

Recently, Smithfield launched its expansion into Europe by acquiring Société Bretonne de salaisons, France's largest private-label maker of hams and bacon, and by major purchases in Poland. Smithfield is expanding facilities in Mexico, outside of U.S. pollution laws. In Canada, in 1998, Smithfield made an agreement to acquire Schneider, a major meat processor, which deal has been contested by Canada-based giant Maple Leaf Foods, which is also building mega-pork facilities.

There are similar "big names" dominating all other major food and agriculture sectors, even down to the seeds and breeding stock, from Cargill/Continental in grains, to ADM/Cargill in corn oils and sweeteners.

The largest pig-breeding stock company in the world is PIC (Pig Improvement Co.), owned by the gigantic British food/farm firm, Dalgety. The pre-eminent member of Dal-

gety's board of directors is Lord Peter Walker, the infamous Agriculture Secretary of Margaret Thatcher in the 1980s, who presided over the spread of "Mad Cow Disease" throughout British herds, and abroad! (Smithfield uses its own "NPD hog" lean-meat type, which it acquired from another British firm.)

In physical production terms, the implications of mammoth sow and processing factories are a nightmare of mass waste disposal dangers, hog epidemic disasters, and the biggest disaster of them all—the shutdown of the productive, diversified system of family farming, governed by the ingenuity and commitment of citizens. Independent hog farmers have been hit with wide price swings, and a general price for hogs far below 50% of parity—the price needed to ensure that farmers will be around in the future, which is the only guarantee of national food security.

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# It's time to revive Roosevelt's Reconstruction Finance Corp.

by Nancy Spannaus and Richard Freeman

One of the primary examples of directed government credit for rebuilding the U.S. economy was the Reconstruction Finance Corp. (RFC), an agency established by President Herbert Hoover in 1932, and revamped by Franklin Delano Roosevelt in 1933. During the 1930s, the RFC became the largest single investor and biggest bank in the United States. In the early 1940s, it played a major role in financing the war effort. During 1933-45, the RFC played a crucial contributory role in getting America out of depression, stopping its financial slide, helping provide employment, preventing massive farm and home foreclosures, and leading the nation, through a Hamiltonian economic mobilization that brought great economic growth. In part, the dirigistic RFC took the decision of which direction America would go, out of the hands of Wall Street and the City of London. Yet, today, this agency is virtually written out of the history books, along with the American System tradition of dirigistic credit for industry, agriculture, and infrastructure.

While the RFC was only a piece of the broad sweep of FDR's legislative agenda, and was by no means given the powers of a National Bank (the Federal Reserve System was still intact), its functioning should be studied, as an example of when the United States had the sense to buck "markets," when they got in the way of saving the economy and the people.

## The RFC versus the banks

Under President Hoover, the RFC's function was to make loans to banks, railroads, insurance companies, farm mortgage associations, and municipalities. The basic idea was to shore up these institutions, which were going under, with short-term financing. The inherent problem with this mission, however, was that it often saved the financiers, without benefiting the public the institution was established to serve.

From the beginning, there was a battle with the Democratic Congress, which wanted to expand the scope of lending. For example, the City of Seattle applied for a loan to build a power plant, but was turned down by the RFC on the basis of "no competition with private enterprise."

But even under Hoover, the RFC was not a small operation. Created with a capital stock of \$500 million, and the right to issue up to \$1.5 billion in debentures, the bank made loans of more than \$1 billion within its first six months of existence, to a total of 4,000 banks, railroads, credit unions, and mortgage loan companies.

When Roosevelt came into office, he immediately appointed a new director, Jesse Jones of Texas, and moved to expand the charter of the RFC. As opposed to short-term financing, the RFC was now empowered to purchase preferred stock in banks. The idea behind this shift was to help the banks establish a secure capital base so that they could

resume lending to industry and agriculture, thus reviving the economy. Jones faced the hostile bankers at the American Bankers Association conference in 1933 with the message: "Banks must provide credit. . . . Otherwise the government will."

The banks immediately objected. Led by Wall Street, the bankers complained that the RFC was trying to take them over, and that they wanted to maintain their own (bankrupt) independence. Only when pressed to the wall by new requirements for the Federal Deposit Insurance Corp., did the banking system give in to the RFC offers. By doing so, they also blocked Roosevelt's threat to lend directly to industry. Within about two years, the RFC owned about one-third of all the preferred stock of the country's banks. (In June 1935, the RFC ended its investments in preferred banking stocks.)

Despite this control, FDR's administration was unable to get the banks to extend the credit required to restart the economy.

Although the RFC did eventually get the authority to make direct loans to business and industry (in June 1934), it operated in other ways. Roosevelt used the RFC to provide capital for another important set of public agencies, whose activities ranged from preventing home foreclosures to providing funds for public works employment in infrastructure. During 1933-38, these agencies included the Commodity Credit Corp., the Home Owners Loan Corp., the Federal Emergency Relief Administration, the Electrical Home and Farm Authority, the RFC Mortgage Co. and Federal National Mortgage Association, the Export-Import Bank, and the Public Works Administration.

According to Arthur Schlesinger's *The Coming of the New Deal*, the RFC disbursed about \$10 billion during the period. While \$4 billion went to banks, more than \$1 billion each went to railroads and public works, \$1.5 billion to agriculture, and hundreds of millions to housing. These were not inconsiderable amounts of money at that time, and moreover, the impact of these RFC funds to agriculture, housing, and so on were multiplied by 5-10 times. Where the sums were used for construction, they spun off orders which stimulated industry and employment in the private sector.

In many respects, the RFC loans served as social safety nets. Take the Home Owners Loan Corp. (HOLC). Roosevelt created it in June 1933, and the RFC used \$200 million of its monies to purchase all of the HOLC's initial capital stock. The HOLC was then allowed to issue up to \$2 billion in bonds, which it could lend; the amounts increased in subsequent years. Then, the HOLC traded its bonds for shaky home mortgages, and issued cash advances to help homeowners pay taxes and make repairs. In this way, it prevented hundreds of thousands, if not millions of homeowners from being foreclosed on and evicted. (Note that 40% of the nation's mortgages were in default in early 1933, and the mortgage lending institutions were bankrupt.)

By the end of three years, the HOLC had lent more than \$3 billion to refinance mortgages. Thus, the process consisted

of setting up an agency, into which the RFC would inject initial funds by buying all of this agency's capital stock, in this case putting \$200 million into the HOLC. Once it was a going concern, the HOLC could issue bonds backed by the RFC, which investors would buy because they believed the HOLC was a going concern. In turn, the HOLC could issue \$3 billion worth of credit, a 15-fold multiple of its initial \$200 million capital base. Through this process, which the RFC repeated for other significant sectors, credit was injected into the economy.

By the time it went out of existence in 1936, the HOLC had helped refinance one in five mortgaged urban private dwellings in America.

The RFC played a similar role with the farm sector and farm mortgages, which resulted in the refinancing of more than 20% of all farm mortgages in the United States.

The RFC also extended loans, or bought stock in, other social support and infrastructure agencies. It extended at least \$500 million to the Federal Emergency Relief Administration, which provided Federal relief to unemployed. It lent \$246 million for programs carried out through the Rural Electrification Administration, including the construction of power lines and the financing of the purchases of electrical appliances by rural Americans. The RFC also bought \$10 million of stock in the Export-Import Bank, which Roosevelt had established in 1934 to finance trade with the Soviet Union, but which was extended a few years later to finance export of American goods around the world. The RFC also lent to 632 levee and irrigation districts for water management and flood control projects.

In addition, hundreds of millions of dollars were used by the RFC to purchase securities from the Public Works Administration (PWA), which constructed a massive amount of the nation's infrastructure during 1933-39. According to William Leuchtenburg's *Franklin D. Roosevelt and the New Deal*, the record was as follows:

"From 1933 to 1939, PWA helped construct some 70% of the country's new school buildings; 65% of its courthouses, city halls, and sewage plants; 35% of its hospitals and public health facilities. PWA made possible the electrification of the Pennsylvania Railroad from New York to Washington and the completion of Philadelphia's 30th Street Station. In New York, it helped build the Triborough Bridge, the Lincoln Tunnel, and a new psychiatric ward at Bellevue Hospital. It gave Texas the port of Brownsville, linked Key West to the Florida mainland, erected the superbly designed library of the University of New Mexico, and spanned rivers for Oregon's Coastal Highway. Under PWA allocation, the Navy built the aircraft carriers *Yorktown* and *Enterprise*, the heavy cruiser *Vincennes*, and numerous other light cruisers, destroyers, submarines, gunboats, and combat planes; the Army Air Corps received grants for more than a hundred planes and over fifty military airports." (p. 133)

There was a multiplier effect of the RFC funding throughout the economy.

## The war buildup

Despite these accomplishments, the Wall Street crowd continued a vigorous war against the RFC and other forms of dirigistic government financing. Their perspective, like that of today, was to leave all investment to the mercy of the "market place." In 1938-39, the RFC operations through government agencies were dramatically scaled back.

What relaunched the RFC into an instrument of dramatic economic recovery, was the beginning of the buildup for World War II. On June 25, 1940, Congress approved legislation which permitted the RFC to be more flexible in its setting of interest rates, maturities, and amounts and collateral requirements for loans. Over the next five years, the RFC would disburse almost \$25 billion in connection with the economic mobilization for World War II.

This mobilization occurred at the same time that FDR had to take top-down control over the economy to wage war. Even the Federal Reserve had to take orders during 1940-45, and lowered interest rates to 1%.

The RFC's mode of operation for the war buildup was as follows. It established the Defense Plant Corp., for example, to build plants and equipment. Then, these plants were leased to industries, giving industries the privilege of buying the plant and equipment. The RFC's scope was broader than factories, however, because it also funded the Defense Supply Corp., the Metals Reserve Co., the Rubber Reserve Co., and the Disaster Loan Corp. To give an idea of the scope of the operation, the Defense Plant Corp. built 2,300 factories.

In addition, Congress permitted the RFC subsidiary, the Export-Import Bank, to increase its loan limit and borrowing capacity.

## Operations today

As many Americans will realize, some of the positive effects of the RFC are still with us today. The Federal National Mortgage Association (Fannie Mae) and the Export-Import Bank both function as useful supports for home ownership and exports, respectively.

Yes, the banking establishment that fought the RFC under conditions of national depression in the 1930s, is more politically dominant today. But, at the same time, that establishment is even more bankrupt than the Wall Street financiers of the 1930s. The assertion of Presidential power against the power of the "marketplace," in the interest of creating jobs, infrastructure, and an export boom, could easily build the national support required to impose policies that benefit people, not the financiers.

The Export-Import Bank, for example, remains on the scene as a tool for carrying out such a policy. If its authority to issue loan guarantees and loans were vastly expanded, and it were given the mission of providing financial backing for a dramatic gearup of exports to build infrastructure in the Balkans, it could spur precisely the economic and financial shift the nation and the world need.

FDR was a master at using institutional weapons which

were at hand, to meet the necessary objective. It's time we took up that war-winning method, which extends back to America's Hamiltonian National Bank, once again. Once the national policy is set, the means can be found.

# Corps of Engineers unused in Balkans

by Richard Freeman

The reconstruction of the Balkans requires a new Marshall Plan. Yet, in addition to World Bank and International Monetary Fund sabotage of an incipient plan, there is a further problem: The U.S. Army Corps of Engineers, which has the skill, manpower, and nation-building experience to immediately mobilize bridge-building, road construction, and so on, has been told that it has no role to play. The U.S. Executive branch has not given the Corps a mission—a set of goals and orders. No money has been allocated. The Corps has 25,211 employees, many of them engineers. Any serious effort in the Balkans must begin now, breaking ground on vital projects. Unless the situation with the Corps is reversed, it would appear that America lacks the foresight and will to implement a Marshall Plan.

A Corps spokesman confirmed to *EIR* on June 15, "We were just discussing who would give us our mission, whether it would be the Department of Defense, or the State Department. But we have not received any mission statement. So, we are not planning much for the Balkans."

He continued, "What we have done so far in the region is provide the U.S. Army and NATO with base camps, maintaining tents, some housing, waste and trash control, mail delivery, and so on. It is a support role. We have not heard of any mission." He added, "After the accord in Bosnia [the Dayton Accord in November 1995], we did similar things, and some small things. But Bosnia did not have the money to pay us, and we needed the money to pay the contractors."

The significant funding from various branches of the U.S. government was not forthcoming. So, given the sabotage of the financier oligarchy and World Bank, little was built, the Corps official said: "The last time we did some work was in Kuwait, in 1991-92. That's because the Kuwaitis could afford to pay. In Kuwait, we restored power plants, water, sewage, bridges, pumping stations, and public buildings. Many public buildings had been destroyed." When asked if the Corps built anything new, he said, "No, it was restoration, although some things were so badly damaged, it was really like starting from scratch."

The Corps representative pointed out that "after Hurricane Mitch in Central America last year, we did a quick and dirty estimate of what was needed to repair the damage. We