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

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Chapter Title: The Economic Significance of Federal Lending and Loan Insurance

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

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at least to strike rough balances in their operations (the Farmers Home Administration being the principal exception). Lending programs in the business field showed varying degrees of self-sufficiency. The Export-Import Bank has shown a sizable net income. The RFC long operated under a concealed subsidy (interest-free Treasury funds); in its final years it earned a small net profit over all, but the records do not show the results of the business loan program separately. Though the Federal Reserve Banks also profited somewhat on their recent industrial loans, experience in their most active period (to 1941) was unfavorable. Business loans to small enterprises cost the Veterans' Administration about \$25 million from 1945 to 1952, but this program was never intended to be self-supporting.

The agencies concerned with housing credit have been generally self-sufficient, the Federal Housing Administration showing modest earnings. As no premiums were charged, the loan guarantee and insurance program of the VA required a subsidy, for its administrative costs, estimated at about \$430 million through December 1952.

The authors conclude this section of their study with the following observation:

“Surveying the major areas of federal credit programs — agriculture, business, and housing — it is found that most of the programs have been self-supporting, at least from a long-range point of view. An element of subsidy has been present only in those programs which served a particular class of borrower such as low-income farmers, veterans, or small business firms. On the other hand, it is clear that no program, except possibly that of the Export-Import Bank, has realized profits at a level which would be considered satisfactory by the conventional standards of the private financial system.”

### *The Economic Significance of Federal Lending and Loan Insurance*

What have been the effects on the American economy of the large and growing volume of federal credit? These credit aids have grown faster than the value of gross national product or the credit activities of private financial institutions. Cumulatively from 1917 through 1953, the gross volume of direct and insured or guaranteed loans *totaled \$138.7 billion*. The annual volume for 1953 was a new high, \$14 billion. Outstandings at the end of 1953 were \$43 billion, also a new high. This vast pool of obligations

in the public's hands represented the accumulation of over thirty-five years of federal credit activity, reflecting a steadily upward trend.

The magnitude of these figures suggests that the influence of federal credit activities has been profound; their diversity greatly complicates the analysis of their effects, many of which have been unforeseen and unintended. In perhaps the most important segment of the study, the authors analyze the influence of federal lending on the economy as a whole; on allocation of resources among different sectors of the economy; and on the private credit market and practices ("institutional effects"). The latter two actually overlap, since it was found that the so-called institutional effects produced by federal credit aids may in turn produce material changes in the use of resources.

### *Effects on Aggregate Economic Activity*

How did federal lending and loan insurance affect the general level of prices and the physical volume of production? And, have federal loans tended to amplify or to dampen business fluctuations in the past twenty years? The report goes into some detail on both these points.

### *Relation to GNP and the business cycle*

In relation to gross national product, federal credit (the sum of loans, loan insurance and guarantees extended) first became a significant factor in the economy in 1932, when it rose from less than 1 per cent in previous years, to 3.7 per cent of GNP (Chart 3 and Table 8). Up to 1953 it has never been less than 2 per cent, and in the peak year of 1934 reached 9 per cent. Federal loans, deliberately employed to combat the Great Depression, became in the thirties a major economic force, equaling or outweighing federal expenditures.

They were about neutral in their effects from 1936 to 1946, when large military expenditures dominated the economy. Thereafter, with rising volume in a period of high employment of economic resources, federal credit programs contributed appreciably to postwar inflation.

Their influence on business cycles is therefore mixed; they have operated at times in a stabilizing, and at other times, in a destabilizing direction. A modest tinge of counter-cyclical behavior is apparently due to faster repayment of loans in good times than in bad, rather than to conscious management of the programs. (Unified management explicitly to promote economic stabilization has, however, never been a major objective.)

On balance, however, the programs have operated more often than not to offset a contracting or depressed level of economic activity, and to