

## Testimony January 29, 2025 Maryland Senate Resolution SJ0002

Thank you for the opportunity to submit testimony today regarding Senate Joint Resolution 0002 in support of the National Infrastructure Bank. I am a volunteer with the Coalition for a National Infrastructure Bank, and currently reside in Northern Virginia. However, I lived in Baltimore County and Baltimore City in the 1980s. And I still visit episodically and of course indulge in Maryland Crabs (the best in the nation). The resolution urges Congress to create a National Infrastructure Bank (HR 4052 in the 118<sup>th</sup> Congress, to be reintroduced) in the tradition of four previous institutions which played vital roles in our nation's development. They operated "off the regular budget", but in concert with federal, state, and local entities. They supplemented or helped drive economic development and revenue. They financed projects which contributed to the real, physical growth of the nation, and hence to the General Welfare. The new congressional legislation would create a fifth bank, but unlike the others, it would be permanent. Just to provide context, the nation has a \$5 trillion plus infrastructure deficit, as per the American Society of Civil Engineers and others. As in previous similar situations in American history where there was high debt and shrinking growth, these kinds of banks were brought in to move the nation forward. This approach has worked and will work again to build the nation in this situation.

I want to briefly describe the impact of the previous institutions on the development of the nation, and in Maryland.

The First Bank of the United States was established in 1791. The legislation was written by Treasury Secretary Alexander Hamilton. He was directly involved in the ongoing operations of the Bank. It was capitalized in one day, and became the largest bank in the nation. It spawned the creation of state and local banks as well. Beyond its key duties of managing the finances of the nation, creating the currency, and overseeing the stability of the economy, the Bank also was the main supplier of cheap credit to businesses and public entities to launch the development of the nation. This credit was instrumental in building the early roads, bridges, canals, and the industries.

The Bank was directly involved in financing construction of the National Road through Maryland, from the Eastern Shore to Cumberland, and beyond. Today

this road is US 40. But then it was the equivalent of a Moonshot!! It was the main driver of economic and commercial development in Maryland and in the contiguous states, and the newly formed territories and states to the west. It was a driver of growth for the entire nation.

The Second Bank of the United States was formed in 1816, in the wake of the disastrous War of 1812, which wreaked havoc in Maryland and even Washington DC. The first Bank had a 20-year charter that was not renewed, and one result was a dramatic slowdown of the economy. This left the country vulnerable to outside attack, which was exploited by the British in the War. The lesson was not lost. The Second Bank began slowly but flourished under President John Quincy Adams and Bank President Nicholas Biddle. That institution was responsible for the stability of the banking system, a sound currency, and the robust issuance of credit for economic development. Many of the early canals and railroads were built in this period as a result. This included the landmark Baltimore and Ohio Railroad, the first passenger railroad in the United States, which ran from Baltimore to Ellicott City and then west.

President Abraham Lincoln, a staunch proponent of national banking, incorporated an endorsement of a National Bank into the Republican Platform of 1860. While a “bank” was not created under Lincoln, the President instead founded the National Banking System on precisely this principle. National Banks used the “Hamiltonian” method of capitalization, swapping US Treasuries for National Bank notes. Lincoln’s national banking was directly responsible for the massive credit expansion during the Civil War. This led to the subsequent development of a robust industrial economy and the accompanying infrastructure. The United States began to lead the world in railroads, steelmaking, water transportation and many other areas. Two obvious examples were the development of the telegraph communication network and the Transcontinental Railroads. Maryland’s infrastructure, both rail and roads, were beneficiaries of this buildup.

The last version of national banking and its infrastructure component was the Reconstruction Finance Corporation (RFC) launched in 1932 and ending in 1957. This entity was started by President Herbert Hoover, to try and halt the Great Depression. It was taken over and greatly expanded under President Franklin

Roosevelt. The RFC played a major role in ending the Depression and winning WWII. From 1932-45 it lent over \$50 billion into the war economy, an immense sum in that period. The impact was massive. It was known as the National Bank and as “The Fourth Branch of Government”. It was larger than any bank in existence.

The RFC collaborated with the Public Works Administration (PWA) and the Works Progress Administration (WPA) to revive infrastructure and industry. The RFC provided seed money for both, as well as the Tennessee Valley Authority and countless other entities. It also bought the notes of the PWA and cycled cash back into their programs. PWA investments were 70% loans and 30% grants, and the RFC was its collaborator. The results were immense.

In Maryland, some of the notable projects included:

- Camp David in Thurmont
- National Institutes of Health Campus, Bethesda
- University of Maryland Buildings, College Park
- Walter Reed National Military Medical Center, Bethesda
- PWA and WPA built hundreds if not thousands of key projects in the state including sewer extensions, sidewalks, stairs, water mains, municipal water systems and more. They built municipal buildings, high schools (Bethesda Chevy High School for example), post offices and more.

Tens of thousands of new jobs were created and tax revenues expanded as a result. Each new project spun off three times the investment in supply chains and new industries. This increased the standard of living and productivity for the state and the nation. The RFC was prudent, and also ran “a tight ship”. There were virtually no defaults.

The RFC was the main financier of the Baltimore and Ohio Railroad during the Depression. It rescued the railroad, and made it an essential part of the infrastructure of the nation.

The RFC directly financed the electrification of the Pennsylvania Railroad in the 1930s, from Washington, DC to New York. This became the largest electrified rail system in the nation. That system needs a major overhaul today, but it was a great success.

The RFC also directly provided all the financing for the Rural Electrification Administration (REEA) created in 1936. Prior to the REA, 90% of rural America had no electric power! Rural America was poor, malnourished, and using farm technologies of the 19<sup>th</sup> century. Reports of poverty and low incomes in Maryland's farm communities corroborate the story. Within ten years of the creation of the REA, 90% of rural America shared in the 20<sup>th</sup> Century miracle of electric power. The argument made by the big power companies was that rural citizens were too poor to afford electric power bills. Hence they did not build the power systems.

The REA acted counter intuitively and loaned directly into these areas. In many cases they created electric cooperatives to bring in the power. These co-ops were run by the local farm community and worked with the REA to learn how to string the lines, bring in the power, and utilize the benefits.

In Maryland, it was the REA, working with incipient cooperatives, that brought power to at least three counties: St. Mary's, Prince Georges, and Charles. After much discussion, the Southern Maryland Electric Cooperatives were created in 1937-38 and became the primary vehicle to bring electricity to the region. (There is a very "illuminating" book on the subject: *Lighting Up Our Lives*, by Al Gough).

When WWII broke out, the RFC was retooled to help fight the war. The RFC spent \$10 billion attacking the Depression, and \$40 billion in building the war economy. In 1942, The Davison Chemical Corporation in Baltimore received a large loan from the RFC to produce silica gel as part of the Rubber Reserve Company effort to create synthetic rubber during the war.

In 1942-3, the RFC built two long oil pipelines (1200 miles each) from East Texas to New Jersey in under a year (!!), to bring much needed oil to the East Coast, including Maryland. This was used for domestic heating, cooking and other necessities. But it fueled the war economy. Without this oil, East Coast war industries, including Bethlehem Steel, Glenn Martin Aircraft, and other companies would never have built the factories that won the war.

The RFC and its subsidiaries were lending institutions. They "leaned into" the Depression and the war effort and generated a massive increase in jobs and GDP. GDP growth from 1933-37 averaged 5-8% per year. From 1941-45 it averaged an astounding 9-18% per year! It was no accident that the RFC, like the previous

banks, ended in the black! The loans were repaid. It made a profit for the government. We had full employment, increased the standard of living tremendously, and built the greatest economy the world had ever seen. A nation filled with pessimism in 1932 became the most optimistic, "can do" country in the world.

We have a similar need for such an institution today.

Just to add a footnote regarding Maryland. The transportation budget of the Governor is laudable. However, there is no funding for a new or repaired Chesapeake Bay Bridge, a new span into the Eastern Shore, or a new bridge where the American Legion Bridge sits. Let alone money for high-speed rail, additional mass transit and passenger rail.

The National Infrastructure Bank could help finance all those projects and help build the state. We did this before; we can of course do it again.

Please vote for SJ 0002. Thank you.

Stuart Rosenblatt

Leesburg, Va 20176

[rosenblattstu@gmail.com](mailto:rosenblattstu@gmail.com)