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Eugene Meyer: From Laissez Faire to the Keynesian
Revolution†

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Eugene Meyer: From Laissez Faire to the Keynesian Revolution

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Abstract

While federal financial intermediation is widely accepted, federal provision of finance was not one of the original powers of the federal government. Federal financial intermediation began during WW I through the War Finance Corporation (WFC). When the Wilson administration wanted to end the program after the war, one man, Republican Eugene Meyer fought to extend the life and expand role of the WFC. During the Great Contraction, Meyer, now Governor of the Federal Reserve Board, worked to temporarily revive the War Finance Corporation in the form of the Reconstruction Finance Corporation (RFC). However inadvertent to Meyer's intentions, the RFC and related programs and agencies became the vehicles for a vastly expanded role for direct federal government finance during the New Deal years and to the present.

Fields: N - Economic History: B - History of Thought

1. Introduction

Federal credit programs and loan guarantees are a fixture in today's economy. At the end of 2004, federal direct loans totaled \$219 billion, and loan guarantees totaled \$1,231 billion (Office of Management and Budget, 2005a, p. 85). Flow of funds data report total liabilities of Government Sponsored Enterprises (GSEs)¹ of \$2,725.2 billion for the second quarter of 2005 (Board of Governors of the Federal Reserve System, 2005, p. 78).²

Federal financial intermediation was not an original function of our national government. Saulnier, Halcrow and Jacoby (1958) trace the origin of federal financial intermediation to the creation of the federal land banks in 1916. However, while the federal land banks were federally chartered, capitalized, and supervised, they are cooperatively operated by the owner-borrowers.

The first federally operated credit agency was the War Finance Corporation (WFC), established in 1918. The WFC's war-time objective was to make loans to business vital to the war effort that were unable to obtain private funding. The war ended shortly after its creation, but the WFC continued its operations attempting to stabilize bond prices for the Treasury, another function provided by the original legislation.

While Treasury Secretary David Houston suspended WFC operations in early 1920, WFC managing director Eugene Meyer sought to expand the WFC's role to lend to support agricultural exports, hoping to increase commodity prices. Meyer was ultimately successful, and the WFC evolved into an agricultural loan agency in the early 1920s.

¹ The GSEs include the Federal Home Loan Banks, the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, the Federal Agricultural Mortgage Corporation, the Farm Credit System, the Financing Corporation, and the Resolution Funding Corporation. The Student Loan Marketing Association Corporation was fully privatized in 2004 and is no longer included in the flow-of-funds totals.

² As several GSEs are restating financial results, OMB reports do not contain current financial data for GSEs (Office of Management and Budget, 2005b)

Meyer also made recommendations that resulted in the creation of the Federal Intermediate Credit Banks in 1923. Believing that the Intermediate Credit Banks would fulfill the credit needs of farmers, Meyer felt the WFC had served its purpose and began termination of its activities in 1925.

In September 1930, Meyer was appointed Governor of the Federal Reserve Board. Following England's departure from the gold standard and the ensuing banking crisis in the fall of 1931, Meyer convinced President Hoover to recreate the WFC as the Reconstruction Finance Corporation (RFC). While Meyer's stated intention was that the RFC be a temporary agency as was the WFC, the RFC's operations were greatly expanded during the New Deal and Second World War, as President Roosevelt welcomed the many opportunities afforded by the off-budget lending authority of the RFC. RFC lending ended in 1953, and its operations ceased in 1957. However, RFC descendents include Fannie Mae, the Commodity Credit Corporation, the Export-Import Bank, and the Small Business Administration. All of these organizations play important roles in the aggregate allocation of credit today.

The RFC was one of Meyer's proudest accomplishments during his years of government service. Although Meyer intended the RFC to be a temporary agency, its expanded role during the New Deal years resulted in a vast expansion of federal government intervention into many sectors of the economy. For better or worse, the financial intermediation activities of the federal government are a legacy of Eugene Meyer.

Section 2 provides background information about Eugene Meyer. His economic thinking relevant to government intervention is discussed in Section 3. Section 4

recounts his activities with the War Finance Corporation, the first important federal credit agency. Section 5 discusses Meyer's role in creating the Reconstruction Finance Corporation, and its initial operations. Section 6 briefly summarizes the growth of RFC activities during the New Deal and World War II. Section 7 concludes the paper.

2. Eugene Meyer – A Brief Biography

Meyer graduated Phi Beta Kappa from Yale in 1895.³ For the next several years he worked for banks in Germany, and in the London, Paris and New York offices of his father's firm, Lazard Freres. He also studied at the University of Berlin. Meyer observed that advancement at Lazard Brothers was determined by seniority. Not willing to wait for a senior position determined by longevity, Meyer planned a career change. Sensing that a McKinley victory in the 1900 election would spark a stock market rally, he used his financial capital of \$5000 to purchase railroad stock options. By January 1901, his holdings were worth \$50,000. Cashing in, he used the entire sum to purchase a seat on the New York stock exchange, beginning his own investment banking firm.

Almost immediately, Meyer learned a strategy that would often profit him handsomely. In a 1901 panic involving Northern Pacific Railroad stock, he began buying, for both himself and his customers, during the selling frenzy. Once the selling ended, Meyer and his clients were considerably enriched. Bernard Baruch offered the twenty-six year old Meyer a partnership in his firm. However, Meyer felt that he was an investor, and Baruch a speculator, and declined.⁴ Meyer also anticipated the 1907 panic,

³ This account of Meyer's careers is based primarily on Pusey (1974) and the Eugene Meyer papers.

⁴ Meyer's friendship with Baruch continued. In 1916, Meyer expressed concern about the stock market's reaction to the war. Alarmed, Baruch began selling, and selling short. A few days later, the press reported that President Wilson had asked the warring nations their terms for peace, and the Secretary of State said that the United States was being drawn into the war, causing a market panic. As Baruch had begun selling three days prior to the press release, there were allegations that he received an advanced tip from the administration. A Congressional hearing was announced to investigate Baruch's trading. Meyer advised

liquidating assets early and buying into the worst of the decline, again reaping considerable profit.

In 1904, while on vacation, Meyer reviewed his many successes and occasional failures in his investment banking business. He decided to develop a new approach to investing, using statistical and scientific analysis to relate the prospects of individual companies to economic trends, and was the first on Wall Street to practice this now common method of security analysis. He first hired Lyman B. Kendall, former head of the United States Geological Survey to assist him, as Meyer was interested in mining investments. Finding that statisticians were not trained to conduct the type of analysis he wanted, he hired financial reporters to conduct his analysis.

Meyer's objective was to invest in new businesses essential to the growth of the economy. Feeling that the use of electric power and light would grow rapidly, but reluctant to invest in electric utilities, Meyer invested heavily in copper mining. Early in his career he was also interested in railroads, frequently investing in railroad stocks. His analysts focused their initial studies on railroads. But by 1910, Meyer felt that the prospects for the railroads were declining, while those of automobiles were bright. This led to an investment in Maxwell Motors.

In 1909, Kendall and Meyer's brother Edgar produced a famous report on the economic prospects of U. S. Steel. Impressed by the report, J.P. Morgan warned a partner "watch out for that fellow Meyer, because if you don't he'll end up having all the money on Wall Street." Meyer was also known for his system of estimating freight car

Baruch to state that he was a speculator, and not an investor as Baruch had planned. This confession of speculative behavior and the lack of evidence of any inside information defused the situation (Pusey, pp. 130-133.). Baruch (Bernard M. Baruch, 1960, pp. 26-30) does not mention Meyer when discussing his sales and shorts, but does credit Meyer with the advice to admit that he was a speculator.

loadings to predict economic trends (New York Times, September 17, 1930, p. 38; Pusey, p. 72).

Meyer's innovative approach resulted in considerable prosperity for him and his clients. His successes had by 1915 resulted in a personal fortune estimated to be between \$40 and \$60 million (Graham, 1997, p. 24; Eugene Meyer Papers, Box 94).

Meyer realized that World War I would curtail shipment of German dyes to the United States, and provided financing to a German chemist to develop a dye manufacturing company. In 1916, this initiative led to the formation of the National Aniline and Chemical Company, and in 1921, Meyer negotiated a merger of this company with four other chemical companies to form Allied Chemical and Dye Corporation. By 1931, his stock in Allied Chemical added an additional \$43 million to his net worth, and the continuous dividends during the depression covered his losses during his early years as publisher of the Washington Post (Graham, p.24).

His investment in Maxwell Motors, while ultimately profitable, proved frustrating and placed him under rare financial pressure, but he also underwrote and invested heavily in the first stock offerings of an auto body company. Had he accepted stock rather than cash, he would have become one of General Motors' largest shareholders when G.M. purchased the Fisher Body Company that Meyer helped finance (Graham, p.20).

Anxious to serve his country during the First World War, Meyer closed his investment banking business. Unable to serve as a soldier as he was color blind, he went to Washington as a dollar-a-year man. Being a staunch Republican, he was not welcomed with open arms by the Wilson administration. Eventually, through the

assistance of Justice Brandeis, Meyer obtained a position on the Advisory Committee on Finished Goods and eventually worked for his friend Baruch in the War Industry Board.

In 1918 he became a director of the War Finance Corporation (WFC), subsequently being elected managing director. The WFC first financed essential industries, and also purchased Liberty and Victory bonds to stabilize their prices. Due entirely to Meyer's efforts and persistence, the WFC evolved into a credit agency for agriculture.

By 1925, feeling the WFC had accomplished its objectives; Meyer began terminating its operations. He was confident that the Intermediate Credit Banking System he helped organize would fill the void left by the closing of the WFC (Eugene Meyer, 1954, p. 17). In 1927 Meyer accepted an appointment as commissioner of the Farm Loan Board, to reform a system plagued by corruption and poor management. Feeling that his mission was accomplished, Meyer resigned from the Farm Loan Board in 1929.

In 1930 Meyer was appointed Governor of the Federal Reserve Board. At the Board, Meyer sought to increase its operational authority. At that time, the Federal Reserve Bank Governors held the authority to determine Federal Reserve policy. Against the wishes of many of the Reserve Bank Governors, Meyer sought to pursue a policy of expansion. An important part of his expansionary policy was the creation of the Reconstruction Finance Corporation to lend to banks, insurance companies and railroads. The RFC was modeled after the WFC that Meyer directed in the early 1920s.⁵

⁵ For a discussion of Meyer's attempts to revive the economy during the 1930-1933 period, see Butkiewicz (2005).

Meyer left the RFC chairmanship in July 1932, and left the Fed in May 1933. A few weeks later he purchased the *Washington Post* at a bankruptcy auction. As publisher of the *Post*, and later assisted by son-in-law Philip Graham and daughter Katharine Meyer Graham, they converted a failing newspaper into an internationally recognized publication.

During World War II Meyer served on the Federal Mediation Board. In 1946, when President Truman experienced difficulty finding a qualified candidate willing to accept the position, Meyer agreed to become the organizer and first president of the International Bank for Reconstruction and Development, the World Bank. Meyer got the Bank up and running, but resigned after only six months in this position.

Through all of these accomplishments and duties, Meyer earned a considerable reputation for brilliance and ability. When Carter Glass was appointed Secretary of the Treasury, Meyer's wife Agnes referred to him as Eugene's boss. Glass replied that Meyer's knowledge and experience "made him feel like a fool" (Pusey, p.164, quoting Agnes E. Meyer Papers). When Meyer's appointment as Governor of the Federal Reserve Board was announced, the *Wall Street Journal* wrote that this would strengthen Washington's leadership in the system. It characterized Meyer as "a strong and aggressive man of outstanding organizational ability. ... Even his enemies do not deny his ability" (*Wall Street Journal*, September 9, 1930, p. 6). The *New York Times* wrote that Meyer would be a "forceful leader, informed not only in the workings of the New York money markets but also in the credit needs of the agricultural districts" (*New York Times*, September 5, 1930, p. 13). Pennsylvania Congressman Louis T. McFadden, in opposing Meyer's nomination as Governor, warned that Meyer would completely

dominate the Federal Reserve Board, or any other board of which he was a member (U.S. Senate Committee on Banking and Currency, *Nomination of Eugene Meyer to be a Member of the Federal Reserve Board*, 1932, p. 316). A 1932 *Fortune* magazine article about President Hoover included pictures of the Federal Reserve Board. In part, one caption reads: “There is but one Federal Reserve Board and its name is Meyer” (*Fortune*, July 1932, pp. 36-37). When Baruch declined an appointment to the FRC Board of Directors, he recommended Jesse Jones in response to the stipulation that his recommendation be a Democrat “... as smart as Eugene Meyer” (Baruch, p. 224).

3. Eugene Meyer the Interventionist

At Yale Meyer studied economics with Professor William Graham Sumner, famously a disciple of *laissez faire* economics.⁶ In his later studies in Germany, the ideas Meyer heard were often the opposite of *laissez faire*. Meyer came to the conclusion that the *laissez faire* philosophy was outdated. He believed that “abnormal” conditions often controlled markets, and that men attempted to control and regulate markets for their own benefit (Eugene Meyer papers, Box 180).

Meyer was no stranger to market instability. In 1910, while traveling in Asia and Europe with his new wife, Meyer received cables about a copper price and production war that was depressing the value of his investments. Meyer negotiated an “understanding” among the principal producers to cut production, ending the price war. The agreement was unwritten and there was not explicit price fixing that would be construed as an antitrust violation (Pusey, pp. 82-84).

Before Meyer entered government service during World War I, he had another encounter with Baruch, who had to negotiate the purchase of 45 million pounds of copper

⁶ This section is based on Meyer (1954), the Eugene Meyer papers, and Pusey (1974).

for the armed services. Baruch sought Meyer's advice regarding a "fair" price, and Meyer recommended a price based on a ten-year average that the copper producers accepted, even though it was significantly below the prevailing market price. This negotiated agreement earned both men considerable notoriety.

In Washington, Meyer eventually joined Baruch's Raw Materials Committee of the General Munitions Board, later the War Industries Board. Meyer became director of the nonferrous metals unit of the Raw Materials Committee.⁷ Acting for Baruch, Meyer prevented an army purchase of steel at what Meyer felt was an exorbitant price. Meyer suspected that companies were canceling civilian contracts hoping to sell at higher prices to the government. He advocated the creation of a central purchasing agency to "regulate the whole industrial situation." In his position at the War Industry Board, Meyer sought to purchase metals at prices that he felt were "fair" (Pusey, pp. 140 – 148; Eugene Meyer papers, Box 180).

Meyer was an instinctive Keynesian. He believed that housing construction had large multiplier effects, and that the problems of the Great Depression were in large part due to a housing boom-bust cycle that was the result of real estate speculation. For Meyer psychology was an important determinant of economic activity. He disavowed the strict real bills doctrine arguing that discretion in the provision of credit was preferable to any rule. He deplored what he term the "competition in laxity" in the provision of bank charters, and wanted to require that all banks be members of the Federal Reserve System. His resignation from the WFC in 1920 was prompted by his opposition to policies that he believed were ultimately responsible for the deflation of

⁷ His responsibilities included procurement of copper, lead, zinc, antimony, aluminum, nickel, silver and later cement (Pusey, p.140).

1920-21. The harm imparted by the deflation was neither inevitable nor necessary according to Meyer. For almost anyone living in the early twentieth century, but especially for a Republican, Meyer's views were contrary to the conventional wisdom.

4. The War Finance Corporation

The legislation creating the War Finance Corporation was approved on April 5, 1918, and the WFC began operations on May 20, 1918.⁸ The WFC was created based on the belief that federal borrowing would deplete funds from the credit markets, leaving little or no financing for industries essential to the war effort. The WFC was to insure that essential industries would obtain the financing they needed.

Another provision of the act was that the WFC would purchase Liberty and subsequently Victory bonds to stabilize the market price of these bonds. The WFC did engage in significant bond purchases. While the Treasury sold certificates of indebtedness at 6% to fund WFC purchases of 4-4.5% coupon bonds, the endeavor was profitable due to the significant discount at which the bonds sold during the buy-back period. The deep price discounts at which the bonds sold suggest that stabilizing prices proved an elusive objective.

The WFC was capitalized at \$500 million provided by the U.S. Treasury, and was authorized to borrow an additional \$4,000 million through bond issues. The WFC was an off-budget agency, not requiring annual appropriations. The original legislation required the WFC to close six months after the end of the war; however, its existence was extended several times.

⁸ This section is based primarily on the Eugene Meyer papers, box 180; Pusey, 1974; and Saulnier, et. al., 1958.

Meyer was an original director of the WFC and was put in charge of the bond repurchase program. Federal Reserve Board Governor W. P. G. Harding was the original managing director of the WFC, but he rarely attended meetings and relied heavily on Meyer to run the agency. Meyer was elected managing director in January 1919 following Harding's resignation from the WFC board.

Meyer had strong interests in the American West and in agriculture. He felt that the Federal Reserve never considered the needs of the country west of the Mississippi River (Committee on the History of the Federal Reserve System, Eugene Meyer).

Meyer felt that the World War had created an emergency situation for American agriculture. Prior to the war, European buyers made their annual purchases all at once. Following the war, due to financial weakness, European purchases were spread throughout the year. Due to exchange rate fluctuations, exporters were unwilling to make long-term loans to foreign governments. Meyer believed that this combination of factors was depressing the market for agricultural products.

In 1919 Meyer sought and gained Congressional approval for the WFC to make loans to European buyers to help American agricultural exports and American farmers. However, Treasury Secretary David Houston, a staunch advocate of *laissez faire*, decided to suspend WFC activities in May 1920. Houston offered Meyer the position of Assistant Treasury Secretary. Instead, Meyer resigned from government service, as he was opposed to what he correctly felt were Houston's deflationary policies, including the increase in the Federal Reserve discount rate.

Following the election, Meyer urged Congress to pass a resolution reviving the WFC's operations, which it did in January 1921, even overriding President Wilson's

veto. President Harding reappointed Meyer to the WFC board, and he was again elected managing director.

In 1921, Congress passed Meyer's bill known as the Agricultural Credits Act of 1921. The bill transformed the WFC into a support agency for agriculture. In addition to financing exports, the WFC's activities expanded to include lending to rural banks and co-ops. It was this version of the WFC that was his model for the RFC.

In 1921 and 1922 WFC lending to support agriculture was over \$250 million (Saulnier, et. al. p. 388). Based on Meyer's recommendations, the system of Federal Intermediate Credit Banks was established in 1923. Meyer felt the WFC was no longer needed, and worked to close the agency. In 1925 he returned \$499 million of WFC capital to the Treasury, and resigned from the WFC. A small amount of direct lending continued through 1928, after which the WFC continued to collect on its outstanding loans until it was closed in 1939.

WFC loans to industries essential to the war never approached the anticipated amount, as the war ended six months after WFC initiated its operations.⁹ WFC purchases of Treasury bonds were sizable, but ultimately financed by Treasury sales of short term debt that financed the repurchase of the war bonds. Loans to agriculture totaled \$306 million, made mostly during 1921 and 1922. Rather than the volume of its lending, the significance of the WFC was the precedent it set for federal intervention into credit markets.

During the years 1927 – 1929 Meyer served as the Commissioner of the Federal Farm Loan Board, which was in the Department of the Treasury. He was asked to reform

⁹ WFC business loans total \$378 million, and year end outstanding balances peaked at \$116.9 million in 1920 (Saulnier, et. al, p. 388).

a system plagued by mismanagement and scandal. At that time the Board supervised the activities of the Federal Land Banks, the Joint Stock Land Banks, the National Farm Loan Associations, and the Federal Intermediate Credit Banks. The Board also chartered the Joint Stock Land Banks and National Farm Loan Associations. The Federal Land Banks and Intermediate Credit Banks were capitalized with funds from the U. S. Treasury. Thus, Meyer remained active in federal intervention in the allocation of credit.

5. The Reconstruction Finance Corporation

Meyer was appointed Governor of the Federal Reserve Board in 1930. There was a banking crisis in the final months of 1930, and another banking crisis following Britain's departure from the gold standard in September 1931. To address banking problems, Meyer felt that an agency similar to the WFC was necessary even before Britain left gold. However, Hoover had plans for a National Credit Corporation (NCC) organized by private banks to make loans to troubled banks, as Hoover preferred voluntary private action to federal intervention.

A meeting was arranged with a group of prominent bankers. Hoover, Mellon and Mills all made their pitches to the bankers, without much success. Meyer felt that the bankers had agreed prior to the meeting to do nothing. Left alone with the bankers, Meyer pleaded with them to form the NCC, promising that should it prove inadequate, he would do everything in his power to create the RFC. In testimony for the RFC legislation, Meyer said legislation for the RFC was promised when the NCC was formed, and that the NCC was intended to be temporary ((Eugene Meyer, 1961, pp. 614-615; Gerald D. Nash, 1959; Pusey 217-218; U.S. House of Representatives, 1931-1932, pp. 29-30).

The RFC as passed on January 22, 1932 was less than Meyer wanted. In the original legislation there was a provision for the RFC to have a subsidiary to purchase commodities to support prices, as the Commodity Credit Corporation later did. Carter Glass struck this provision from the bill. After RFC operations began, Meyer decided that the RFC should buy bank preferred stock, and asked Jesse Jones to inquire whether House Speaker John Nance Garner would support this change. Jones reported back that Garner would not support the change. Still trying to support commodity prices to aid farmers, Meyer was responsible for the organization of the Commodities Finance Corporation by a private group of bankers in August 1932. The corporation was dissolved in July 1933. (Eugene Meyer papers, Box 181; Pusey, pp. 218-220).¹⁰

Any confusion regarding the roles of Meyer and Herbert Hoover in the creation of the RFC is likely due to Jesse Jones, who succeeded Meyer as Chairman of the RFC Board and directed the agency until 1945. While Jones was a Democrat, Jesse Jones and Meyer were and remained friends until their fight in 1942. At that time the *Washington Post*, Meyer's paper, carried an editorial criticizing Jones' mismanagement of the synthetic rubber program. The development of synthetic rubber was an essential war program, as the primary source of raw rubber, Southeast Asia, was controlled by the Japanese.

Jones confronted Meyer in a private club on evening that the article appeared. As the confrontation ensued, fists were thrown, although both men were past their sixty-fifth birthday. Their friendship ended and Meyer felt that Jones' *Fifty Billion Dollars* (Jesse H. Jones, 1951), published nine years later, inaccurately minimized Meyer's role in creating and organizing the RFC, even calling Hoover the Father of the RFC (Picture

¹⁰ Accounts and a brief history of the RFC's activities can be found in Butkiewicz (1995, 1999, 2002).

following page 24). Yet the RFC was Meyer's creation, and he was instrumental in its organization and initial operation.¹¹ Only the Governor of the Federal Reserve Board could have arranged the close relationship between the two organizations. RFC loan offices were located in Federal Reserve banks and branches, and many Fed employees did double duty with the RFC (Eugene Meyer Papers, box 30; Pusey, pp. 308-310; Reconstruction Finance Corporation, Board of Directors, *Minutes*, 1932).

Like the WFC, the RFC was initially capitalized by the U. S. Treasury at \$500 million. The RFC could issue bonds to the public or the Treasury to raise an additional \$1.5 billion. The RFC's original powers authorized lending to banks and other financial institutions, railroads, and for crop loans. An amendment to the RFC Act approved in July 1932 extended RFC lending powers to self-liquidating public works projects and authorization to lend to states to provide various types of relief. Total RFC lending in 1932 was \$1.5 billion (Saulnier, et. al., p. 381). Subsequent amendments vastly expanded the scale and scope of RFC lending authority.

Meyer left the RFC Board at the end of July 1932 for health reasons. In his later years, he stated that his intention was that the RFC be temporary, as was its predecessor, the WFC. In the post-WW II years, a Senate investigation was very critical of the current RFC lending practices, and RFC lending ended in 1953, and its operations were terminated in 1957, with residual activities distributed to other governmental agencies.

While Meyer may have intended that the RFC to be a temporary agency, the precedent he set through both the WFC and the RFC opened the door to a vast expansion of federal lending powers. He had paved the way for the Keynesian revolution in federal

¹¹ For an account of the creation of the RFC that precedes their dispute, see *Fortune*, May 1940, pp. 42-51.

financial intervention. The federal government was to become a permanent and prominent influence in the allocation of credit.

6. The RFC in the New Deal and Wartime

At the end of 1932, outstanding loans, investments, and other authorizations totaled almost 2% of current nominal GDP (see Figure 1).¹² In the first year of the New Deal, RFC extensions of credit increased by approximately 75%, as depicted in Figure 1. RFC activity remained high in 1934 and 1935, declining in subsequent years. Even in these later years RFC outstanding loans was approximately 2% of nominal GDP. Its role in the allocation of credit remained significant.

RFC activities during Roosevelt's first two terms were extensive. The RFC directly purchased bank preferred stock to recapitalize the banking system. It purchased gold in an attempt to manipulate the value of the dollar. The RFC made direct loans to business, particularly in response to the 1937-38 recession. It provided extensive assistance to farmers, about half through its subsidiary the Commodity Credit Corporation. Its mortgage subsidiaries included the RFC Mortgage Company and the Federal National Mortgage Association (Fannie Mae). The RFC provided capital and loans to the Ex-Im Bank. Other lending included loans to federal relief agencies, loans to state and local governments, and disaster relief loans.¹³

World War II raised RFC activity to a new high, with RFC extensions of credit reaching 4.5% of GDP in 1944. The RFC established seven new corporations and

¹² Nominal GDP data are from the Bureau of Economic Analysis web site: <http://www.bea.doc.gov/>. RFC data are from Secretary of the Treasury (1959).

¹³ The RFC and its successor, the Small Business Administration provided disaster relief loans prior to the creation of FEMA in 1979.

purchased an eighth in support of the war effort.¹⁴ Of the \$33.3 billion disbursed by the RFC during its existence, \$20.9 billion was disbursed to the RFC's wartime subsidiaries. As was the original purpose of the WFC, the RFC also made loans to other businesses essential to the war effort.

RFC lending decreased dramatically following the war. Its lending activity at this time was primarily for mortgages and business loans. Congressional concerns about the RFC's post-war lending practices led to a decision to end RFC lending in 1953. Concern that a "credit gap" existed for small businesses resulted in the creation of the Small Business Administration (SBA) to continue the RFC practice of business lending.

In addition to the SBA, other surviving RFC descendents include the Commodity Credit Corporation, the Ex-Im Bank, and Fannie Mae. The Rural Electrification Administration, funded through the RFC from its inception in 1936 through 1947, was abolished in 1994.

7. Conclusion

Eugene Meyer disavowed the *laissez faire* economic philosophy he had learned from William Graham Sumner at Yale. Instead, he became the foremost proponent of federal government intervention to stabilize markets during periods of economic difficulty. His first duties during the war included purchasing essential commodities for the war effort. Frequently he would refuse to make purchases at the prevailing market price. In these instances, he typically sought to negotiate a price he considered to be "fair."

¹⁴ The eight subsidiaries were the Metals Reserve Company, the Rubber Reserve Company, the Defense Plant Corporation, the Defense Supplies Corporation, the War Damage Corporation, the U.S. Commercial Company, the Rubber Development Corporation and the Petroleum Reserve Corporation (later the War Assets Corporation).

His responsibilities at the War Finance Corporation included buying Liberty and Victory bonds to stabilize price fluctuations. Later, he was able to convert the WFC into an agricultural credit agency. His objective was to stabilize markets, hopefully reversing some of the deflation that had depressed prices of agricultural products.

During the contraction phase of the Great Depression, Meyer again felt the need for federal intervention. Knowing that President Hoover would be opposed to his idea, he coerced leading bankers to privately create a National Credit Corporation with the understanding that its failure to provide relief would be necessary to convince the reluctant President to agree to a federal agency. Once the RFC was approved, Meyer used all of the resource of the Federal Reserve System to make the agency operational as quickly as possible.

Meyer understood that the RFC was the direct opposite of *laissez faire* philosophy. He stated that the RFC “represented the need for far-reaching governmental intervention in the functioning of the private enterprise system – a system which had undergone a cataclysmic cycle of boom and bust.” (Meyer, 1954, p. 22) Meyer also felt that such intervention should be temporary, and should be terminated when conditions returned to normal (Meyer, 1954, p. 27).

But the door that Meyer opened with the WFC and RFC was never closed. During FDR’s presidency, the off-budget borrowing and lending powers of the RFC afforded numerous opportunities for federal intervention into the allocation of credit and the resulting resource allocation of the economy. Federal intervention in the allocation of credit has continued to the present, much of it through the descendants of the RFC. Almost single-handedly, Eugene Meyer paved the way for a Keynesian revolution of

federal financial intervention throughout the American economy. For better or worse, this is his legacy.

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Figure 1

