

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 22, 1938.

To Chairman Eccles

Subject: A preliminary survey of existing expenditure programs which are being financed without use of direct public debt, or which might be so financed.

From Lauchlin Currie

LAC

In accordance with the request at yesterday's meeting of the Fiscal Committee, I have sent copies of the attached to the members of the Committee.

November 21, 1938.

A PRELIMINARY SURVEY OF EXISTING EXPENDITURE PROGRAMS
WHICH ARE BEING FINANCED WITHOUT USE OF DIRECT PUBLIC DEBT,
OR WHICH MIGHT BE SO FINANCED.

Findings

I - Over \$1 billion of guaranteed debt might be substituted at any time for public debt, if suitable administrative and legislative action were taken. Any such immediate reduction of the public debt would be at the expense of a corresponding reduction in later years.

(a) the R. F. C. has \$600 million of borrowings from the Treasury which it could retire by issuing its own debentures.

This requires no legislation.

(b) If new legislation were enacted, another one-half billion dollars of direct public debt might be retired by issuing guaranteed bonds against existing assets. The R. F. C. might retire part of its capital stock and the HOLC might take over shares of savings and loan associations owned by the Treasury. Assets of the emergency crop loan program, assets of the rural rehabilitation program and assets that have been transferred to the U. S. Maritime Commission might form the security for issues of newly authorized bonds or notes of Federal agencies.

II - Expenditure programs now in existence to the amount of some half billion dollars a year might be financed without the use of direct public debt, providing suitable administrative and legislative action were taken.

This conclusion rests on the following considerations:

(a) A number of Federal corporate agencies, whose capital stock is owned in whole or in part by the Treasury, will automatically continue to make loans largely without further use of the direct public debt. Among these are the United States Housing Authority, the Commodity Credit Corporation, the Federal Home Loan Banks and the banks and corporations of the Farm Credit Administration. The one of these which will clearly be expanding its assets steadily is the United States Housing Authority; its loans, to be financed with guaranteed bonds, may reach a total of \$150,000,000 by next June and may increase by another \$300,000,000 in the following fiscal year.

(b) If the R. F. C. undertakes to finance all its further loans by issuing guaranteed notes, a loan expansion which might amount to anything from \$50,000,000 to \$250,000,000 could be financed without instead of with the use of direct public debt. This would include loans to municipalities in connection with the P. W. A. program, loans to railroads, loans to public utilities, and loans through the R. F. C.'s subsidiaries, the Export-Import Bank, the R. F. C. Mortgage Company and the Federal National Mortgage Association.

(c) If suitable legislation were enacted, certain other expenditure programs already in existence, which may run from \$100,000,000 to \$200,000,000 a year, might be financed without instead of with the use of direct public debt. The most promising of these programs for this purpose include Rural Electrification

loans (now financed partly through the R. F. C. and partly through appropriations), F. C. A. emergency crop loans, Bankhead-Jones farm tenant loans, Farm Security Administration rural rehabilitation loans and U. S. Maritime Commission ship construction.

III - The possibilities of shifting any substantial part of current budgetary expenditures to self-financing agencies appear limited. However, an extension of the programs mentioned above through self-financing corporations might lessen the necessity for other large and continuing budgetary expenditures such as work relief and public works. Thus a shift of certain existing programs to a self-financing basis plus the initiation of new Government activities that could be so financed would permit, either directly or indirectly, a budgetary balance to be attained more quickly, yet with no more danger, than is now possible.