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To prevent economic disaster, Congress should resurrect the Great Depression-era RFC [Opinion]

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Laying of the corner stone at St. Paul's Methodist Church dedication by Jesse H. Jones, Houston, Texas.

A revitalized Reconstruction Finance Corporation (RFC) can effectively address today's daunting challenges like it did during the Great Depression and World War II. The RFC rescued thousands of banks, businesses, homes and farms; stabilized the railroads; rebuilt communities after environmental calamities; built bridges, dams and aqueducts across the nation; and brought electricity and appliances to rural America. The RFC accomplished these gigantic feats during the Great Depression through judicious lending, not spending, and returned a profit to the government and its taxpayers while doing so.

The RFC proactively turned its focus from domestic economics to global defense almost two years before the Pearl Harbor attacks by building gigantic factories to manufacture airplanes, tanks, trucks and munitions and leasing them to corporations to operate. It also accumulated strategic materials from around the world and supercharged the development of synthetic rubber to field the armed forces. Likewise, a revitalized RFC can mitigate the economic and social impacts of the new coronavirus and help reverse climate change if we embrace the power of good government and consider successes from the past for solutions today.

Republican President Herbert Hoover reluctantly established the RFC during his last year in office to make loans to banks, insurance companies and railroads even though he thought addressing the catastrophic Great Depression with legislation was like passing a law to stop a hurricane. He appointed Jesse Jones — Houston’s preeminent developer and a Democrat — to the bi-partisan board after Jones prevented the collapse of Houston’s banks in 1931 through volunteer and community-based efforts. As a result of Jones’s leadership, no bank in Houston failed during the Great Depression.

Jones thought Hoover’s RFC did not go far or fast enough and declared in a stunning statement with clear implications today: “The idea of the RFC was good, but it was a year late, and... was entirely too timid and too slow to save us from disaster. Five to seven billion dollars judiciously lent in 1931 and ’32 would have prevented... the complete breakdown in business, agriculture and industry.”

Shortly after Franklin Roosevelt was inaugurated as president in 1933, legislation was passed to allow the RFC to buy preferred stock in banks to recapitalize them and help them lend again. President Roosevelt also made Jones RFC chair. Jones knew putting a foundation under the banks was essential to saving them and reviving the flow of credit, just as it was when the program was duplicated in 2008 as the Troubled Asset Relief Program, better known as TARP. Many other successful RFC programs can be adapted to address today’s challenges.

For instance, instead of cash bailouts the RFC saved the railroads — the nation’s largest industry — with low-interest, long-term loans to refinance their overwhelming debt and to maintain and modernize their lines in response to air and automobile travel. To qualify for government loans, dividends were restricted and CEOs’ salaries were limited to \$60,000 (\$1.1 million today) until loans were repaid. The investment created thousands of jobs, preserved personal savings, stabilized money markets and presciently developed the indispensable transportation infrastructure essential for World War II mobilization.

As the new coronavirus takes center stage, the danger of climate change cannot be ignored. The RFC has helpful solutions for that as well.

A modern Electric Home and Farm Authority could collaborate with banks or act independently to promote and finance the retrofitting of houses and buildings to use green energy technologies and to make them more efficient and storm resistant. Instead of encouraging energy consumption, today’s EHFA would encourage conservation and reduce fossil fuel consumption and emissions at power plants. At potentially no cost to taxpayers, a repurposed EHFA would diminish a growing threat, provide jobs to those displaced by the new coronavirus, cultivate the green economy and help make the U.S. the world’s renewable energy leader.

All it takes is a non-ideological RFC leader who prioritizes the common good, who understands credit and who inspires everyone to patriotically support the positive power of good government. As Jesse Jones said during the Great Depression about realizing economic recovery, “It cannot be achieved if we let ourselves believe that our government is our enemy.”

Fenberg is the author of “Unprecedented Power: Jesse Jones, Capitalism and the Common Good,” and is the executive producer and writer of the Emmy Award-winning documentary “Brother, Can You Spare a Billion? The Story of Jesse H. Jones.”

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