Statement of Secretary Morgenthau Before the
Senate Committee on Banking and Currency
on S. 2759,
July 18, 1939.

I am appearing before you in support of S. 2759, the Self-liquidating Projects Act of 1939.

The bill before your Committee is designed to utilize idle resources. Its purpose is to put to work men, materials and funds not now being employed. It is intended to stimulate further capital investment in private industry, to raise the level of business activity and to yield permanent benefits to the people of this Nation.

This program seems to me to be particularly timely. We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is a period of international political uncertainty characterized by stupendous expenditures for unproductive military purposes. International economic relationships are disorganized by the lack of free exchange with which to conduct normal world commerce; our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products the United States could export. Business in this country suffers from the general distortion of the world's economic systems, caused by the fear and expectancy of a world cataclysm.

It is futile to await passively the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under the present circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of this epoch.

In a country with enormous potentialities and with the population rapidly marching toward the 150 million mark there is ample possibility for the Federal Government to supplement private enterprise by promoting investment in self-liquidating projects. In contrast with some other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the Government credit for constructive purposes instead of devoting billions to unproductive military expenditures.

The Self-liquidating Projects Act authorizes the following productive investments:

1. 750 million dollars for self-liquidating highway improvements;
2. 350 million dollars for non-federal public works;
3. 500 million dollars for the lease of railroad rolling stock and shop equipment;
4. 460 million dollars (plus 40 million dollars already appropriated) for rural electrification projects;
5. 500 million dollars (plus not more than 100 million dollars already appropriated) for facilities for farm tenants, share croppers and farm laborers;
6. 100 million dollars (plus 100 million dollars already appropriated) for the financing of foreign trade.

The President has estimated that, of the additional sums made available by this Bill, about 770 million dollars, made up in the following way, would be spent during the current fiscal year:

1. 150 million dollars for highway improvements;
2. 150 million dollars for non-federal public works;
3. 100 million dollars for railroad equipment;
4. 20 million dollars for rural electrification;
5. 250 million dollars for the farm tenant program;
6. 100 million dollars for the financing of foreign trade.

The program of self-liquidating investment authorized in the Bill would be financed through the Reconstruction Finance Corporation. The operating agencies to carry out the purposes of the Act would be the Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank, in addition to the Reconstruction Finance Corporation.

Specifically the Bill is designed to achieve four important objectives:

1. To give employment in private industry to at least one-half million persons;
2. To stimulate private enterprise;
3. To increase the real wealth of the nation;
4. To provide additional investment opportunities.

The important thing about this Bill is that it will accomplish its objectives without adding to the tax burden or to the public debt of the Federal Government. At the same time the national income will be increased and the number of persons who need to be supported out of public funds will be reduced.

The principle embodied in the Bill, therefore, constitutes a real advance toward the goal of bringing our governmental expenditures within our receipts.

I do not wish to contend that the program embodied in this Bill constitutes a final or adequate solution of our economic problem but it does constitute a realistic approach to that problem.

The fiscal aspects of the program do not represent a new departure. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of sound investment which would not have been undertaken if the Federal Government had not sponsored it.

What is proposed now is an extension of this proved method to a somewhat broader field. The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute self-liquidating investments in place of outright

Government expenditures we shall have made a great step toward bridging the gap between revenue and expenditures.

This distinction between self-liquidating investments and non-recoverable expenditures is not merely a bookkeeping one, but is very soundly based. In the case of non-recoverable expenditures the servicing of the debts created to finance them must be met out of general tax revenues. However, in the case of self-liquidating loans such as are proposed in this Bill, the interest and amortization payments are met out of the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs is the Government called upon to make good any deficiency out of general revenues. The Bill imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as may reasonably be expected to repay the full amount invested plus interest sufficient to reimburse the Government for the cost of borrowing.

I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have been selected with the intention of choosing sound investments which have a high probability of repayment. Projects totalling billions of dollars were eliminated in preliminary studies because they were not self-liquidating.

To insure that Congress be kept fully informed on the financial status of this program, the Bill provides that the

Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they shall request from Congress an appropriation sufficient to make up for any losses which may have been incurred.

This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency on loans under this program should be limited to the yield on the longest term direct or indirect obligations of the United States then outstanding.

The interest rate on long-term loans and investments plays a very important role in modern economic life. There are factors in the present situation, however, which make it impossible for changes in the interest rate to operate automatically and with complete effect. The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place a large amount of their funds in long term investments at the low rates of interest justified by the fundamental economic forces of supply and demand.

In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at rates of interest low enough and borrowers who are able and willing to employ funds for productive purposes.

This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of the low interest rates which the Government can obtain. A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity. It seems to me that it is time for the Government to make full use of that instrument rather than to depend upon grants and subsidies as heretofore.

It is this principle of low interest rates which is utilized in the Bill before you. The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to useful and paying enterprises which otherwise would not be undertaken at this time. Thus men and capital now unemployed are put to work.

It is an economic loss to permit investment funds to lie unused when they could be used in productive effort. But that loss is trivial in comparison with the permanent and irreparable economic loss of allowing men of many skills to be idle when there is useful work that they could be doing.