal government as a lender; and to analyze the impact of its credit activities on private finance and on the economy. Very detailed analyses are presented on the programs affecting agriculture, business, and housing. A rich collection of statistical and graphical material is offered.

With some difficulty, the limits of the study were defined as follows:

Included were:

all direct credit activities of the federal government

also those of agencies sponsored by the federal government whether or not federal funds are invested in them — such as Federal Reserve Bank lending to business, Federal Land Banks, and Federal Home Loan Banks

Excluded were:

credit programs of state governments

credit programs of international agencies
loans to foreign governments
interagency loans
discounts by Federal Reserve Banks for member banks[3]
extensions of credit incidental to some activity other than financial aid[4]

Apart from the above decisions, made on conceptual grounds, some activities were excluded for practical reasons. The authors comment: "It may be hard to believe that there should be no means of determining, even after persistent inquiry, how much was disbursed under federal programs that involved millions of dollars, but this is the case." Fortunately, such exclusions did not significantly affect the conclusions on the economic effects of federal credit activities.

In the end, more than sixty agencies were covered, of which twenty-seven were still active at the end of 1953 (Table 1). Eight of them were serving, primarily, agriculture; ten, extending credit mainly to the business sector; and seven, largely concerned with housing, either directly or through aid to financial institutions and state or local government units active in the housing field. The lists themselves, of active and inactive agencies, afford a panoramic view of the startling growth of the government's credit activities over the past thirty-five years, and reflect the changing philosophy of the role of the federal government of the United States in social and economic affairs.

Why the Credit Programs Were Undertaken

The most familiar objective of federal credit programs was to counteract depression — for example, the Reconstruction Finance Corporation, established in 1932.

[3]The authors believed that the central banking activities of the federal government and the credit programs dealt with here could be analyzed better separately than as a single aggregate.

[4]Loans and loan guarantees by the Commodity Credit Corporation posed a difficult problem of definition. They might have been excluded on the ground that they are mainly an aid to price support, and not primarily a form of credit assistance. Yet to exclude them seemed objectionable because the amounts involved were appreciable in certain years. A compromise was adopted. CCC loans are included in the quantitative series where relevant, but are largely neglected in the text, since full treatment would have carried the book far from its central focus.

TABLE 1

Federal and Federally Sponsored Credit Agencies, Classified by Economic Sector They Mainly Serve and by Active or Inactive Status as of December 31, 1953

Agriculture	*Business*
ACTIVE	ACTIVE
Banks for Cooperatives and Central Bank for Cooperatives (FS 1933)	Army and Navy Depts. (F 1942)
Commodity Credit Corp. (F 1933)	Atomic Energy Commission (F 1951)
Farmers Home Adm. (F 1946)	Dept. of Airforce (F 1951)
Federal Farm Mortgage Corp. (F 1934)	Dept. of Commerce (F 1951)
Federal Intermediate Credit Banks (FS 1923)	Export-Import Bank of Washington (F 1934)
Federal Land Banks (FS 1917)	Federal Reserve Banks (FS 1934)
Production Credit Corps. (FS 1933)	General Services Adm. (F 1951)
Rural Electrification Adm. (F 1935)	Maritime Adm. (F 1950)
	Small Business Adm. (F 1953) (also Misc.)
	Virgin Islands Corp. (F 1949) (also Agric.)
INACTIVE	INACTIVE
Agricultural Marketing Act Revolving Fund, FCA (F 1929)	Defense Materials Procurement Agency (F 1951)
Crop Production and Seed Loan Office, Dept. of Agriculture (F 1918)	Director General of Railroads (F 1919)
Electric Home and Farm Authority (F 1935)	Interstate Commerce Commission (F 1920)
Electric Home and Farm Authority, Inc. (F 1934)	Reconstruction Finance Corp. (F 1932) (also Agric., Financial Inst., Minor Govt. Units, and Misc.)
Emergency Crop and Feed Loan Div., FCA (F 1933)	Smaller War Plants Corp. (F 1942)
Farm Security Adm. (F 1937)	U.S. Maritime Commission (F 1936)
Farmers Seed Loan Office (F 1931)	U.S. Shipping Board (F 1921)
Land Bank Commissioner (F 1933)	U.S. Shipping Board Bureau (F 1933)
Regional Agricultural Credit Corps. (F 1932)	
Resettlement Adm. (F 1935)	
Rural Rehabilitation Div., Federal Emergency Relief Adm. (F 1934)	
Tennessee Valley Associated Cooperatives, Inc. (F 1934)	
War Finance Corp. (F 1918) (also Business and Financial Inst.)	

(Continued on next page)

F indicates direct federal agencies.

FS indicates federally sponsored agencies.

Date in parentheses is the year in which the agency in question was established or the year in which the earliest of its credit programs covered in this study (whether currently active or inactive) was initiated. Where a currently active agency was preceded by one or more now inactive

TABLE 1 (*continued*)

Financial Institutions	*Housing*	*Minor Governmental Units*	*Miscellaneous*
ACTIVE	ACTIVE	ACTIVE	ACTIVE
Federal Home Loan Banks (FS 1932) Treasury Dept. (F 1933) (also Misc.)	Federal Housing Adm. (F 1934) (also Financial Inst.) Federal National Mortgage Assn. (F 1938)	Housing and Home Finance Agency (F 1950) (also Business, Housing, and Misc.) Public Housing Adm. (F 1947)	Bureau of Indian Affairs, Dept. of Interior (F 1911) Puerto Rico Reconstruction Adm. (F 1936) Veterans' Adm. (F 1930) (also Agric., Business, and Housing)
	INACTIVE	INACTIVE	INACTIVE
	Defense Homes Corp. (F 1941) Home Owners' Loan Corp. (F 1933) (also Financial Inst.) RFC Mortgage Company (F 1935)	Bureau of Community Facilities (F 1942) Community Facilities Service, GSA (F 1949) Federal Emergency Adm. of Public Works (F 1933) (also Business) Federal Public Housing Authority (F 1942) Inland and Coastwise Waterways Service, War Dept. (F 1921) Inland Waterways Corp. (F 1924) Public Works Adm. (F 1939) (also Business) Tennessee Valley Authority (F 1934) U.S. Housing Authority (F 1937)	Disaster Loan Corp. (F 1937) Federal Security Agency, Office of Education (F 1942) Prencinradio, Inc. (F 1943) U.S. Veterans' Bureau (F 1920)

agencies, the latter are included in the "inactive" group; where an agency currently inactive was preceded by one or more other agencies, also inactive, the agency and its predecessors are listed as inactive. The classification of agencies as active or inactive has reference exclusively to their credit-granting activities. Inactive agencies are those not now extending credits, though some of them have loans still outstanding; many of them are still quite active in functions other than credit extension.

The second objective – present in nearly all federal programs and not confined to slack business periods – has been to supply needed credit apparently unavailable from private sources.

Third are the emergency programs arising from war, floods, tornadoes, and other disasters.

A final aim has been to give preferential treatment to special groups or industries: veterans, housing, shipping, unimproved farms, students, Indians, cooperative associations.

A single program may of course encompass several objectives.

Growth of Federal Credit Activities

The growth of credit programs has been so rapid that they now constitute in effect a second financial system – partly competing with and partly supporting and complementing the private financial system (Table 2).

Their history can be told most effectively when divided into two periods, 1917–31 and 1932–53. In the first period, activity was limited, consisting mainly of lending by federally sponsored agencies. Only after 1932 were direct federal agencies used as major instruments of policy, and insurance and guarantee of privately made loans introduced.

In 1917 federal credit was confined to about $40 million lent by Federal Land Banks. By the middle twenties the total outstanding had increased to $1.5 billion, largely from refinancing farm loans because of the agricultural crisis following World War I, loans to railroads returned to private control after the war, and the activity of the Federal Intermediate Credit Banks for farmers. From 1924 to 1929 the totals did not further increase. By the end of 1931, price support and production loans under the Agricultural Marketing Act of 1929 had raised federal credit to $2 billion, with direct governmental agencies holding about one-third (Chart 1).

The course and tempo of development now altered radically. Credit from *direct* agencies of the government rose from $720 million at the beginning of 1932 to $6.5 billion at the end of 1934 and remained at about that level until 1942. (The figures refer to loans only, not loan insurance or guarantees.) The astonishing increase in the first three years represented, of course, the government's massive effort to overcome economic depression and to moderate its impact. It is significant that at no time since the Great Depression, except in World War II, has the total of outstandings shown more than a slight tendency to drop.