The Constitutional Law of Money

Professor Christine Desan

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Discussion Questions for Class 16

Credit Allocation as a Political Project

Reading:

Louis Hyman, *Debtor Nation: The History of American in Red Ink*, 53-58, 63-70 (Princeton, N.J.: Princeton University Press, 2012).

Kenneth Jackson, *Crabgrass Frontier: The Suburbanization of the United States*, 203-209, 213-218 (1985).

Address of Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, to the National Tax Association (Oct. 14, 1941).

Background:

The banking sector demonstrated little resiliency during the Great Depression, despite the hopes of "liquidationists" and others who assumed that once failing enterprises closed, the system would recover. New Deal administrators and legislators experimented with a variety of strategies to stimulate lending by the banks and to strengthen them as the agents of money production and credit allocation. Some, like the federal Home Owner's Loan Corporation, intervened directly to provide liquidity. Thus the HOLC acted as an intermediary between foreclosing banks and desperate homeowners. It took over mortgages from banks in return for long-term bonds, and then allowed homeowners to refinance mortgages on longer terms. (For a recent review of the redlining, flagged by the scholars above, that occurred under the auspices of the HOLC, see URL.)

The Federal Housing Administration supervised a program designed, by contrast, to re-start private lending. Hyman describes the theory and operation of the FHA. As you read, consider that the activity of banks is at the center of the monetary as well as the credit system: bank lending influenced the general money supply as well as providing individuated credit. The standardization, insuring, and resale of mortgages, innovated by the FHA, would profoundly affect both levels of liquidity and access to credit, changing the amounts and character of each in the modern world.

As the breadth of their initiatives suggests, New Deal officials were deeply committed to experimentation in their rescue and rebuilding operations. World War II became, for them, another challenge and opportunity to study economic dynamics.

Discussion Questions:

1. Put yourself in the shoes of a New Deal legislator considering whether to establish the FHA.
    a. What strike you as the most compelling reasons to act?
    b. What dangers or disadvantages would you anticipate?

2. How would the FHA change the function of bankers? Would lending under the FHA meet the ideal of bank lending that Amar Bhide posited? (We'll later ask the same question about lending via securitized mortgages, an innovation of the 1960s.)

3. How could the FHA have addressed the discriminatory impact of the lending initiative they administered?

4. How does the vision of economic development promoted by Marriner Eccles compare with the rationale that underlay the FHA? Is it a compatible vision?

5. How does Eccles regard "taxation" – is it a mode of raising money for the government, an instrument for redirecting funds, or a method of restricting spending?

6. How does the combination of state and federal taxation affect national monetary policy?

7. How would the policy differ in wartime and peacetime? Is Eccles correct in his concluding statement that "the economic problems of a world at peace will ironically be even more difficult to deal with than the economic problems of a world at war?"

8. How would the robust direction of fiscal and monetary policy that Eccles envisions be democratically accountable?

    a. at the level of separation of powers?
    b. as a matter of federalism?