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Here is a document of immediate public interest. One of the nation's foremost fiscal authorities and respected public servants explains why RFC should be abolished. Since 1936, Marriner S. Eccles has been one of the Board of Governors of the Federal Reserve System, and for 14 years he was chairman of that board.

SOUND AND INDISPUTABLE REASONS

No. 38

By *Marriner S. Eccles*

I have, ever since the termination of the war, viewed with grave misgivings the continuation and expansion of the Government in the field of private lending. There are sound and indisputable reasons why the Reconstruction Finance Corporation should be abolished.

INFLATION AND ITS CONTROL

The RFC has added to the serious postwar inflationary pressures by extending its lending activities and those of its affiliate, the Federal National Mortgage Administration, during this period. The recent inflationary situation has been brought about by too much money and credit in the hands of the public relative to the goods and services available in the market. Inflation has greatly depreciated the purchasing power of the dollar, and as a result the cost of living has increased approximately 45 per cent since the end of the war. This inflation has worked a grave injustice upon the most helpless members of our society, the aged, the pensioners, the widows and the disabled, and should not have been permitted.

GOVERNMENT LENDING INCONSISTENT WITH ANTI-INFLATIONARY PROGRAM

The Government is obviously very inconsistent, however, when it acts to balance the Federal budget and restrain credit expansion to prevent inflation, while at the same time continuing in force and effect lending activities of Government agencies such as the RFC. There is no logical justification for restricting the flow of good private credit, and at the same time permitting and encouraging the granting of unjustified and unsound loans by Government agencies to the private economy.

The RFC was established in the depths of the greatest economic depression in our history for the purpose of providing emergency financial assistance to banks and other financial institutions. No one seriously questioned the need for a temporary Government agency designed to assist the country in that economic emergency.

We have, however, long since recognized and corrected many of the fundamental weaknesses that brought about our economic collapse in the Thirties. We have greatly strengthened our commercial banking system as well as the operation of the organized securities exchanges, and we have improved our monetary, credit, and fiscal techniques for purposes of achieving and maintaining economic stability. For these and other reasons, the RFC has long since outlived its usefulness to the economy and should be abolished without further delay.

NO NEED FOR DIRECT GOVERNMENT FINANCING

There is no real place in a private enterprise economy for direct Government lending to the private economy, any more than there is a place for

SEE OTHER SIDE

direct Government ownership of the means of production. There are located throughout the United States more than 14,000 commercial banks, over 600 life insurance companies, more than 500 mutual savings banks, and nearly 6,000 savings and loan associations. In addition, there are numerous mortgage companies, sales finance companies, industrial loan associations, and other financing institutions, which all operate in competition with one another and which provide assurance that the necessary credit requirements of the economy are being, and will continue to be, met.

The RFC obtains its capital funds without cost from the Treasury and the taxpayer, and it pays no taxes of any kind on its operations. These privately owned and operated financing institutions, on the other hand, must raise their capital in the private capital markets, and they must pay the market rate of interest as well as their share of State, local, and Federal taxes.

It is obviously unfair also for the Government to subsidize with credit those business concerns which cannot stand on their own feet, but nevertheless are competing for sales and profits with concerns that have to obtain the funds they use in the private market. As the Government does not own the business enterprises which it finances, any profits from their operations accrue to the private owners. But, if the loan eventually proves to be a loss, the Government, and ultimately, the taxpayer, suffers the amount of such loss.

In addition, the bulk of the funds loaned by RFC have gone to large, rather than small, businesses, although the argument most frequently heard in support of the RFC's continuance is the aid which it provides to small business concerns which presumably are unable to obtain credit elsewhere. In any case, what small businesses need primarily is managerial and technical assistance rather than more money; to encourage inefficient utilization of financial resources by small business is wasteful, extravagant and in the end, unproductive.

RFC LENDING SUBJECT TO POLITICAL PRESSURES

Finally, the RFC is designated to make or guarantee loans to credit-worthy borrowers who cannot secure credit on reasonable terms from the customary sources. Under this arrangement heavy political pressures have been brought to bear upon all members of Congress by and on behalf of borrowers who expect to benefit from the credit. I should think in these circumstances that members of Congress would be the first ones to want to liquidate the RFC and thereby be relieved of these pressures which only add to their responsibilities and can serve no useful public purpose.

CREDIT FOR DEFENSE PURPOSES

In letting defense contracts, priority should be given to those prime contractors or subcontractors who already have the necessary skill, productive facilities, and financial resources. However, when Government help is essential in order to facilitate defense production, such aid should be provided in the form of a Government guarantee of private credit and not by a direct Government loan. Those guarantees can be handled most effectively by a single program such as the V-loan program authorized under the Defense Production Act of 1950. This program provides for the guarantee of private loans by eight agencies engaged in defense activities, using the Federal Reserve Banks as fiscal agencies in arranging the guarantees. The existence of the V-loan program to provide essential defense credit makes unnecessary the continued existence of the RFC for this purpose. In conclusion, the evidence from both an economic and a political standpoint strongly supports the view that liquidation of the RFC is long overdue.

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