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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).

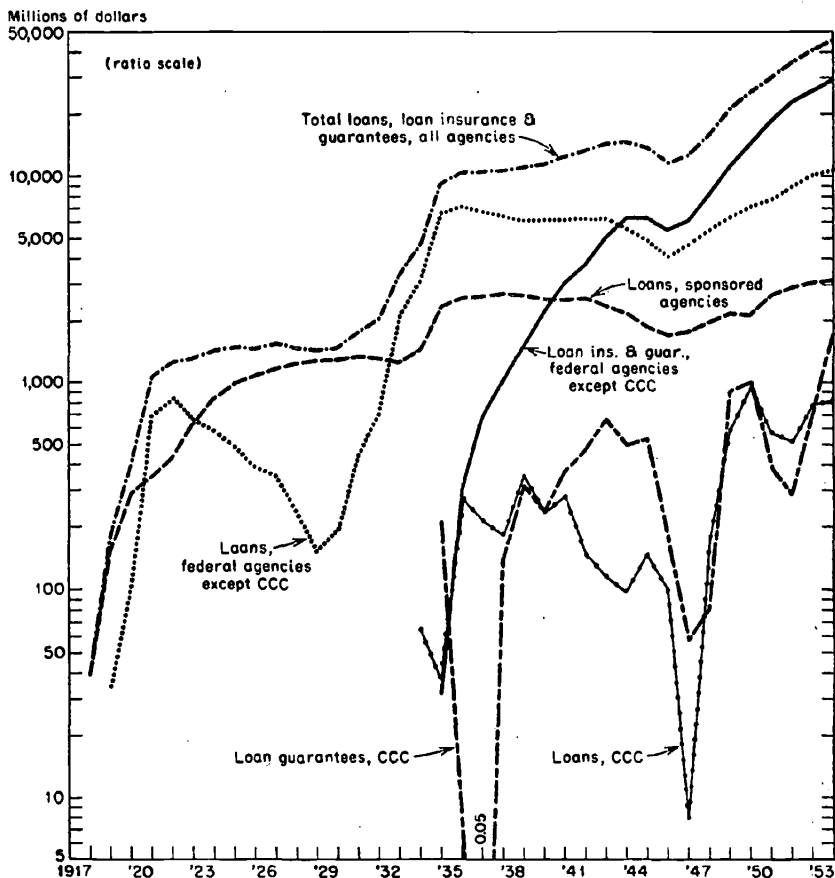
Their history can be told most effectively when divided into two periods, 1917-31 and 1932-53. In the first period, activity was limited, consisting mainly of lending by federally sponsored agencies. Only after 1932 were direct federal agencies used as major instruments of policy, and insurance and guarantee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

## CHART 1

### Federal Lending and Loan Insurance or Guarantees: Outstandings at Year Ends, 1917-1953



Stock purchases primarily for credit aid are included with loans; for further details, see *Federal Lending*, Chapter 2, footnote 1. Data except for CCC are from Tables A-1 and A-2 of that book. Series for the Commodity Credit Corporation refer to its direct loans on commodities for price support purposes and (since 1949) for construction of storage facilities, or to its guarantees of similar loans made by other lenders, as given by the Department of Agriculture in *Agricultural Finance Review*, Vol. 17, November 1954, pp. 92 ff., with the 1933 direct loan figure from *Agricultural Statistics*, 1952, p. 726.

Credit holdings of federally sponsored agencies also expanded greatly in the early thirties, reaching \$2.5 billion at the end of 1935, and stayed near that level until World War II. Most of the increase consisted of farmers' obligations to Federal Land Banks, which rose from \$1.2 billion

TABLE 2

Outstanding Amounts of Direct Loans Held by Federal and Federally Sponsored Agencies Compared with the Outstanding Amounts of Loans and Securities Held by Private Institutional Lenders at Decennial Years, 1920-1950, by Sector of Economy Served

(dollar figures in millions)

YEAR AND TYPE OF LENDER	Agriculture <sup>a</sup>	Business <sup>b</sup>	Financial Institutions <sup>c</sup>	Urban Housing <sup>d</sup>	Minor Governmental Units <sup>e</sup>	Total
1920 Federal agencies	\$ 5	\$ 680	..	..	..	\$ 684
Federally sponsored agencies	350	..	..	..	..	350
Private institutions	6,523	24,594	\$ 55 <sup>g</sup>	\$ 6,503	\$ 1,903	39,578
1930 Federal agencies	243	125	..	..	1	369
Federally sponsored agencies	1,339	..	..	..	..	1,339
Private institutions	5,143	31,979	480	22,047	3,879	63,528
1940 Federal agencies	1,481	842	172	2,227	533	5,255
Federally sponsored agencies	2,237	9	201	..	..	2,448
Private institutions	2,544	24,651	77	18,478	7,486	53,236
1950 Federal agencies	2,157	3,199	<sup>h</sup>	1,543	503	7,402
Federally sponsored agencies	1,815	3	816	..	..	2,634
Private institutions	4,888	59,871	181	49,709	11,353	126,002
<i>Holdings of Federal and Federally Sponsored Agencies as Percentages of the Holdings of Private Institutions</i>						
1920 Federal agencies	0.1%	2.8%	..	..	..	1.7%
Federally sponsored agencies	5.4	..	..	..	..	0.9
1930 Federal agencies	4.7	0.4	..	..	1	0.6
Federally sponsored agencies	26.0	..	..	..	..	2.1
1940 Federal agencies	58.2	3.4	223.4%	12.1%	7.1%	9.9
Federally sponsored agencies	87.9	1	261.0	..	..	4.6
1950 Federal agencies	44.1	5.3	1	3.1	4.4	5.9
Federally sponsored agencies	37.1	1	450.8	..	..	2.1

<sup>a</sup>Outstandings of private institutions include farm real estate loans of open state and national banks in 1920 and 1930, of all insured commercial banks in 1940, and of all operating banks in 1950; farm real estate loans of life insurance companies; and non-real-estate loans of all operating banks to farmers (information not being available on loans to agricultural cooperatives, and CCC-guaranteed loans being excluded).

*Sources:* For federal and federally sponsored agencies, *Federal Lending*, Tables A-3 and A-4. For private institutions, *Agricultural Statistics*, 1952, Department of Agriculture, pp. 721 and 732, and *Agricultural Statistics*, 1953, p. 634.

<sup>b</sup>Outstandings of private institutions cover, for commercial and mutual savings banks in continental United States, their commercial and industrial loans (including open market paper), loans to security brokers and dealers, holdings of bonds, notes, debentures, and stock of domestic and foreign corporations, and holdings of Federal Reserve bank stock; for insurance companies (legal reserve life, fraternal life, fire and marine, and casualty and surety), their holdings of corporate bonds and stocks (railroads, public utilities, and industrials); and the business investments of savings and loan associations.

*Sources:* For federal and federally sponsored agencies, *Federal Lending*, Table A-5. For the various private institutions, as follows: Banks, from the *Annual Reports* of the Comptroller of the Currency, and the *Federal Reserve Bulletins*, except that the commercial bank data for 1920 and 1930 are NBER estimates obtained by inflating the data on business loans and discounts and business securities of national banks by the ratio of total loans and discounts of national to all banks and of total securities of national to all banks; data for 1940 and 1950 were adjusted for Federal Reserve Bank paid-in capital. Legal reserve life insurance companies, from the *Life Insurance Fact Book, 1954* (Institute of Life Insurance). Fire and marine and casualty and surety insurance companies, from "The Changing Importance of Institutional Investors in the American Capital Market," by Charles H. Schmidt and Eleanor J. Stockwell, in *Law and Contemporary Problems* (Duke University, School of Law), Vol. 17, No. 1, Winter 1952, p. 12. Fraternal life companies, for 1920-1940 from *A Study of Saving in the United States* by R. W. Goldsmith (Princeton University Press, 1955), Vol. 1, Table I-10, p. 462; and for 1950, estimated from the *Fraternal Monitor* (May 1951). Savings and loan associations, for 1920 and 1930 from Goldsmith, *op. cit.*, Tables J-2 and J-5, pp. 436 and 441, and for 1940 and 1950 from *Trends in the Savings and Loan Field, 1951*, Home Loan Bank Board, p. 4.

<sup>c</sup>Outstandings of private institutions include loans to banks by commercial and mutual savings banks, and advances to savings and loan associations other than those made by the Federal Home Loan Banks.

*Sources:* For federal and federally sponsored agencies, *Federal Lending*, Table A-6. For private institutions, as in note b above.

<sup>d</sup>Outstandings of private institutions include nonfarm real estate loans of commercial and mutual savings banks; nonfarm mortgages of legal reserve life insurance companies; total real estate mortgages of fraternal life, fire and marine, and casualty and surety companies; and net mortgage loans and real estate sales contracts (except in 1920 and 1930) of savings and loan associations.

*Sources:* For federal agencies, *Federal Lending*, Table A-7. For private institutions, as in note b above, except that data for commercial and mutual savings banks for 1920-1940 were estimated by linear interpolation of June 30 holdings.

<sup>e</sup>Outstandings of private institutions include obligations of states and political subdivisions held by commercial and mutual savings banks and by all insurance companies mentioned above.

*Sources:* For federal agencies, *Federal Lending*, Table A-8. For private institutions, as in note b above.

<sup>f</sup>The estimates given in this column for the loan and security holdings of private financial institutions account for the following proportions of net private and net state and local government debt: 46 per cent in 1920, 47 per cent in 1930 and 1940; 66 per cent in 1950.

<sup>g</sup>Represents borrowings of savings and loan associations only. Data for loans to banks were not available.

<sup>h</sup>Less than \$500,000.

<sup>i</sup>Less than 0.05 per cent.

in 1932 to \$2.1 billion at the close of 1935 (additional to \$0.8 billion outstanding on farm mortgage loans made by the Land Bank Commissioner as a direct agent of the government under emergency powers).

During World War II there was some decrease in total federal credit, both the holdings of federally sponsored agencies such as the Land Banks and those of direct governmental agencies, chiefly due to the agricultural prosperity which permitted farmers to pay off mortgages, and to decreased activity in housing.

After 1945, lending from federally sponsored agencies increased; outstandings totaled \$3.1 billion by 1953. Direct federal lending also increased substantially. Commodity Credit Corporation loans for farm price support at no time have been more than a small part of total government credit, but in some years have been important in the total of federal credit to agriculture. They increased rapidly in the late 1930's, decreased sharply during the war to a record low in 1946 and shot up again beginning in 1947.

The most spectacular postwar increase has been in federal insurance and guarantee commitments on privately made loans. These did not exist before 1934, but now dominate the entire picture of government credit activities. The amounts underwritten have risen continually, with only a slight dip at the end of World War II, from \$1 billion in the middle thirties to \$19 billion in 1950 and about \$30 billion at the end of 1953.

In short, the postwar record (1946 through 1953) shows slow but steady increase in outstanding loans of federally sponsored agencies, an even stronger rise in loans of federal agencies, and a continued sharp rise in the curve of federal insurance and guarantees.

### *Relative Importance of Federal Lending*

Compared to total net debt of the nation (the net amount owed by individuals, business, state and local governments), federal lending reached a high of 7 per cent in 1940. (Here only direct loans, and not loan guarantees or insurance, enter the comparison.) In 1920 it was 1.2 per cent, and in 1950, 5.4 per cent. The recent decline is due, not to a shrinkage of federal credit, but to the relatively more rapid growth of private lending.

Detailed observations show significant differences in the importance of federal credit in various sectors of the economy. In lending to agriculture and to private financial institutions, the federal government has been an