

and President Roosevelt, the Durr-Klagsbrunn proposals were written into legislation to amend and enhance the RFC's powers stated in the 1932 RFC Act. The bill was presented to Congress in May 1940, the same month Roosevelt called for producing 50,000 planes per year.

The legislation proposed the RFC could set up subsidiaries, as government-run corporations, to implement the above tasks. These corporations were empowered, among other things, to "purchase, and produce equipment, supplies and machinery for the manufacture of arms, ammunition, and implements of war."

The Congress passed the legislation containing these proposals, and amending the 1932 Act, enabling the RFC to create subsidiaries that did the major work for the economic mobilization for World War II: the Defense Plant Corporation, the Defense Supplies Corporation, the Rubber Reserve Company, and the Metals Reserve Corporation (these four were created between June and August 1940).

In 1941, the RFC recognized that it needed legislation that made explicit its authority to lend not only to the company that produced the final military unit, such as a tank, but also to the company that was a few steps down on the production chain, say the company that produced the ball bearing. It had legislation introduced that would give the

RFC this power. P.D. Houston, president of the American Bankers Association, protested: "If business is going to the government for the bulk of its credit now, it will be dependent on the government in the future." Rep. Jesse P. Wolcott (R-Mich.) charged that the bill, if enacted, "would grant such broad powers to the executive branch of the Government as to make it possible to establish a Fascist state in the United States."

Congress, nonetheless, passed the legislation to give the RFC the further power it requested.

The strengthened RFC could now fulfill its mission to make investments in aircraft—the single biggest element of its financing—and to other industries.

With the RFC able to lend to virtually every part of the economy, at an interest rate of 3-4%, and as a result of Roosevelt leaning on the U.S. Federal Reserve Board to keep the discount rate at no higher than 1.0% from 1940-45—commercial banks could borrow at 1.0%, and lend at 3-4% interest rate—the credit market of the United States woke up to a new reality: Directed credit would go to manufacturing.

The Defense Plant Corporation went into full mobilization. The DPC financed, partially or wholly, 14 of the 15 largest airplane-engine plants constructed during the Second World War.

## The Defense Plant Corp.

The Defense Plant Corporation directed credit to multiple industries, producing a technological shock-front that finished off the Depression. We look at three industries: aircraft, steel, and aluminum.

*Aircraft Greenfield Plants:* The DPC financed the construction of the \$176 million Dodge aircraft-engine plant, near Chicago, one of the largest industrial plants in America. The factory built the engines for America's B-29 Superfortresses and the B-32 heavy bombers. The new plant complex consisted of 19 buildings spread over 476 acres, operating more than 100,000 machine tools, and employing more than 50,000 workers.

*Aircraft Retooling:* The RFC extended hundreds of millions of dollars to General Motors and many other companies to retool existing facilities to produce aircraft engines and parts. In toto, the DPC disbursed \$3.03 billion to the aircraft defense sector: In 1939, the United States produced 5,865 planes; by 1944, some 96,000, a more than 15-fold increase. By its November 1943 peak, the army of aircraft plant employees grew to 2.1 million workers—12.4% of the total national manufacturing workforce.

*Aluminum:* Aluminum had been known since 1825,

but its production is very energy-intensive; therefore its commercial supply had been limited. But the hydropower of the New Deal—projects such as the TVA—provided plentiful, cheap electricity. The RFC disbursed \$702 million, and as a result, aluminum production rose 28-fold, from 100 million tons before the war, to 2.78 billion tons in 1945.

*Steel:* Roosevelt had to have a knock-down, drag-out fight with the Morgan-led U.S. Steel and Bethlehem Steel companies, which resisted the government's efforts to expand steel production. The President, after consultation with RFC Chairman Jesse Jones, authorized the DPC to disburse \$947 million to build and upgrade 183 steel and pig-iron plants, adding 10-11 million tons of capacity.

In all, the RFC, through the DPC and its other subsidiaries, between 1941 and 1945, extended \$23 billion in credit, equivalent to \$795 million in today's dollars. Each of the 2,300 projects triggered 10-30 projects/contracts in the industries that supplied the machines, materials, etc., into the main project. As the U.S. physical economy became more productive, the labor force was also upgraded, through extensive skill training by the government and private industry, and the creation of manufacturing jobs. Between 1939 and 1944, the manufacturing labor force jumped by 70% to 17.3 million, while the legions of unemployed shrank to less than 1 million.