

130

STATEMENT BY SENATOR HARRY F. BYRD (D-VA.) BEFORE THE SENATE BANKING AND CURRENCY COMMITTEE RELATIVE TO S. 1376 FOR THE ABOLITION OF THE R. F. C., APRIL 30, 1951

Functions and programs of the RFC which are at present authorized by existing law and executive and administrative orders roughly may be grouped in four broad categories, as follows:

1. The old line lending programs which are currently active, such as loans to business enterprises and the purchases of their obligations, and loans to meet catastrophes in the event they occur;
2. The old line lending programs which are currently INACTIVE, such as loans to financial institutions including banks and insurance companies; loans to states, municipalities and other subdivisions and public bodies to finance public projects, and purchase of securities and obligations for the same purpose; loans to drainage, levee, and irrigation districts, loans for marketing agricultural commodities; loans to foreign governments; loans to mortgage companies and guaranteeing veterans mortgages and insuring FHA mortgages; and liquidation of World War II activities including the affairs of the Defense Homes Corporation.
3. The servicing of the new defense production loans and civilian defense loans as an agent for other federal agencies which have primary responsibility in these programs; and
4. The operation of defense plants and activities, such as those now engaged in the production of tin, synthetic rubber, abaca fiber and aluminum.

Briefly, Senate Bill 1376, sponsored by Senators Robertson, Bricker, Kem, Williams, Ferguson and myself, would discontinue RFC activities in the first two categories, and provide for the continuance elsewhere of the activities listed in the second two categories.

OLD LINE R. F. C. LENDING ACTIVITIES

The sponsors of this bill take the position that the old line lending activities of the RFC, currently both active and inactive, under present conditions, and the requirements of the foreseeable future, are nonessential, inflationary, and constitute a temptation for abuse. And under provisions of the bill these activities and programs would be discontinued immediately upon enactment, and the Secretary of the Treasury would proceed with an orderly liquidation honoring all of the terms of agreements made in connection with all approved loans.

R. F. C. SERVICE TO DEFENSE PRODUCTION LOANS

Primary responsibility for defense production loans, under the Defense Production Act of 1950, lies in the component departments of the National Military Establishment, the Commerce Department and "such other agencies engaged in procurement for the national defense" as the President may designate. The RFC has been utilized largely for the servicing of defense production loans under directions set forth in Executive Order 10161. This Executive Order could be changed within the provisions of the Defense Production Act without regard for any provision in the RFC Act of 1947. But as a means of precaution against any delay, interruption or interference with Production Act loans which have been assigned to the RFC, the pending bill provides that the RFC may remain active with respect to Defense Production Act loans for as long as 120 days after enactment, or until the Secretary of the Treasury or any other agency designated by the President indicates ability to take over action on these loans without delay, interruption or interference.

CIVILIAN DEFENSE LOANS THROUGH R. F. C.

The Civilian Defense Act provides for loans through the RFC. To date no loans have been made under this authority. Therefore, this bill could cause little or no delay, interruption or interference in connection with Civilian Defense loans. But the same 120 day provision, under terms of the bill, would apply to RFC lending activities in relation to civilian defense loans which may have been originated by the date of enactment.

ALUMINUM PLANT TRANSFER

An Administration bill (S 312) is now pending before the Senate to transfer the aluminum and magnesium forgings plant to the Department of Defense. Section 6 of this RFC bill (S 1376) contains language in substantial conformity with the Administration bill providing for the transfer of this operation from RFC to the Air Force. This language has been worked out with the assistance and advice of the Bureau of the Budget.

TIN, RUBBER AND FIBER PLANTS

The RFC is at present operating tin, rubber and fiber plants. Section 3 of the pending bill would transfer these operations to the Department of Commerce. The provisions for these transfers to the Commerce Department are modeled after those in Section 305 of Senate Bill 3936 of the 81st Congress (The Defense Production Bill) as it was reported from the Senate Committee on Banking and Currency.

ARGUMENT AGAINST ABOLISHING R. F. C.

The burden of the criticism of proposals to abolish RFD, as represented by the Chairman of the RFC Board, in a letter to the Senate Banking and Currency Committee of April 1, and by a letter from the Defense Mobilization Director to the Senate Committee on Expenditures in Executive Departments, dated April 4, was that it would interfere with the defense loan program and disrupt the operations of defense plants now under the supervision of R. F. C. Senate Bill 1376 spells out in specific terms the precautions to be taken to preclude delay or disruption in any of these programs.

LONG TERM AND DISASTER LOANS

Another argument for continuance of RFC is that it would provide long-term loans for small businesses which have already been turned down by banks and other private lending institutions, and to provide loans in cases of disaster. This contention appears to be refuted in large degree by figures contained in a table submitted to the Senate Committee on Expenditures in Executive Departments March 23, 1951, along with a letter by the Chairman of the RFC Board. These figures show that business loans of over \$100,000 outstanding as of January 31 this year totaled more than \$358 million as compared with outstanding loans of \$100,000 or less which, as of the same date, totaled \$174 million. In 1950 RFC made 4,904 business loans of less than \$100,000, and of these approximately 3,000 were for less than \$25,000. In connection with RFC loans such as these 3,000 the Hoover Commission Task Force found:

"The majority of the loans now being made by the Corporation are small loans to finance new businesses or the acquisition of existing businesses by new owners. x x x These are important enterprises, but, individually, they are not significant from a national standpoint. The assistance extended by RFC in many of these cases may even have a negative value from the national point of view in that it encourages the continuance of ventures which should be permitted to discontinue, and in that it prevents their owners from going into occupations for which they may be better suited. Any tendency to perpetuate mistaken enterprises will weaken the general economy out of all proportion to the individual gains which it may make."

CATASTROPHE LOANS

Ample funds short-of-war catastrophes are provided through the Farm Home Administration, the community facilities program of the Housing and Home Finance Agency and the President's emergency fund.

QUESTIONS AND ANSWERS

In an effort, as far as possible, to be sure that all of the details incident to such a ramified operation as the RFC have been taken care of in Senate Bill 1376, the Senate Legislative Drafting Counsel has prepared answers, representing their best judgment, to a series of questions which either have been, or might be raised. These questions and answers may be summarized as follows:

1. (question) What would be the affect of the bill on old line loans (exclusive of Defense Production Act loans) made by RFC prior to dissolution upon which there are still disbursements to be made?
(answer) Under the terms of the pending bill it clearly would be the duty of the Secretary of the Treasury as liquidator to provide for disbursements legally obligated by the Corporation prior to enactment of the bill.
2. (question) What will happen with respect to "servicing" old line RFC loans?
(answer) The "servicing" of loans in existence prior to enactment would become the duty of the Secretary of the Treasury as liquidator. Actually, in most instances, "servicing" provisions are included in loan contracts and therefore constitute legal obligation on the part of both parties to the loan. The agent through which the "servicing" would be performed would be determined administratively by the Secretary of the Treasury as the liquidator. This would be neither a new nor an insurmountable task for the Secretary of the Treasury who previously has used the Bureau of Accounts to liquidate the residual affairs of war agencies. Whereas, RFC now has 35 regional offices, the Bureau of Accounts has 26 similar offices throughout the United States and territories.

3. (Question) What would be the effect upon participation agreements with banks where, prior to dissolution of RFC, the entire amount of the loan has not been disbursed or the bank has not exercised its option to have the RFC participate in the loan?

(Answer) The answer to this question is identical to the answer to Question No. 1. Agreements entered into prior to dissolution would constitute legal obligation which must be met in all respects.

4. (Question) How would this bill affect renewals of loans originally made prior to enactment?

(Answer) The Secretary of the Treasury, to achieve orderly liquidation, may allow any obligor to make interim payments on revised schedules, but he is specifically denied the power to extend the maturity date of, or renew any loan made, or other obligation purchased by the RFC, beyond the date provided in the loan contract or other agreement.

5. (Question) What would happen to the Defense Production loan program authorized by section 302 of the Defense Production Act of 1950?

(Answer) The pending bill provides for uninterrupted continuity of the defense production loan program. The RFC is currently performing certain functions with respect to this program under authority of section 303 of Executive Order 10161, in which the President vested in the RFC functions conferred upon him by Section 302 of the Defense Production Act.

In this connection the pending bill provides that the President may at any time transfer this program to the Secretary of Defense, the Federal Reserve Banks, or any existing department, agency, official or corporation of the government, or to a new agency. Accordingly the President is given wide discretion with respect to the agency which shall administer the program, just as he has under the Defense Production Act. However, if the President does not make provision for the transfer of the program within 120 days after the enactment the program passes to the Secretary of the Treasury, and he may still transfer the program at any time to any agency he sees fit.

6. (Question) What would happen to the Civil Defense loan program, authorized by section 409 of the Federal Civil Defense Act of 1950?

(Answer) The pending bill would permit RFC to continue to administer the loans of this program for as long as 120 days after enactment. Thereupon or before, it is indicated if disruption is precluded, the program would pass over to the Secretary of the Treasury who would administer it in accordance with the Civil Defense Act.

7. (Question) What disposition would be made of the defense plant operations now conducted by RFC?

(Answer) Under terms of the bill the aluminum plant would be transferred to the Air Force in accordance with Administration recommendations, and the tin, rubber and fiber plants would be transferred to the Department of Commerce under provisions similar to those recommended by the Senate Banking and Currency Committee during the 81st Congress.

8. (Question) Are there funds available to the President for any other government agency to make disaster loans such as the RFC now makes?

(Answer) There is an emergency fund of \$1 million available to the President for use in emergencies affecting the National interest or security without regard to provisions of law regulating expenditures of government funds and to supplement efforts of state and local governments or other agencies in alleviating hardship or suffering, caused by flood, fire, hurricane, earthquake or other catastrophe.

This Presidential fund is to be succeeded by the provisions of the Act of September 30, 1950, authorizing federal assistance to state and local governments in major disasters.

The Secretary of Agriculture, through the Farmers' Home Administration, can make emergency loans for damage to agricultural crops and products.

In addition the Federal Government, through the Federal Housing Commission, insures banks and other private institutions and loan agencies against certain loans and credit advances for repairing and replacing structures damaged as result of catastrophes.

9. (Question) What happens to personnel of RFC (a) engaged in lending activities, and (b) engaged in rubber, tin, abaca fiber, and aluminum operations?

(Answer) Most employees engaged in the lending activities are covered under Civil Service and therefore would be entitled to reemployment rights granted employees with Civil Service status. Such matters as retention of key personnel, etc., for work in connection with the liquidation would be a matter within the administrative decision of the Secretary of the Treasury as liquidator.

10. (Question) What would be the effect of enactment of this bill upon court proceedings with the RFC as a party?

(Answer) The bill clearly provides that suits, actions, or other proceedings lawfully commenced by or against the corporation prior to the expiration of its succession shall not abate upon the expiration of its succession.

11. (Question) Could any other government agencies make or authorize the making of loans similar to the old line loans now made by RFC?

(Answer) There are a number of other federal departments and agencies which can make loans similar to those now being made by RFC although none of them has quite as broad authorization which RFC has with respect to whom loans may be made. Among these departments and agencies are the Federal Reserve Banks, agencies of the Military Establishment, Farmers' Home Administrations, Commodity Credit Corporation, REA, Public Housing Administration; and numerous mixed ownership corporations such as Federal Land Banks, Intermediate Credit Banks, Production Credit Corporation and Associations, Banks for Cooperatives, FDIC, etc.

12. (Question) What happens to proceeds from the RFC liquidation?

(Answer) The pending bill permits the Secretary of the Treasury to use the proceeds of liquidation to meet administrative expenses, but congressional supervision of amounts to be allowed will be continued and provisions of the Corporation Control Act would continue to be applicable. Beyond administrative expenses incident to liquidation the proceeds would be applied to the curtailment of the federal debt.

PERFECTED BILL

It is obvious from this analysis that Senate Bill 1376 has been thought out in minute detail and drafted with extreme care. It has been introduced to substitute for Senate Bill 1116 introduced at an earlier date.

The drafting has been done by the Senate Legislative Drafting Counsel and it represents the combined judgment of practically all of the lawyers on the Counsel's very efficient staff. In addition they have checked out many of the details with the Bureau of the Budget, the General Accounting Office and the RFC itself.

Every effort has been made to protect and preserve the defense-related functions now performed by RFC and to continue them without disruption, interference, or delay. By the same token effort has been made to discontinue the old line functions of the RFC, which were spawned in depression and are not nonessential in inflation, and to liquidate those functions and the RFC as a corporate entity in an orderly fashion honoring all the agreements that have been made.

SUPPORT FOR THE BILL

Unqualified support for the objective of this bill has been given, among others, by the Honorable Herbert Hoover, former President of the United States who originated the RFC as an instrument to combat inflation; by the Honorable Jesse Jones, former Secretary of Commerce, and first administrator of the RFC, who for 8 years directed the tremendous operations of the Corporation without a suggestion of impropriety or scandal, and accomplished magnificently the purposes for which the instrumentality was originated; and the Honorable James F. Byrnes, now Governor of the great southern State of South Carolina, who probably among all men now living, has the richest experience in federal service, having served for years in both houses of Congress, as Justice of the United States Supreme Court, and in the Executive Branch as principal advisor to the President of the United States as Secretary of State.

Mr. Hoover, who has accepted an invitation to appear before this committee as a witness in favor of the bill to abolish RFC, recently said as a member of the Commission on Organization of the Executive Branch of the Federal Government "I favored the abolition and do yet."

Abolition of RFC was recommended by the Task Force of the Commission on Organization of the Executive Branch of the Federal Government in connection with its report on "Federal Lending Agencies".

The Task Force for this report was the firm of Price, Waterhouse and Company, Certified Public Accountants who enjoy an international reputation in the field of business analysis. With respect to RFC this task force report said:

USE OF RFC TO AVOID THE APPROPRIATIONS PROCEDURES

"On a number of occasions beginning as early as 1933, RFC's statutory authority to borrow from the Treasury has been used by the Congress as a means of financing various governmental activities while avoiding the ordinary congressional procedures for the appropriation of public funds from the Treasury. x x x

"It is characteristic of such loose financing methods that they lend themselves to abuse and greatly increase the Government's exposure to unnecessary costs and losses.

RFC AS A STAND-BY FACILITY

"It is not in the public interest for the Government to keep an emergency agency alive during non-emergency periods, in the hope that its existence may mitigate the effects of a future crisis, the date, the nature, the duration, the scope and the magnitude of which are all unpredictable. x x x

"RFC can not obtain the services of first-rate executives during normal times.

"Outstanding executives who would be willing to serve during emergencies would not wish to be bound by the organization forms and by the operating practices developed under nonemergency circumstances by less competent people, or people with less extensive business experience.

"The assignment of functions to an emergency agency to give it something to do and thus to keep its organization from stagnating during a nonemergency period, is not a good public policy.

"The contention that RFC breaks even on profits is based upon the \$552,000,000 net profit reported by the Corporation through June 30, 1947, and there may therefore be a fallacy in the related contention that the continued existence of RFC will cost the Government very little.

"The aggregate net profit reported with respect to operations for a period ended June 30, 1947, has not been corrected for a substantial difference between the interest paid to the Treasury by RFC and the corresponding interest cost incurred by the Treasury. The Corporation's accounting records do not distinguish between the various classes of loans insofar as financial net results of activities are concerned. There is no way of knowing whether past loans to business enterprises yielded a profit or a net loss. Furthermore, the business loans which RFC is making at the present time contain a risk factor different from that which characterized its previous lending activities.

"It should not be presumed that the Corporation's present operations can be conducted at no net cost to the Government.

"The majority of the loans now being made by the Corporation are small loans to finance new businesses or the acquisition of existing businesses by new owners, x x x These are important enterprises, but, individually, they are not significant from a national standpoint. The assistance extended by RFC in many of these cases may even have a negative value from the national point of view in that it encourages the continuance of ventures which should be permitted to discontinue, and in that it prevents their owners from going into occupations for which they may be better suited. Any tendency to perpetuate mistaken enterprise will weaken the general economy out of all proportion to the individual gains which it may make."

The full Commission did not go all the way with the recommendation by the Task Force, but in fact it did recommend, among other things, "That Congress review the power to make direct loans x x x taking into account the problems of economy, efficiency and integrity x x x ;" and that, "The Government should not engage in direct lending where loans can be obtained from private sources on reasonable terms."

Some of the difficulties which beset the Commission on Organization of the Executive Branch of the Federal Government in arriving at a recommendation with respect to abolishing RFC are indicated in the published "individual views" by Commissioners Dean Acheson, James K. Pollock and James H. Rowe, Jr. who, among other statements, said: "We have seen no evidence whatever in the material submitted to us to justify the blanket assertion of the Commission that direct lending by the Federal Government ' x x x opens up dangerous possibilities of waste and favoritism to individuals or private enterprises.'"

A NONESSENTIAL CORPORATION

Without going into the recent disclosures by the Senate Banking and Currency Subcommittee under the chairmanship of Senator Fulbright, Messrs Acheson, Pollock and Rowe to the contrary, the RFC is now a nonessential, inflationary agency indulging in activities detrimental to the public interest.

While the government is insisting on restricting private credit to curb inflation, the primary purpose of RFC is to make easy money available.

Some idea of the easy money operations in which the RFC is currently engaging and projecting will be obvious from the following summary of vital statistics on the Corporation:

1. RFC loans to business this year are estimated at \$623 million and next year the estimate is \$692 million.
2. Under the RFC Act of 1947, RFC investments, loans and commitments may total \$2 billion at one time.
3. The RFC is capitalized at \$100 million but it is further authorized to issue notes, debentures, bonds and other such obligations to the Treasury in amounts sufficient to carry out its functions.
4. The Corporation, including its franchise, capital, reserves, surplus and income, is exempt from all taxation by Federal, State, local and territorial governments.
5. It is estimated that RFC loans and investments in the current year will total \$869 million and that in the coming fiscal year 1952 they would increase to \$941 million. Its total assets in the current year are estimated at \$944 million and for next year at more than \$1 billion.
6. Its interest-bearing obligations to the Treasury for general purposes this year are estimated at \$361 million and for next year the estimate is \$441 million.
7. Its administrative expenses in the current year are estimated at \$20 million, and for next year the estimate is \$18½ million.
8. The Chairman of the RFC Board last January 8 told the Senate Banking and Currency Committee that "the operations of the Corporation have not cost the taxpayers a single penny." This statement is at variance with the General Accounting Office; it is at variance with estimates by U. S. Senator John J. Williams of Delaware who, in a statement accompanied by Bureau of the Budget charts, inserted in the Congressional Record April 5, 1951, asserted that over the period of its existence RFC losses totaled more than \$12 billion; and it is at variance with Hoover Commission Task Force findings.

CONCLUSION

In conclusion, Senate Bill 1376 protects and preserves all requirements for defense production credit which have been created by Congress to this date.

Virtually every other aspect of the activities and programs of the RFC for emergency purposes are duplicated in other federal credit facilities -- even business loans which may be made through Federal Reserve provisions. And I have no doubt that if and when ordinary business loans are required by an emergency situation, ^{they} will be quickly adjusted to fulfil the requirement.

There are nearly a score of federal credit agencies operating at this time with at least a hundred credit programs under their direction.

In a special federal credit analysis the Budget Document for fiscal year 1952 states: "Federal credit programs, in the main, are designed to supplement or re-enforce private financing;" and that, "Most lending agencies either by law or by administrative policy limit direct loans to cases where the borrowers can not obtain credit on reasonable terms from private financial institutions." And despite the government's much-publicized policy of attempting to restrict private credit, the Budget Document continues with the statement that: "Under loan insurance and guarantee programs, the government agency shares the risk and thus encourages private financing." In the next paragraph the Budget Document says: "Total new commitments for all of these types of programs (federal direct loans and federally insured and guaranteed loans) for f. y. 1952 are estimated at \$13.3 billion."

The Budget Document shows that available federal credit authority in the current fiscal year is estimated at \$58.6 billion and that more than \$44 billion would be used. It is estimated that total available federal credit authority next year would increase to \$61½ billion and that \$49 billion would be used.

This obviously is one tremendous fountain-head of inflation which is now contributing to commodity shortages and rising prices. Under these conditions there should be no doubt that we can get along without the RFC pipe-line to the Treasury of the United States.