

JESUS H. JONES

(And the Delights of Synthetic Rubber)

A calm American mind was a scarce commodity on December 7, 1941. But that relaxed brain might well have anticipated the succeeding events. The war would cost over \$300 billion or three-and-a-half times the size of our entire economy in 1938. (The modern equivalent would be \$49 trillion.) And we didn't have anywhere near that kind of money or any conceivable source of such colossal loans.

Then too, the war would demand a nearly inconceivable number of tires for planes and military vehicles, and the Japanese occupation of Southeast Asia had deprived us of any significant supply of natural rubber. Our chemical companies had succeeded in creating perhaps a few test tubes of a synthetic substitute.

So it was that, at ten o'clock on one February morning in 1942, eighteen executives of the leading American petroleum and chemical companies met with Jesse Jones in his office at the Reconstruction Finance Corporation. At three o'clock the next morning, they retired for a few hours of sleep, and, by early afternoon, they signed on the bottom line. They would combine the efforts of their scientists and engineers to produce 400,000 tons of synthetic rubber per year for the war effort.

The actual terms of the agreement were that we, the people, would build the facilities and lease each one to appropriate corporation for a dollar a year. The production would be managed by the companies and all compensation paid as the cost of production plus an administrative fee. By war's end, the RFC would invest \$700,000,000 in the construction of fifty-one factories to produce the constituent chemicals and finished rubber that would result in 41.5 million military tires and other items. In 1945, 24,000 American workers produced more than one million tons of rubber.

Proceeding directly to the bottom line, this form of production is known in the trade as "socialism". When the government places an order for goods or services, and when that production is financed publically and occurs in publically owned buildings, it's the most radical of all possible departures from the conventions of capitalism. If we prefer to be dainty and understated, we may always resort to "command economy" or the esoteric "dirigisme", but a spade remains a spade. All wartime economies are socialist even when the war is the brainchild of capitalists.

But this flat honesty obscures the web of irony that constitutes the convoluted irony of synthetic rubber.

For starters, the Reconstruction Finance Corporation began in 1932 as Herbert Hoover's pathetic attempt to rescue banks. Woefully underfunded, it represents a kind of reverse déjà vu

of our recent crisis in that most banks refused assistance fearing that this intervention would be an open declaration of their insolvency.

When Franklin Roosevelt took charge, he continued the subdued funding of the agency and appointed a staunch, rock-ribbed, Texas banker Republican to its chairmanship. He could not have chosen a more conservative, cautious administrator than Jesse Jones. FDR, ever the flamboyant stylist, would later appoint the left-leaning social visionary, Henry Wallace, as Secretary of Agriculture and later vice-president. Jones considered Wallace to be the devil incarnate.

Still, in keeping with his spotless pragmatism, Jesse Jones began toying with certain practical, hard-nosed investments. What if the RFC were to loan money to farmers for the electrification of their homesteads? Of course, the only way to do that would be to facilitate the formation of electrical cooperatives, and the existing utility companies might pitch a fit, but what the hell, it worked. The cooperatives in fact paid the bills on time, and the RFC reaped a tidy if modest reward. So, what about loans for these same farmers to buy lights and fans? How about a superhighway across Pennsylvania with the costs reimbursed by tolls? If that, why not bridges in New York City and a canal from the Colorado River to Los Angeles? And why couldn't the RFC use its financial weight to support the crashing price of cotton? The list goes on and on, and the RFC would eventually be responsible for \$50 billion of investment in our economy. FDR was so impressed with the RFC's miracle-working that he dubbed its chairman "Jesus H. Jones".

Yet, as of December 7, 1941, it was too little, too late. The sad fact of the matter is that Jesse Jones had no idea what he was doing. In retirement, he wrote his history of the Reconstruction Finance Corporation, and *Fifty-billion Dollars* is a delightful recounting of the exploits of a handful of administrators where the angels are in the details. We learn everything we need to know about the formation of eight subsidiary corporations, and we are reassured that government officials can be magnificent stewards of the public interest. But we learn nothing about where the money came from in the first place.

With a world of time and knowing where to look, we could undoubtedly find the lines in the federal budgets of the 1930's that identify appropriations for the RFC. With less than complete certainty, we assume that these funds were derived from taxation or loans. This was pre-existing money and therefore limited. But the war changed all that. We simply did not have anywhere near \$700,000,000 to invest in synthetic rubber, and taxation and deficit spending could only yield a fraction of the necessary funding. We pulled the money out of thin air. We printed approximately 25% of the war's cost, and this ink generated the taxation and war bond sales that covered the remainder.

This essay is not intended to examine the full complexity of the two very different forms of money. For now, we'll merely hint that capitalism generates cash with the fractional reserve voodoo of commercial banking, and that currency exists as both asset and liability. A given dollar can inflate wildly, shrink into oblivion, or blow the whole system to smithereens. Fiat

money or “money by government declaration” is another kettle of fish or horses of different colors.

For present purposes, we concern ourselves solely with the remarkable natures of the RFC and Jesse Jones himself.

The Reconstruction Finance Corporation was a true national bank. A conventional central bank – such as the Bank of England or our Federal Reserve – exists to serve the needs of the private banking sector. It’s true that the commercial banks are only too happy to finance government operations, but only if there’s money to be made. The difference between a national and central bank becomes obvious if we consider a hypothetical case. Suppose that corn production in Nebraska could be stabilized with a canal from the Great Lakes thus removing any threat to the underground Ogallala aquifer. The capital required for such an undertaking is astronomical, so no corporation or consortium could possibly rise to the occasion. And the prospects of any profit are dismal at best, so, deprived of means and motivation, neither banks nor their governors at the Fed will display the least interest.

But the prudent board of directors of a national bank will consider the issue as a global matter. What is the national level of employment, and where will the new wages wind up? Would it make sense to reimburse part of the expense with water use fees the farmers would then pass on to consumers? Is the canal project part of a larger farm policy that might encourage Nebraska farmers to grow something they might actually be able to eat? If the United States is such a natural breadbasket, how will our exports affect both our economy and the prosperity of the average Nigerian? Should the national bank open its windows to accept deposits paying interest? Can the operations of the bank be sustained if speculators are constantly draining capital into speculation and other diversions? After sorting through the myriad potential consequences, the national bank invests with little regard to short-term or individual profit.

Aside from Alexander Hamilton’s Bank of the United States and the Reconstruction Finance Corporation, we have only Lincoln’s use of printed Greenbacks as three American examples of the institution of a national bank, but that’s all we need. These three distinct variations teach us all we need to know about public prosperity.

But uniquely, the RFC threw in one eye-popping twist.

When we, the people, financed the Erie Canal, it stayed put. When Lincoln printed the money for carbines, the slaughter remained domestic. But the RFC’s 41.5 million military tires were exported or wound up as post-war surplus. In fact, the end product of World War II was a pile of perhaps seventy million corpses, almost all of them far from our shores. So, if the RFC was in the business of financing death and destruction overseas, how then did we emerge from the war with the swagger of newfound prosperity?

Aside from the wages of war paid to soldiers, the printed money stayed here and financed a transformation of the American workplace. Sharecroppers became shipwrights and machinists. Housewives learned to build bombers. Veterans went to college and staffed armies of chemists, engineers, and scientists. The national debt incurred by the war took the form of war bonds which were cashed in to purchase houses, refrigerators, small businesses, and prestige.

One traditional view of economic stimulus by government expenditure is that we can always pay people to dig holes with shovels and then fill them in again. But the lesson of the RFC and World War II is that prosperity arrives when we educate shovel jockeys in the fine arts of calculus, crop genetics, and nuclear physics.

(It's not the purpose of this essay to articulate the full program of my organization, FourHourDay. The basic proposal, though, is that the United States create a national bank to print investment in export industries geared towards the rapid advance of the world's most impoverished countries. Just as we did seventy years ago, almost everything we make ships out with no direct compensation being required. With all the money lingering here, we invest in whole new categories of agricultural, transportation, and energy innovations. We did it before, and we can do it again.)

Returning now to the specifics of Jesse Jones and the Reconstruction Finance Corporation, we Americans came out of the Second World War as the proud owners of fifty-one rubber factories. We paid for them, we built them, and we made them run like clockwork. So, of course, we gave them away. Jesse Jones authorized the sale of the factories to corporations at a ridiculously depreciated cost. Why?

The story of the Jones and the RFC makes little sense until we consider the moral imperatives and the fog of war. Despite quite significant exceptions, we Americans were united in a frenzy of patriotic zeal for freedom and justice. In such circumstances, we tend to grab whatever weapon is nearest at hand and let the devil take the hindmost. Jesse Jones, as the consummate administrator focused only on getting the job done, resorted to the expedients of mystery money and public ownership without lolling around in semantics or philosophical nitpicking. In retrospect, we see a pure form of socialism while he saw only the tires rolling off the assembly line. And in the fine tradition of American red scares, the post-war atmosphere could never condone nationalized rubber, health care, or any other subversion.

Corporate interests, however, could sit back and marvel at the wonderfully intoxicating effect of military orders, and the rest is history.

Still, when all is said and done, the basic truth is that printed money and the RFC sprang from the heart of moral commitment. The United States will never adopt national bank methodology if it's seen as a clever technical mechanism. Our present business as usual has done nothing but generate a vast divide between obscene wealth and crushing poverty, and only when this injustice breaks our hearts will our brains engage.

Make no small plans, for small plans do not stir the blood.