The Federal Reserve System

Property of
The Committee on the History of
the Federal Reserve System

7
Man
Board of
Governors

12
Federal Reserve Banks
and 24 Branches

6,743
Member Banks throughout U. S.

Issued by the

FEDERAL RESERVE BANK OF ATLANTA

BIRMINGHAM BRANCH

JACKSONVILLE BRANCH

NASHVILLE BRANCH

NEW ORLEANS BRANCH

SIXTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank of St. Louis

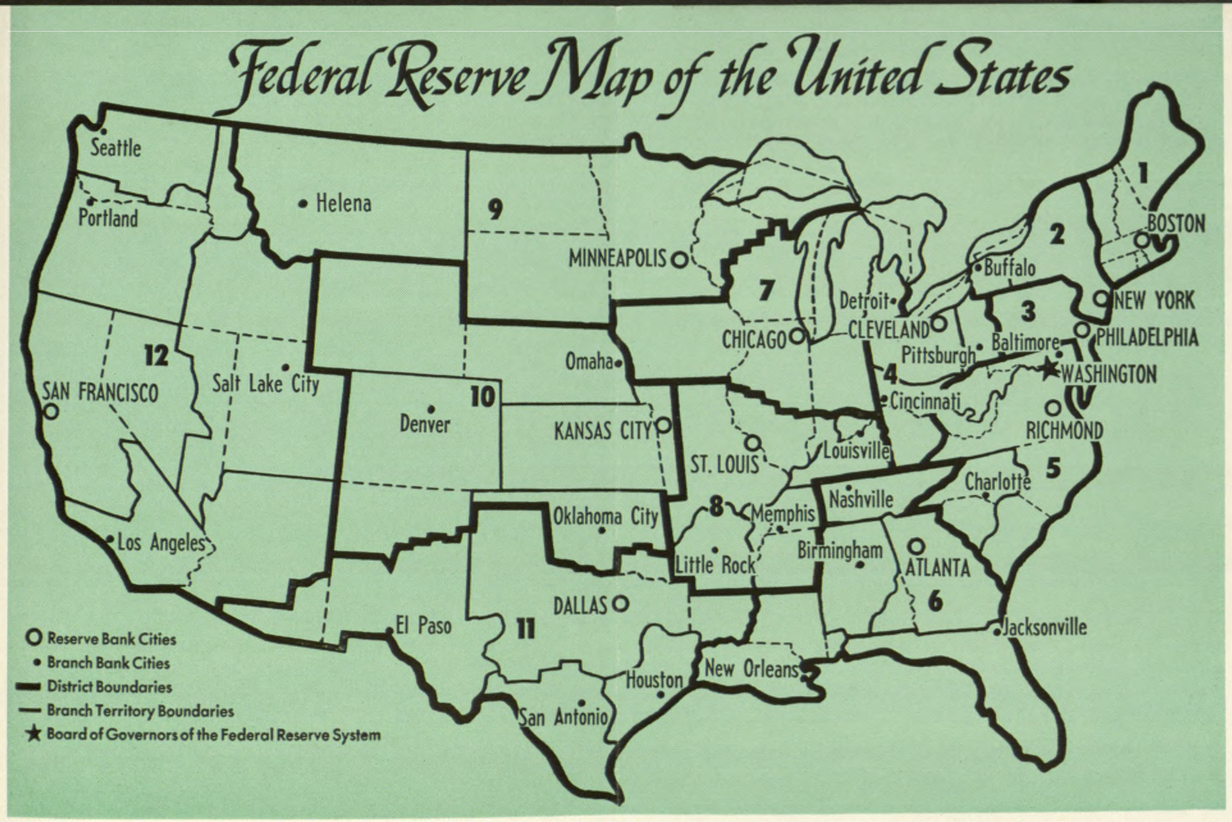
The Federal Reserve *System*

On December 23, 1913, Woodrow Wilson signed the Federal Reserve Act establishing the Federal Reserve System. It was, according to its preamble, "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Section 4 of the new statute charged the Federal Reserve Banks with making ". . . such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for . . . the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture."

The passage of the Act marked a new era in American banking. Periodic money panics, highlighted by the Panic of 1907, had plagued the country for many years. In 1908, a National Monetary Commission, appointed by Congress, had begun the formal studies that laid the background for the passage of the new Act. It was designed to end extreme variations in the money supply and thus contribute to economic stability.

By the end of 1914, twelve Federal Reserve Banks had been established under the supervision of a central body designated as the Federal Reserve Board (now the Board of Governors of the Federal Reserve System), with headquarters at Washington, D. C. The System has weathered the impact of two world wars and a great depression. Today, it has almost 7,000 member banks, representing every section of the nation. Its operations have their impact at every level—local, national, and international.

A distinguishing feature of the Federal Reserve System is its structure, which is an effective combination of public and private management. At the base of the structure are the member banks, which are privately owned and operated under either national or State charters. Next are the twelve Federal Reserve Banks and their twenty-four branches. They are partly autonomous but are placed under the general supervision of the Board of Governors of the Federal Reserve System. There is also the powerful Federal Open Market Committee.



The Member Banks

All national banks within the continental United States are required to be members of the System, while State banks are admitted to membership upon application if they meet certain requirements. On December 31, 1953, there were 13,981 commercial banks in the country, of which 6,743 were member banks. Although the member banks accounted for only 49 percent of the total number of commercial banks, they held approximately 85 percent of total commercial bank deposits.

Member banks assume certain obligations. They become subject to numerous safeguarding provisions of the Federal Reserve Act, among which are those pertaining to affiliations with securities and investment companies, interlocking directorates, removal of directors and officers because of unsafe or unsound practices, payment of interest on deposits, and branch bank relations. State bank members are subject to examination and supervision by the Federal Reserve System.

Another obligation of member banks is to keep on deposit with the Federal Reserve Bank of their district a stipulated proportion of their deposits. They are also required to subscribe to the capital of the Federal Reserve Bank of their district in an amount equal to 6 percent of their capital and surplus. At the close of 1953, the required reserves of members were in excess of $19,000,000,000, while the total paid-in capital of the Federal Reserve Banks was about $265,000,000.

Numerous advantages from their membership are enjoyed by member banks. Among such advantages is the right to borrow from the Federal Reserve Banks when they need additional funds. The individual member bank thus does not stand alone; it has recourse to the money lending powers of the Federal Reserve System itself.

The Federal Reserve System provides nationwide facilities for collecting checks, settling clearing balances, and transferring funds. Member banks also look to the Federal Reserve Banks for their supplies of currency and coin.

Issuance of currency is a function of most central banking institutions. The Federal Reserve Banks issue Federal Reserve notes, which account for about 85 percent of the United States money in circulation.

Membership in the Federal Reserve System entitles member banks to receive a cumulative dividend of 6 percent on their paid-in capital stock in the Federal Reserve Banks. In 1953, such dividends amounted to $15,558,377. Stock ownership also qualifies the member banks to elect six of the nine directors of the Federal Reserve Bank of their district.

The Federal Reserve Banks

The Federal Reserve Act stipulated that there should be not less than eight and not more than twelve Reserve Banks. The maximum number was determined upon, and twelve regional banks were established. They are located in the cities of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Minneapolis, Dallas, and San Francisco. Branches of Federal Reserve Banks have been established in twenty-four other cities. The Federal Reserve Bank of Atlanta, as an example, has branches in Birmingham, Jacksonville, Nashville, and New Orleans.

Each Reserve Bank is a separately incorporated institution, having its own Board of Directors. Directors of a Reserve Bank are nine in number, divided into three classes of three each, designated as Classes A, B, and C. Class A directors are elected by the stockholding banks and represent such banks. Class B directors are also elected by the member banks but at the time of their election must be actively engaged in their district in commerce, agriculture, or some industrial pursuit; no Class B director may be an officer, director, or employee of any bank. The Board of Governors of the Federal Reserve System appoints the Class C directors, one of whom is designated as Chairman and another as Deputy Chairman. No Class C director may be an officer, director, employee, or stockholder of any bank.

FEDERAL RESERVE BANKS
Year 1953

		Percent
Income Sources		
Discounts and Advances	$ 15,276,054	3.0
Industrial Loans	121,163	—
Commitments to make industrial loans	14,363	—
U. S. Government securities	497,454,961	96.6
All Other	170,696	—
Total Current Earnings	$513,037,237	99.6
Additions to current net earnings:		
Profits on sales of U. S. Government securities (net)	$ 1,952,270	.4
All Other	143,904	—
Total Additions	$ 2,096,174	.4
Total Income	$515,133,411	100.0
Income Distribution		
Paid U. S. Treasury	$342,567,985	66.5
Operating Expenses	113,515,020	22.0
Credit to Capital Accounts	40,336,862	7.9
Dividends	15,558,377	3.0
Other Charges	3,155,167	0.6
Total	$515,133,411	100.0

For the purpose of electing Class A and Class B directors, the member banks are divided into three groups representing large banks, middle-sized banks, and small banks, respectively. Each group elects one Class A and one Class B director.

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Most of the Federal Reserve Bank branches have a Board of Directors of seven members. A majority of these members are appointed by the Bank's board of directors and the others are appointed from nonbanking fields by the Board of Governors.

The Federal Reserve System is self-sustaining and is not dependent upon appropriations by the Federal Government. While not operated for profit, the Federal Reserve Banks not only pay their own way but at the present time turn over to the Treasury of the United States 90 percent of their earnings above expenses and dividends. In 1953 $342,567,985 was paid out of net earnings of the Banks to the Treasury.

FEDERAL RESERVE BANKS
ASSETS AND LIABILITIES
December 31, 1953

	(000's)	Percent
Total Assets		
Gold Certificates	$ 20,453,102	
Redemption fund for Federal Reserve Notes	900,644	
Total Gold Certificate Reserves	$ 21,353,746	40.8
Other Cash	371,761	0.7
Other Assets	4,643,742	8.9
Discounts and advances and Industrial Loans	29,734	0.1
Total U. S. Government Securities	25,915,574	49.5
Total	$ 52,314,557	100.0
Total Liabilities		
Member Banks Reserve Accounts	$ 20,160,435	38.5
Federal Reserve Notes	26,558,372	50.8
Foreign and Other	916,113	1.7
Other Liabilities	3,308,577	6.3
U. S. Treasury	345,866	0.7
Capital Funds	1,025,194	2.0
Total	$ 52,314,557	100.0

These varied arrangements for regional representation, election of directors, and distribution of profits emphasize the unique character of the Federal Reserve Banks as organizations occupying a position that is partly private enterprise and partly Government.

FEDERAL RESERVE BUILDING, CONSTITUTION AVENUE AT 20TH STREET, WASHINGTON, D. C.

The Board of Governors

The Board of Governors of the Federal Reserve System, with headquarters at Washington, D. C., consists of seven members, who are appointed to their posts by the President of the United States, subject to confirmation by the Senate. Appointments to the Board are for terms of fourteen years, with one term expiring every two years. Regional representation is assured by the provision that no Federal Reserve District may have more than one member. Operating expenses of the Board are defrayed from assessments levied upon the Federal Reserve Banks.

Quite literally, the Board of Governors represents the essential link between Government and the private interests of our banking system. In adjusting the country's money supply toward the goal of stable economic progress, the Board of Governors plays the primary role through its authority over changes in member bank reserve requirements, its participation in open market operations, and its approval of changes in discount rates at the Federal Reserve Banks.

The Board issues regulations, passes on budgets of the Federal Reserve Banks, directs System research and publications, supervises Reserve Bank accounting procedures, and directs bank examination procedures. In System matters that involve relations with executive departments or with congressional committees, the Board serves as representative of the System.

Federal Open Market Committee

Of great importance in the Federal Reserve structure is the Federal Open Market Committee. It consists of the members of the Board of Governors, and Presidents of five Reserve Banks.

Federal Reserve open market operations, for which the Committee is solely responsible, represent the most important single instrument of credit control. Purchases of Government securities directly increase commercial bank reserves, making it possible for the banks to lend more money. Sales of Government securities by the System have directly the opposite effect. Such purchases and sales are authorized by the committee with sole regard to the business and credit needs of the country.

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This condensed account of the Federal Reserve structure may be supplemented by a reading of THE FEDERAL RESERVE SYSTEM—ITS PURPOSE AND FUNCTIONS, published by the Board of Governors of the Federal Reserve System.

Copies of this publication are available at any Federal Reserve Bank or Branch.

June 1, 1954

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Banking and Business Films

LIST OF FILMS AVAILABLE

as of May 1954, for lending to Banks, High Schools, Colleges, Service Clubs, Business and Professional Organizations, and other groups

Federal Reserve Bank of Atlanta

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For Adult, College, and High School Audiences:

1. YOUR MONEY'S WORTH

Color: Sound: 16 mm: 38 minutes

This film presents a graphic picture of the workings of the economic system. It offers a class-room program on money and banking and their relationship to the economy, with the several lecturers using a series of cleverly designed charts and graphs to illustrate their subject matter. It has been called a college economics course in one session.

Produced by Byron Motion Pictures, Washington, D. C.

2. THE FEDERAL RESERVE SYSTEM

Black and White: Sound: 16 mm: 22 minutes

Covering the period from the money panic of 1907 through World War II, this is an excellent historical portrayal of the background and initial development of the Federal Reserve System. It explains the three principal ways in which the reserve banking system provides financial stability. The flexibility of the system is demonstrated in showing how it has been adapted to meet the challenge of changing economic conditions.

Produced by Encyclopedia Britannica Films.

3. THE FEDERAL RESERVE BANK AND YOU

Black and White: Sound: 16 mm: 22 minutes

This film presents the operations of a Federal Reserve Bank as explained to a high school student by his father and a commercial banker. Operations shown include the listing, sorting, and clearing of bank checks, the receipt and shipment of coin and currency, the handling and servicing of Government security issues, and safekeeping of securities. Included also is a brief presentation of monetary management considerations.

Produced by the Federal Reserve Bank of Minneapolis.

4. A DAY AT THE FEDERAL RESERVE BANK OF CLEVELAND

Black and White: Sound: 16 mm: 22 minutes

Simulating a tour of the Federal Reserve Bank of Cleveland, this film shows various operations of the bank as viewed by hundreds of bankers, businessmen, students, and others who visit Federal Reserve Banks each year. After a brief orientation as to the purposes and functions of the Federal Reserve System, the tour proceeds with visits through the principal operating departments of the bank.

Produced by the Federal Reserve Bank of Cleveland.

5. INFLATION

Color: Sound: 16 mm: 20 minutes

This film was planned especially for senior high school classes in social studies and for economics classes at both the senior high school and college levels. It also provides valuable program material for adult groups concerned with current events and problems.

In the opening scene on "Main Street" in an average town, the film shows the reactions of people confronted with rising prices and shortages of goods. Animation sequences further explain the problems of inflation, its disadvantages, its causes, and its remedies. Although the film deals directly with inflation, its lessons may be applied equally to the problem of deflation.

Produced by Encyclopedia Britannica Films.

6. U. S. TREASURY—COINAGE AND PRINTING OF MONEY

Black and White: Sound: 16 mm: 20 minutes

This film combines the following two reels:

(a) "The Mint," which shows the newest coinage plant at San Francisco. Steps in coin making are followed from the initial artist's design through lettering on the original clay model, making the plaster model by hand, reproduction of the finished bronze replica, and transferring it to the small die which strikes off coins. The whole mechanical process of mixing metals, stamping and annealing coins, polishing, checking for defects, and counting is shown.

(b) "U. S. Treasury," which explains various operations at the Bureau of Engraving and Printing in making paper money. It shows the printing, inspection, numbering, and storing of the money in vaults. In addition, some of the methods of identifying counterfeit money are included. It shows also what happens to unfit or worn-out bills.

Produced by Columbia Pictures Corporation.

7. THE SECRET SERVICE STORY

Black and White: Sound: 16 mm: 18 minutes

This film opens at the Secret Service pistol range in Washington, D. C. It proceeds with an explanation of the role of Agents throughout the country in combating counterfeiters and tracing down forgers of Government checks. Methods of detecting counterfeit money are explained in detail. The contrast between the portraits of the presidents on genuine notes with those on counterfeit bills is clearly shown. Also pointed out are discrepancies between counterfeits and real bills in check letters, serial numbers, seals, and general appearance.

Produced by Aetna Casualty and Surety Co. in co-operation with the U. S. Secret Service.

Primarily for High School Audiences:

8. A FUTURE TO BANK ON

Black and White: Sound: 16 mm: 12 minutes

The primary purpose of this film is to acquaint high school students with the career opportunities that exist for them in banking. It makes the following points: (1) banks offer real opportunities to high school graduates; (2) banks have jobs for both boys and girls; (3) employees learn on the job, advancing as they learn; (4) American Institute of Banking courses help bank employees get ahead; and (5) banks offer a chance for true happiness and security.

Produced by the American Bankers Association.

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9. HOW BANKS SERVE

Black and White: Sound: 16 mm: 11 minutes

Keyed to the interest and experience levels of high school students, this story deals with the three basic functions of commercial banks: (1) safeguarding money; (2) transferring funds; and (3) making loans. The film describes savings accounts, checking accounts, and various kinds of bank loans.

Produced by the American Bankers Association.

10. MONEY TALKS

Black and White: Sound: 16 mm: 12 minutes

This film shows how a personal financial plan can help a person achieve greater happiness and success. It shows: (1) how to plan ahead financially; (2) the importance of keeping records; (3) the use of a budget; and (4) the place of savings in the plan. This picture meets the needs of students today for sound straight-from-the-shoulder advice about handling their money to the best advantage.

Produced by the American Bankers Association.

11. PAY TO THE ORDER OF

Black and White: Sound: 16 mm: 12 minutes

The purpose of this film is to teach students these simple facts: (1) why checks are so widely used; (2) how to write checks; (3) how to endorse checks; and (4) how the clearing process works.

Produced by the American Bankers Association.

12. USING BANK CREDIT

Black and White: Sound: 16 mm: 10 minutes

The central theme of this film is that credit when properly used is a constructive force which can lead to additional profits, comfort, enjoyment, and other worthy ends. The film shows: (1) how to apply for a loan; (2) what information a bank requires; (3) the reasons for careful lending; and (4) what sound borrowing can accomplish.

Produced by the American Bankers Association.

WE OFFER THESE FILMS simply as a means of explaining our own operations and in advancing public understanding of the services performed by commercial banks and of economic and monetary problems in general.

YOU MAY OBTAIN ANY OF THE FILMS LISTED HEREIN by applying to any of our offices identified below. In general, the borrower should apply to his nearest office. The films may be borrowed at no cost.

FEDERAL RESERVE BANK OF ATLANTA
104 Marietta Street, N.W.
Atlanta 3, Georgia
Telephone: WAlnut-4061

Birmingham Branch
FEDERAL RESERVE BANK
1801 5th Avenue, North
Birmingham 2, Alabama
Telephone: 4-0611

Jacksonville Branch
FEDERAL RESERVE BANK
515 Julia Street
Jacksonville, 1, Florida
Telephone: 4-8211

Nashville Branch
FEDERAL RESERVE BANK
226-230 3rd Avenue, North
Nashville 3, Tennessee
Telephone: 5-3493

New Orleans Branch
FEDERAL RESERVE BANK
147 Carondelet Street
New Orleans 11, Louisiana
Telephone: CAnal-2311

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Directory of the Federal Reserve Bank of Atlanta

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OF THE
FEDERAL RESERVE SYSTEM

July 1955

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DIRECTORY
OF THE
FEDERAL RESERVE BANK OF ATLANTA
AND BRANCHES

HEAD OFFICE, 104 Marietta Street, N.W., Atlanta, Georgia

Mailing Address
FEDERAL RESERVE STATION
ATLANTA 3, GEORGIA
Telephone WAlnut-4061

BIRMINGHAM BRANCH, 1801 Fifth Avenue, North, Birmingham, Alabama

Mailing Address
P. O. BOX 2574
BIRMINGHAM 2, ALABAMA
Telephone 4-0611

JACKSONVILLE BRANCH, 515 Julia Street, Jacksonville, Florida

Mailing Address
P. O. BOX 929
JACKSONVILLE 1, FLORIDA
Telephone ELgin 4-8211

NASHVILLE BRANCH, 228 Third Avenue, North, Nashville, Tennessee

Mailing Address
NASHVILLE 3, TENNESSEE
Telephone 5-3493

NEW ORLEANS BRANCH, 147 Carondelet Street, New Orleans, Louisiana

Mailing Address
NEW ORLEANS 11, LOUISIANA
Telephone CAnal-2311

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NOTE. The lettered regulations referred to in this directory are Regulations of the Board of Governors of the Federal Reserve System.

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DIRECTORS

Chairman of the Board and Federal Reserve Agent
RUFUS C. HARRIS

Deputy Chairman
HARLLEE BRANCH, JR.

CLASS A DIRECTORS

	Term expires December 31
LESLIE R. DRIVER, President First National Bank in Bristol, Bristol, Tennessee	1955
ROLAND L. ADAMS, President Bank of York, York, Alabama	1956
W. C. BOWMAN, Chairman of the Board The First National Bank of Montgomery, Montgomery, Alabama	1957

CLASS B DIRECTORS

DONALD COMER, Chairman of the Board Avondale Mills, Birmingham, Alabama	1955
A. B. FREEMAN, Chairman of the Board Louisiana Coca-Cola Bottling Company, Ltd. New Orleans, Louisiana	1956
POLLARD TURMAN, President J. M. Tull Metal and Supply Company, Inc., Atlanta, Georgia	1957

CLASS C DIRECTORS

RUFUS C. HARRIS, President The Tulane University of Louisiana, New Orleans, Louisiana	1955
HARLLEE BRANCH, JR., President Georgia Power Company, Atlanta, Georgia	1956

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MEMBER OF THE
FEDERAL ADVISORY COUNCIL

WALLACE M. DAVIS
President, Hibernia National Bank
New Orleans, Louisiana

MEMBERS OF THE
INDUSTRIAL ADVISORY COMMITTEE

JOHN E. SANFORD, *Chairman*
President, Armour Fertilizer Works
Atlanta, Georgia

I. C. MILNER, *Vice Chairman*
President, Gate City Mills Company
East Point, Georgia

SHANNON M. GAMBLE
Executive Vice President, Standard-Coosa-Thatcher Company
Chattanooga, Tennessee

LUTHER RANDALL
President, Randall Brothers, Inc.
Atlanta, Georgia

GEORGE WINSHIP
President, Fulton Supply Company
Atlanta, Georgia

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OFFICERS

MALCOLM BRYAN, *President*

LEWIS M. CLARK, *First Vice President*

V. K. BOWMAN, *Vice President*

J. E. DENMARK, *Vice President*

JOHN L. LILES, JR., *Vice President and Cashier*

HAROLD T. PATTERSON, *Vice President and General Counsel*

L. B. RAISTY, *Vice President*

EARLE L. RAUBER, *Vice President and Director of Research*

S. P. SCHUESSLER, *Vice President*

R. DeWITT ADAMS, *General Auditor*

DOWDELL BROWN, JR., *Assistant Vice President*

F. H. MARTIN, *Assistant Vice President*

I. H. MARTIN, *Assistant Vice President*

J. E. McCORVEY, *Assistant Vice President*

ROY E. MILLING, *Assistant Vice President*

CHARLES T. TAYLOR, *Assistant Vice President*

FRED I. BRECK, *Assistant Cashier*

BROWN R. RAWLINGS, *Assistant General Auditor*

GEORGE W. SHEFFER, JR., *Chief Examiner*

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ACCOUNTING DEPARTMENT

V. K. BOWMAN, *Vice President*

*F. H. MARTIN, *Assistant Vice President*

HUDSON JOHNSON, *Assistant Manager*

Cancellation of old, and issuance of new, stock certificates
Dividends on Federal Reserve Bank stock
Federal Reserve Bank accounts
General ledger accounts and expense ledgers
Member bank reserve accounts
Preparation of credits and reconciliation of cash letters sent direct
Reserves of member banks, analysis to determine deficiencies—Regulation D
Signature cards
Telegraph
Transfer of funds, telegraphic and mail
U. S. Treasurer's General Account

**Operational inquiries should be directed to this officer*

AUDITING DEPARTMENT

R. DeWITT ADAMS, *General Auditor*

BROWN R. RAWLINGS, *Assistant General Auditor*

JAMES B. FORBES, *Manager*

Acknowledgment of money and security shipments
Audit of asset, liability, income and expense, and custody accounts
Certification of accounts for examiners, auditors, and others
Incoming tracers as to the status of cash letters and noncash collection items
Lists loan and discount collateral, pledged or free *(includes banks throughout the District)*
Lists securities held in safekeeping, special custody, and Treasury tax and loan collateral *(includes banks throughout the District)*
Reconciliation of accounts of member banks and others

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BANK AND PUBLIC SERVICES

L. B. RAISTY, *Vice President*

C. E. CLARK, *Economist*

Arrangements for currency and coin exhibits

Arrangements for speakers at banker, civic, and other public meetings

Arrangements for tours of facilities by bank, high school, college, and other groups

Bank services activities

Bookings of Bank motion picture films

Consultations with bankers' associations, colleges, and other group representatives in determining joint programs, particularly agricultural

Meetings with various groups at the Bank and elsewhere

Publications and news items

Reception of visitors

Visits to banks for the purpose of explaining Federal Reserve procedures and operational functions

BANK EXAMINATION DEPARTMENT

J. E. DENMARK, *Vice President*

GEORGE W. SHEFFER, JR., *Chief Examiner*

Acceptance of drafts or bills of exchange, according to Regulation C

Annual reports of holding company affiliates

Banking corporations authorized to do foreign banking business under the terms of Section 25 (a) of the Federal Reserve Act, and of Regulation K

Condition reports of members of national securities exchanges

Condition reports of State member and National banks

Conversions of State to National banks

Earnings and dividends reports of State member and National banks

Examination and regulatory supervision of State member banks, affiliates, holding company affiliates, and trust departments

Extension and maintenance of credit by brokers, dealers, and members of national securities exchanges, according to Regulation T

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BANK EXAMINATION DEPARTMENT *Continued*

Foreign branches of National banks and of corporations organized under the provisions of Section 25 (a) of the Federal Reserve Act, according to Regulation M

Holding company affiliates, according to Regulation P, including applications for voting permits

Interlocking bank directorates under the Clayton Act, according to Regulation L

Investigations in connection with applications for National bank charters

Loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange, according to Regulation U

Loans to executive officers of member banks, according to Regulation O

Membership of State banking institutions in the Federal Reserve System, according to Regulation H, including applications for membership, for branches of state members, and for withdrawals

Payment of interest on deposits, according to Regulations Q

Relationships with dealers in securities under Section 32 of the Banking Act of 1933, and according to Regulation R

Trust powers of National banks, according to Regulation F, including applications to exercise trust powers by National banks

CARD CHECKS DEPARTMENT

V. K. BOWMAN, *Vice President*

*F. H. MARTIN, *Assistant Vice President*

*DUPERT M. SEWELL, *Assistant Manager*

Adjustments relative to the paying and processing of Government card checks

Cash letters—incoming, and preparation of credits involving Government card checks

Payment of Government card checks payable through this Bank

Processing of Government card checks payable through other Federal Reserve Banks

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CARD CHECKS DEPARTMENT *Continued*

Reclamations, Treasury checks

Returned Government card checks

Statement of disbursing officers' checking accounts

Stop payments on Government card checks

Treasury Department regulations pertaining to payment of Government card checks (Circulars 21 and 176)

COLLECTION DEPARTMENT

L. B. RAISTY, *Vice President*

*I. H. MARTIN, *Assistant Vice President*

*VESTUS L. CROW, *Manager*

(Mrs.) LOUISE GRENNOR, *Assistant Manager*

CHECK COLLECTION

Adjustments relative to the presentment and collection of checks

Cash letters—incoming, and preparation of credits

Cash letters—outgoing

Check clearing and collection, according to Regulation J

City clearing house function and settlement of balances due to and from participants in the Atlanta Clearing House Association

City items (clearings)

Federal Reserve par list

Government paper checks

Remittances for cash letters

Return items

Routing symbol

U. S. Post Office deposits: checks, money orders, and savings stamp books

U. S. Post Office money orders

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COLLECTION DEPARTMENT *Continued*

NONCASH COLLECTION

(Direct telephone calls to teller on duty)

Collection of noncash items, according to Regulation G

Collection of notes, drafts, securities, and coupons *(other than U.S.),* and other noncash items

CCC CUSTODY DEPARTMENT

V. K. BOWMAN, *Vice President*
*H. H. PARK, *Manager*
*WILLIAM B. MORGAN, *Assistant Manager*

Custody of Cotton Producers' Notes and of warehouse receipts

Issuance, transfer by assignment, and payment for Certificates of Interest

Receipts and disbursements for CCC cotton, peanut, and other commodity programs, including issuance and payment of checks and drafts

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CURRENCY AND COIN DEPARTMENT

JOHN L. LILES, JR., *Vice President and Cashier*
*ROY E. MILLING, *Assistant Vice President*
(Mrs.) GRACE H. McCULLOUGH, *Assistant Manager*
JOHN S. RAY, *Assistant Manager*

Armored truck delivery service

Receipt, verification, custody, and shipment of currency and coin

Redemption of mutilated currency

Reports of unusual currency transactions on Form TCR-1, pursuant to instructions of the Treasury Department

Separation of unfit, foreign, and counterfeit coin

Sorting of currency for fitness, kind, and genuineness

U. S. Post Office deposits: currency and coin

Wrapping coin

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FEDERAL RESERVE AGENT DEPARTMENT

RUFUS C. HARRIS, *Chairman of the Board and Federal Reserve Agent*

D. E. MONCRIEF, *Assistant Federal Reserve Agent*

Maintain the custody of Federal Reserve Notes for the Board of Governors

Receive and issue Federal Reserve Notes incident to the operation of this Bank and its branches in accordance with Section 16 of the Federal Reserve Act

FISCAL AGENCY DEPARTMENT

S. P. SCHUESSLER, *Vice President*

J. E. McCORVEY, *Assistant Vice President*

THEODORE WALTER, *Manager*

(Miss) SARA EVANS, *Assistant Manager*

WALTER S. HALL, *Assistant Manager*

All Issues of Government Securities *(including Savings Bonds)*
- Applications for lost or destroyed bonds
- Bonds held pending additional evidence
- General correspondence
- Inquiries pertaining to Treasury regulations
- Redemptions *(except by paying agents)*
- Redemption U. S. Savings Stamps
- Reissues and corrections

Central Accounting
- Daily reconcilement department liability
- Functional distribution of expenses
- General ledgers (liability accounts)
- Monthly and periodic reports to Treasury Department

Central Tabulating
- Custody records of Head Office and Branches
- Lists of securities held in custody for auditors, examiners, and banks

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FISCAL AGENCY DEPARTMENT *Continued*

Post Office deposit control cards
Processing of Savings Bonds
  Redemptions
  Reissues
  Original registration stubs
Quarterly settlement with paying agents and special drafts
Requisitions and credits, matured coupons, and custody
Statistical reports of sales and redemptions
Surveys and reports for Research Department

Exchanges and Redemptions—U. S. Government Securities and Instrumentalities
  Denominational exchange
  Exchange of bearer for registered bonds and vice versa
  Redemption of Treasury bonds, notes, certificates, and bills, and all matured Treasury issues
  Transfer of registration

General Services Administration
  Collection of principal and interest
  Monthly and periodic reports of collections and balances
  Safekeeping of securities

Government Coupon Accounts
  Matured Coupons
    Nonresident alien tax
    Philippine Islands
    Puerto Rico
  Unmatured Coupons
    U. S. Government and Government agencies

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FISCAL AGENCY DEPARTMENT *Continued*

Housing and Home Finance Agency
- Clearance of security issues
- Shipping of securities to designated custodians
- Verification of securities and legal documents

Purchase and Sale of U. S. Government Securities—Open Market
- Market quotations
- Purchase orders
- Sales orders
- Telegraphic transfer of bearer securities to and from other Federal Reserve Banks

Safekeeping—Member Banks
- Custody; safekeeping of member bank securities
- Pledged securities

Sale and Safekeeping of U. S. Savings Bonds (all series)
- Payroll deduction accounts
- Safekeeping of Savings Bonds for owners
- Sale and issue of Savings Bonds
- Statistical report of sales

Subscriptions New Treasury Issues *(other than Savings Bonds)*
- Analyses of subscriptions
- CCC Certificates of Interest *(other than issued by Atlanta custodian)*
- Consolidated Federal Farm Loan issues
- Notices of allotments
- Records of deliveries, original issue
- Subscriptions for cash and exchange offerings
- U. S. Treasury Bill tenders

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FISCAL AGENCY DEPARTMENT *Continued*

Treasury Tax and Loan Accounts
- Custody of collateral
- Notices of withdrawals
- Qualification of depositaries
- Reconcilement of depositary balances
- Record of accounts

U. S. Savings Bond Redemption—Direct and by Paying Agents
- Accounts of paying agents
- A. F. L. Bond letters from agents
- Debit and credit adjustments
- Savings Bond letters from agents
- Savings Bonds direct

U. S. Savings Bonds—Issuing Agents
- Accounting for spoiled bonds
- Accounts of issuing agents
- Consignment of unissued Series E Bond stock
- Qualification of agents
- Reconcilement of agents' liability
- Reports of sales by agents

Vault Custodian
- Treasury issues
  - Cancelled and spoiled stock
  - Unissued stock

Withheld Taxes: F.I.C.A., Income, R. R. Retirement, Excise
- Blank receipt forms
- Cash and T. T. and L. payments
- Lost or destroyed receipts
- Receipts outstanding
- Reconcilement of paid receipts
- Validated receipts

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LOANS AND DISCOUNT DEPARTMENT

V. K. BOWMAN, *Vice President*

DOWDELL BROWN, JR., *Assistant Vice President*

ROBERT R. ANDREWS, *Assistant Manager*

Collection and analysis of credit data

Discounts for and advances to member banks—Regulation A

Distribution of Farm Credit File and other financial statement forms

Industrial loans—Regulation S

Loan guarantees for financing defense production—Regulation V

Open market purchases of bills of exchange, trade acceptances, and bankers acceptances—Regulation B

Purchase of warrants—Regulation E

NOTE: Although the discount function is not performed in the Birmingham, Jacksonville, and Nashville offices, applications and inquiries may be addressed to the managers, Assistant Vice Presidents, or Cashiers of those offices. The discount function for member banks located in the New Orleans Branch zone is performed in that branch.

PERSONNEL DEPARTMENT

JOHN L. LILES, JR., *Vice President and Cashier*

*EDGAR M. VALLETTE, *Manager*

FLOYD N. GREER, *Assistant Manager*

Cafeteria: (Mrs.) DOROTHY PROPST, *Dietitian*

Employee benefits

Employee recreational and welfare activities

Employment and placement: (Miss) LILLIAN SPALDING, *Senior Personnel Technician*

Executive Training Program

General personnel administration and maintenance

Infirmary, medical records and examinations

Job analysis and evaluation

Payroll

Personnel records

Salary administration and surveys

**Operational inquiries should be directed to this individual*

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POST OFFICE DEPOSITS

L. B. RAISTY, *Vice President*

I. H. MARTIN, *Assistant Vice President*

ROY E. MILLING, *Assistant Vice President*

Control, verification, and processing currency and coin received in registered and ordinary mail shipments from postmasters

Proving deposit cards received from postmasters and sorting and functioning the accompanying money orders, checks, and savings stamp books

Punching, sorting, tabulating deposit cards, and preparing summary reports

RESEARCH DEPARTMENT

EARLE L. RAUBER, *Vice President and Director*

CHARLES T. TAYLOR, *Assistant Vice President*

Library: (Mrs.) LINDA M. JOHNSTON, *Librarian*

Acquisition, classification, and circulation of books, newspapers, and periodicals

Answering requests for information on agriculture, commerce, finance, industry, and trade

Preparation of *Daily Newspaper Review*

Publications: (Miss) ANNA GRACE GREEN, *Editor*
Bankers Farm Bulletin
Monthly Review

Reports and Surveys:

Collection and tabulation of banking, trade, and other economic data

Periodical release of District statistical information

Special statistical studies and surveys

Regional Research: Analysis and interpretation of current developments in finance, industry, agriculture, and trade

T. R. ATKINSON, *Economist* (Central Banking)
HARRY BRANDT, *Assistant Economist* (Industry)
W. M. DAVIS, *Economic Analyst* (Central Banking)
JOHN T. HARRIS, *Assistant Economist* (Agriculture)
ARTHUR H. KANTNER, *Economist* (Agriculture)
CHARLES S. OVERMILLER, *Associate Economist* (Banking)

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SERVICE DEPARTMENT

JOHN L. LILES, JR., *Vice President and Cashier*

FRED I. BRECK, *Assistant Cashier*

*W. E. CAMP, *Manager*

WILBUR LAWRENCE, *Assistant Manager*

Administrative Reference Section
Contracts, deeds, and insurance policies
Currency verification and destruction
Federal Reserve Station, mail and express
Garage, drivers, and parking
Inactive records files
Maintenance of Bank premises, fixed machinery, and equipment
Messenger and page service
Printing and Duplicating Division
Protection and vault maintenance
Purchase of furniture, equipment, and supplies
Repairs and new building construction
Supplies furnished member banks, including operating circulars and Federal Reserve publications
Telephone service

**Operational inquiries should be directed to this individual*

LEGAL DEPARTMENT

H. T. PATTERSON, *Vice President and General Counsel*

GEORGE W. HIBBERT, JR., *Assistant to Counsel*

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Federal Reserve Bank of St. Louis

DIRECTORS

Chairman of the Board
THAD HOLT

Appointed by the Atlanta Board of Directors	Term expires December 31
JOHN B. BARNETT, JR., President The Monroe County Bank, Monroeville, Alabama	1955
FRANK M. MOODY, Vice President The First National Bank of Tuskaloosa, Tuscaloosa, Alabama	1955
JOHN WILL GAY, President First National Bank, Scottsboro, Alabama	1956
MALCOLM A. SMITH, First Vice President Birmingham Trust National Bank, Birmingham, Alabama	1957

Appointed by the Board of Governors

THAD HOLT, Investments 701 Protective Life Building, Birmingham, Alabama	1955
ADOLPH WEIL, SR., President Weil Brothers-Cotton, Inc., Montgomery, Alabama	1956
EDWIN C. BOTTCHER, Cotton and Dairy Farmer Cullman, Alabama	1957

OFFICERS

H. C. FRAZER, *Vice President and Branch Manager*

E. C. RAINEY, *Assistant Vice President*

WM. A. WALLER, JR., *Assistant Cashier* MELVIN McILWAIN, *Assistant Cashier*

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ACCOUNTING DEPARTMENT

WM. A. WALLER, JR., *Assistant Cashier*

GEORGE W. MASON, *Manager*

Federal Reserve Bank accounts
General ledger accounts and expense ledgers
Member bank reserve accounts
Preparation of credits and reconciliation of cash letters sent direct
Reserves of member banks, analysis to determine deficiencies—Regulation D
Signature cards
Telegraph
Transfer of funds, telegraphic and mail
U. S. Treasurer's General Account
Withheld Taxes: F.I.C.A., Income, R. R. Retirement, Excise
  Blank receipt forms
  Cash and T. T. and L. payments
  Lost or destroyed receipts

AUDITING DEPARTMENT

W. N. SELF, *Branch Auditor*

Acknowledgment of money and security shipments
Audit of asset, liability, income and expense, and custody accounts
Certification of accounts for examiners, auditors, and others
Incoming tracers as to the status of cash letters and noncash collection items
Reconciliation of accounts of member banks and others

BANK AND PUBLIC SERVICES

H. C. FRAZER, *Vice President and Branch Manager*

E. C. RAINEY, *Assistant Vice President*

Arrangements for speakers at banker, civic, and other public meetings
Arrangements for tours of facilities by bank, high school, college, and other groups

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BANK AND PUBLIC SERVICES *Continued*

Bank services activities

Bookings of Bank motion picture films

Meetings with various groups at the Bank and elsewhere

Reception of visitors

Visits to banks for the purpose of explaining Federal Reserve procedures and operational functions

COLLECTION DEPARTMENT

MELVIN McILWAIN, *Assistant Cashier*

R. L. FOUSHEE, *Manager*

C. M. SAXON, *Assistant Manager*

CHECK COLLECTION

Adjustments relative to the presentment and collection of checks

Cash letters—incoming, and preparation of credits

Cash letters—outgoing

Check clearing and collection, according to Regulation J

City clearing house function and settlement of balances due to and from participants in the Birmingham Clearing House Association

City items (clearings)

Government card and paper checks

Incoming and outgoing ordinary mail and express

Remittances for cash letters

Return items

Routing symbol

U. S. Post Office money orders

NONCASH COLLECTION

Collection of noncash items, according to Regulation G

Collection of notes, drafts, securities, and coupons *(other than U. S.)* and other noncash items

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CURRENCY AND COIN DEPARTMENT

MELVIN McILWAIN, *Assistant Cashier*

C. N. HAMILTON, *Manager*

L. E. HASSLER, *Assistant Manager*

Armored truck delivery service
Incoming registered mail
Receipt, verification, custody, and shipment of currency and coin
Redemption of mutilated currency
Reports of unusual currency transactions on Form TCR-1, pursuant to instructions of the Treasury Department
Separation of unfit, uncurrent, foreign, and counterfeit coin
Sorting of currency for fitness, kind, and genuineness

FISCAL AGENCY DEPARTMENT

E. C. RAINEY, *Assistant Vice President*

W. H. THOMAS, *Manager*

(Mrs.) SARAH MAYNORD, *Assistant Manager*

All Issues of Government Securities *(including Savings Bonds and Treasury Savings Notes)*
- Applications for lost or destroyed bonds
- Bonds held pending additional evidence
- General correspondence
- Inquiries pertaining to Treasury regulations
- Redemptions *(except by paying agents)*
- Redemption U. S. Savings Stamps
- Reissues and corrections

Central Accounting
- Daily reconcilement department liability
- Functional distribution of expenses
- General ledgers (liability accounts)
- Monthly and periodic reports to Treasury Department

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FISCAL AGENCY DEPARTMENT *Continued*

Exchanges and Redemptions—U. S. Government Securities and Instrumentalities
- Denominational exchange
- Exchange of bearer for registered bonds and vice versa
- Redemption of Treasury bonds, notes, certificates, and bills, and all matured Treasury issues
- Transfer of registration

Government Coupon Accounts
- Matured Coupons
  - Nonresident alien tax
  - Philippine Islands
  - Puerto Rico
- Unmatured Coupons
  - U. S. Government and Government agencies

Purchase and Sale of U. S. Government Securities—Open Market
- Market quotations
- Purchase orders
- Sales orders
- Telegraphic transfer of bearer securities to and from other Federal Reserve Banks

Safekeeping—Member Banks
- Custody; safekeeping of member bank securities
- Pledged securities

Sale and Safekeeping of U. S. Savings Bonds (all series) and Treasury Savings Notes
- Payroll deduction accounts
- Safekeeping of Savings Bonds for owners
- Sale and issue of Savings Bonds
- Sale and issue of Treasury Savings Notes
- Statistical report of sales

Subscriptions New Treasury Issues *(other than Savings Bonds and Treasury Savings Notes)*
- Analyses of subscriptions
- CCC Certificates of Interest *(other than Atlanta custodian issues)*
- Consolidated Federal Farm Loan issues

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FISCAL AGENCY DEPARTMENT *Continued*

- Notices of allotments
- Records of deliveries, original issue
- Subscriptions for cash and exchange offerings
- U. S. Treasury Bill tenders

Treasury Tax and Loan Accounts
- Custody of collateral
- Notices of withdrawals
- Qualification of depositaries
- Reconcilement of depositary balances
- Record of accounts

U. S. Savings Bond Redemption
- Savings Bonds direct

Vault Custodian
- Treasury issues
  - Cancelled and spoiled stock
  - Unissued stock

PERSONNEL DEPARTMENT

E. C. RAINEY, *Assistant Vice President*

HUGH MORELAND, JR., *Manager*

Cafeteria
Employee benefits
Employee recreational and welfare activities
Employment and placement
General personnel administration and maintenance
Infirmary, medical records and examinations
Job analysis and evaluation
Payroll
Personnel records
Salary surveys

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SERVICE DEPARTMENT

WM. A. WALLER, JR., *Assistant Cashier*

W. C. BURSON, *Manager*

Duplicating and addressograph operations

Inactive records files

Maintenance of Bank premises, fixed machinery, and equipment

Messenger and page service

Protection and vault maintenance

Purchase of furniture, equipment, and supplies

Repairs and new building construction

Stock of supplies

Supplies furnished member banks, including operating circulars and Federal Reserve publications

Telephone service

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JACKSONVILLE BRANCH

FEDERAL RESERVE BANK
OF ATLANTA

DIRECTORS

Chairman of the Board

HARRY M. SMITH

Appointed by the Atlanta Board of Directors	Term expires December 31
FRANK W. NORRIS, President Barnett National Bank of Jacksonville, Jacksonville, Fla.	1955
J. CARLISLE ROGERS, President The First National Bank of Leesburg, Leesburg, Florida	1955
T. A. DAVIS, JR., President Pan American Bank of Miami, Miami, Florida	1956
JAMES L. NIBLACK, President The First National Bank of Lake City, Lake City, Florida	1957

Appointed by the Board of Governors	
HARRY M. SMITH, President and Manager Winter Garden Ornamental Nursery, Inc., Winter Garden, Fla.	1955
McGREGOR SMITH, Chairman of the Board Florida Power and Light Company, Miami, Florida	1956
J. WAYNE REITZ, President University of Florida, Gainesville, Florida	1957

OFFICERS

T. A. LANFORD, *Vice President and Branch Manager*

T. C. CLARK, *Assistant Vice President*

J. WYLY SNYDER, *Cashier* C. MASON FORD, *Assistant Cashier*

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ACCOUNTING DEPARTMENT

T. C. CLARK, *Assistant Vice President*

W. L. HICKS, *Manager*

HOKE SMITH HOLT, *Assistant Manager*

Federal Reserve Bank accounts

General ledger accounts and expense ledgers

Member bank reserve accounts

Preparation of credits and reconciliation of cash letters sent direct

Reserves of member banks, analysis to determine deficiencies—Regulation D

Signature cards

Telegraph

Transfer of funds, telegraphic and mail

U. S. Treasurer's General Account

AUDITING DEPARTMENT

J. E. THOMAS, *Branch Auditor*

Acknowledgment of money and security shipments

Audit of asset, liability, income and expense, and custody accounts

Certification of accounts for examiners, auditors, and others

Incoming tracers as to the status of cash letters and noncash collection items

Reconciliation of accounts of member banks and others

BANK AND PUBLIC SERVICES

T. A. LANFORD, *Vice President and Branch Manager*

Arrangements for speakers at banker, civic, and other public meetings

Arrangements for tours of facilities by bank, high school, college, and other groups

Bank services activities

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BANK AND PUBLIC SERVICES *Continued*

Bookings of Bank motion picture films

Meetings with various groups at the Bank and elsewhere

Reception of visitors

Visits to banks for the purpose of explaining Federal Reserve procedures and operational functions

COLLECTION DEPARTMENT

C. MASON FORD, *Assistant Cashier*

L. E. RIETTE, *Manager*

JOSEPH C. SPINK, JR., *Assistant Manager*

CHECK COLLECTION

Adjustments relative to the presentment and collection of checks

Cash letters—incoming, and preparation of credits

Cash letters—outgoing

Check clearing and collection, according to Regulation J

City items (clearings)

Government card and paper checks

Remittances for cash letters

Return items

Routing symbol

U. S. Post Office money orders

NONCASH COLLECTION

Collection of noncash items, according to Regulation G

Collection of notes, drafts, securities, and coupons *(other than U. S.)* and other noncash items

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CURRENCY AND COIN DEPARTMENT

J. WYLY SNYDER, *Cashier*

M. E. STRINGFELLOW, *Manager*

FLETCHER E. WILLIAMS, *Assistant Manager*

Armored truck delivery service

Receipt, verification, custody, and shipment of currency and coin

Redemption of mutilated currency

Registered mail

Reports of unusual currency transactions on Form TCR-1, pursuant to instructions of the Treasury Department

Separation of unfit, uncurrent, foreign, and counterfeit coin

Sorting of currency for fitness, kind, and genuineness

Wrapping coin

FISCAL AGENCY DEPARTMENT

T. C. CLARK, *Assistant Vice President*

J. R. MOSER, JR., *Manager*

(Mrs.) ELIZABETH SCUDDER, *Assistant Manager*

All Issues of Government Securities *(including Savings Bonds and Treasury Savings Notes)*
- Applications for lost or destroyed bonds
- Bonds held pending additional evidence
- General correspondence
- Inquiries pertaining to Treasury regulations
- Redemptions *(except by paying agents)*
- Redemption U. S. Savings Stamps
- Reissues and corrections

Central Accounting
- Daily reconcilement department liability
- Functional distribution of expenses
- General ledgers (liability accounts)
- Monthly and periodic reports to Treasury Department

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FISCAL AGENCY DEPARTMENT *Continued*

Exchanges and Redemptions—U. S. Government Securities and Instrumentalities
- Denominational exchange
- Exchange of bearer for registered bonds and vice versa
- Redemption of Treasury bonds, notes, certificates, and bills, and all matured Treasury issues
- Transfer of registration

Government Coupon Accounts
- Matured Coupons
  - Nonresident alien tax
  - Philippine Islands
  - Puerto Rico
- Unmatured Coupons
  - U. S. Government and Government agencies

Purchase and Sale of U. S. Government Securities—Open Market
- Market quotations
- Purchase and sales orders will be executed by Head Office when placed with Jacksonville Branch
- Telegraphic transfer of bearer securities to and from other Federal Reserve Banks

Safekeeping—Member Banks
- Custody; safekeeping of member bank securities
- Pledged securities

Sale and Safekeeping of U. S. Savings Bonds (all series) and Treasury Savings Notes
- Payroll deduction accounts
- Safekeeping of Savings Bonds for owners
- Sale and issue of Savings Bonds
- Sale and issue of Treasury Savings Notes
- Statistical report of sales

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FISCAL AGENCY DEPARTMENT *Continued*

Subscriptions New Treasury Issues *(other than Savings Bonds and Treasury Savings Notes)*
- Analyses of subscriptions
- CCC Certificates of Interest *(other than Atlanta custodian issues)*
- Consolidated Federal Farm Loan issues
- Notices of allotments
- Records of deliveries, original issue
- Subscriptions for cash and exchange offerings
- U. S. Treasury Bill tenders

Treasury Tax and Loan Accounts
- Custody of collateral
- Notices of withdrawals
- Qualification of depositaries
- Reconcilement of depositary balances
- Record of accounts

U. S. Savings Bond Redemption
- Savings Bonds direct

Vault Custodian
- Treasury issues and Savings Bonds
  - Cancelled and spoiled stock
  - Unissued stock

Withheld Taxes: F.I.C.A., Income, R. R. Retirement, Excise
- Blank receipt forms
- Cash and T. T. and L. payments
- Lost or destroyed receipts

PERSONNEL DEPARTMENT

T. A. LANFORD, *Vice President and Branch Manager*
BILLY H. HARGETT, *Manager*

Cafeteria

Employee benefits

Employee recreational and welfare activities

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PERSONNEL DEPARTMENT *Continued*

Employment and placement

General personnel administration and maintenance

Infirmary, medical records and examinations

Job analysis and evaluation

Payroll

Personnel records

Salary surveys

SERVICE DEPARTMENT

T. C. CLARK, *Assistant Vice President*

M. J. SWILLEY, *Manager*

Duplicating and addressograph operations

Garage, drivers, and parking

General files

Inactive records files

Incoming and outgoing ordinary mail and express

Maintenance of Bank premises, fixed machinery, and equipment

Messenger and page service

Protection and vault maintenance

Purchase of furniture, equipment, and supplies

Supplies furnished member banks, including operating circulars and Federal Reserve publications

Telephone service

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DIRECTORS

Chairman of the Board

ERNEST J. MOENCH

Appointed by the Atlanta Board of Directors	Term expires December 31
T. R. KEYS, President Erwin National Bank, Erwin, Tennessee	1955
JAMES V. SPROUSE, President First National Bank, Springfield, Tennessee	1955
W. E. TOMLINSON, President Hamilton National Bank of Johnson City Johnson City, Tennessee	1956
J. R. KELLAM, JR., Executive Vice President Commerce Union Bank, Nashville, Tennessee	1957

Appointed by the Board of Governors	Term expires December 31
ERNEST J. MOENCH, President Tennessee Tufting Company, Nashville, Tennessee	1955
FRANK B. WARD, Dean, College of Business Administration University of Tennessee, Knoxville, Tennessee	1956
CARTER MYERS, Treasurer Knoxville Fertilizer Company, Knoxville, Tennessee	1957

OFFICERS

R. E. MOODY, JR., *Vice President and Branch Manager*

W. H. SEWELL, *Assistant Vice President*

L. W. STARR, *Cashier* STUART H. MAGEE, *Assistant Cashier*

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ACCOUNTING DEPARTMENT

STUART H. MAGEE, *Assistant Cashier*

O. E. DAVIS, JR., *Manager*

(Mrs.) EDITH B. STRAIN, *Assistant Manager*

Federal Reserve Bank accounts
General ledger accounts and expense ledgers
Member bank reserve accounts
Preparation of credits and reconciliation of cash letters sent direct
Reserves of member banks, analysis to determine deficiencies—Regulation D
Signature cards
Telegraph
Transfer of funds, telegraphic and mail
U. S. Treasurer's General Account

AUDITING DEPARTMENT

A. G. WOFFORD, *Branch Auditor*

Acknowledgment of money and security shipments
Audit of asset, liability, income and expense, and custody accounts
Certification of accounts for examiners, auditors, and others
Incoming tracers as to the status of cash letters and noncash collection items
Reconciliation of accounts of member banks and others

BANK AND PUBLIC SERVICES

R. E. MOODY, JR., *Vice President and Branch Manager*

Arrangements for speakers at banker, civic, and other public meetings
Arrangements for tours of facilities by bank, high school, college, and other groups
Bank services activities

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BANK AND PUBLIC SERVICES *Continued*

Bookings of Bank motion picture films
Meetings with various groups at the Bank and elsewhere
Reception of visitors
Visits to banks for the purpose of explaining Federal Reserve procedures and operational functions

COLLECTION DEPARTMENT

L. W. STARR, *Cashier*

J. O. HOOPER, *Manager*

(Mrs.) KITTY S. HAGER, *Assistant Manager*

CHECK COLLECTION

Adjustments relative to the presentment and collection of checks
Cash letters—incoming, and preparation of credits
Cash letters—outgoing
Check clearing and collection, according to Regulation J
City items (clearings)
Government card and paper checks
Remittances for cash letters
Return items
Routing symbol
Settlement of balances due to and from participants in the Nashville Clearing House Association
U. S. Post Office money orders

NONCASH COLLECTION

Collection of noncash items, according to Regulation G
Collection of notes, drafts, securities, and coupons *(other than U. S.)* and other noncash items

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CURRENCY AND COIN DEPARTMENT

L. W. STARR, *Cashier*

M. L. MILLER, *Manager*

GEORGE C. WILLIAMS, *Assistant Manager*

Armored truck delivery service

Receipt, verification, custody, and shipment of currency and coin

Redemption of mutilated currency

Reports of unusual currency transactions on Form TCR-1, pursuant to instructions of the Treasury Department

Separation of unfit, uncurrent, foreign, and counterfeit coin

Sorting of currency for fitness, kind, and genuineness

FISCAL AGENCY DEPARTMENT

W. H. SEWELL, *Assistant Vice President*

W. R. THURMAN, *Manager*

W. H. HUTCHISON, JR., *Assistant Manager*

All Issues of Government Securities *(including Savings Bonds and Treasury Savings Notes)*
- Applications for lost or destroyed bonds
- Bonds held pending additional evidence
- General correspondence
- Inquiries pertaining to Treasury regulations
- Redemptions *(except by paying agents)*
- Redemption U. S. Savings Stamps
- Reissues and corrections

Central Accounting
- Daily reconcilement department liability
- Functional distribution of expenses
- General ledgers (liability acounts)
- Monthly and periodic reports to Treasury Department

Exchanges and Redemptions—U. S. Government Securities and Instrumentalities

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FISCAL AGENCY DEPARTMENT *Continued*

- Denominational exchange
- Exchange of bearer for registered bonds and vice versa
- Redemption of Treasury bonds, notes, certificates, and bills, and all matured Treasury issues
- Transfer of registration

Government Coupon Accounts
- Matured Coupons
  - Nonresident alien tax
  - Philippine Islands
  - Puerto Rico
- Unmatured Coupons
  - U. S. Government and Government agencies

Purchase and Sale of U. S. Government Securities—Open Market
- Market quotations
- Purchase orders
- Sales orders
- Telegraphic transfer of bearer securities to and from other Federal Reserve Banks

Safekeeping—Member Banks
- Custody; safekeeping of member bank securities
- Pledged securities

Sale and Safekeeping of U. S. Savings Bonds (all series) and Treasury Savings Notes
- Payroll deduction accounts
- Safekeeping of Savings Bonds for owners
- Sale and issue of Savings Bonds
- Sale and issue of Treasury Savings Notes
- Statistical report of sales

Subscriptions New Treasury Issues *(other than Savings Bonds and Treasury Savings Notes)*
- Analyses of subscriptions
- CCC Certificates of Interest *(other than Atlanta custodian issues)*
- Consolidated Federal Farm Loan issues
- Notices of allotments

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FISCAL AGENCY DEPARTMENT *Continued*

- Records of deliveries, original issue
- Subscriptions for cash and exchange offerings
- U. S. Treasury Bill tenders

Treasury Tax and Loan Accounts
- Custody of collateral
- Notices of withdrawals
- Qualification of depositaries
- Reconcilement of depositary balances
- Record of accounts

U. S. Savings Bond Redemption
- Savings Bonds direct

Vault Custodian
- Treasury issues
  - Cancelled and spoiled stock
  - Unissued stock

Withheld Taxes: F.I.C.A., Income, R. R. Retirement, Excise
- Blank receipt forms
- Cash and T. T. and L. payments
- Lost or destroyed receipts

PERSONNEL DEPARTMENT

W. H. SEWELL, *Assistant Vice President*

O. E. DAVIS, JR., *Manager*

Employee benefits

Employee recreational and welfare activities

Employment and placement

General personnel administration and maintenance

Infirmary, medical records and examinations

Job analysis and evaluation

Payroll

Personnel records

Salary surveys

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SERVICE DEPARTMENT

STUART H. MAGEE, *Assistant Cashier*

H. A. JUSTICE, JR., *Manager*

LUKE E. HARVEY, *Assistant Manager*

Duplicating and addressograph operations

Federal Reserve Station, mail and express

Garage, drivers, and parking

Inactive records files

Maintenance of Bank premises, fixed machinery, and equipment

Messenger and page service

Protection and vault maintenance

Purchase of furniture, equipment, and supplies

Repairs and new building construction

Supplies furnished member banks, including operating circulars and Federal Reserve publications

Telephone service

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NEW ORLEANS BRANCH

FEDERAL RESERVE BANK
OF ATLANTA

DIRECTORS

Chairman of the Board

JOEL L. FLETCHER

Appointed by the Atlanta Board of Directors	Term expires December 31
KEEHN W. BERRY, President Whitney National Bank, New Orleans, Louisiana	1955
J. T. BROWN, Chairman of the Board The First National Bank of Jackson, Jackson, Mississippi	1955
LEON J. MINVIELLE, President Peoples National Bank, New Iberia, Louisiana	1956
PHILIP C. WILLIAMS, President Bank of Yazoo City, Yazoo City, Mississippi	1957

Appointed by the Board of Governors	
E. O. BATSON, President Batson-McGehee Company, Inc., Millard, Mississippi	1955
E. E. WILD, Rice Planter Midland, Louisiana	1956
JOEL L. FLETCHER, JR., President Southwestern Louisiana Institute, Lafayette, Louisiana	1957

OFFICERS

M. L. SHAW, *Vice President and Branch Manager*

R. M. STEPHENSON, *Assistant Vice President*

L. Y. CHAPMAN, *Cashier*

R. M. JUNCA, *Assistant Cashier*

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ACCOUNTING DEPARTMENT

R. M. JUNCA, *Assistant Cashier*

W. E. MILLER, *Manager*

NICHOLAS BANDI, *Assistant Manager*

Federal Reserve Bank accounts

General ledger accounts and expense ledgers

Member bank reserve accounts

Reconciliation of cash letters sent direct

Reserves of member banks, analysis to determine deficiencies—Regulation D

Signature cards

Telegraph

Transfer of funds, telegraphic and mail

U. S. Treasurer's General Account

AUDITING DEPARTMENT

V. A. ALLENBACH, *Branch Auditor*

Acknowledgment of money and security shipments

Audit of asset, liability, income and expense, and custody accounts

Certification of accounts for examiners, auditors, and others

Incoming tracers as to the status of cash letters and noncash collection items

Reconciliation of accounts of member banks and others

BANK AND PUBLIC SERVICES

M. L. SHAW, *Vice President and Branch Manager*

Arrangements for speakers at banker, civic, and other public meetings

Arrangements for tours of facilities by bank, high school, college, and other groups

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BANK AND PUBLIC SERVICES *Continued*

Bank services activities

Bookings of Bank motion picture films

Meetings with various groups at the Bank and elsewhere

Reception of visitors

Visits to banks for the purpose of explaining Federal Reserve procedures and operational functions

COLLECTION DEPARTMENT

L. Y. CHAPMAN, *Cashier*

N. A. FAUST, *Manager*

M. F. DASTUGUE, JR., *Assistant Manager*

CHECK COLLECTION

Adjustments relative to the presentment and collection of checks

Cash letters—incoming, and preparation of credits

Cash letters—outgoing

Check clearing and collection, according to Regulation J

City clearing house function and settlement of balances due to and from participants in the New Orleans Clearing House Association

City items (clearings)

Government card and paper checks

Preparation of credits for cash letters sent direct

Remittances for cash letters

Return items

Routing symbol

U. S. Post Office money orders

NONCASH COLLECTION

Collection of noncash items, according to Regulation G

Collection of notes, drafts, securities, and coupons *(other than U. S.)* and other noncash items

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CCC CUSTODY DEPARTMENT

L. Y. CHAPMAN, *Cashier*

Receipts and disbursements for CCC cotton, peanut, and other commodity programs, including issuance and payment of checks and drafts

Public Housing Administration
- Collection of principal and interest
- Monthly and periodic reports of collections and balances
- Purchase and sale of securities
- Safekeeping of securities

CURRENCY AND COIN DEPARTMENT

R. M. JUNCA, *Assistant Cashier*

E. R. SMITH, *Manager*

M. P. RIEDER, *Assistant Manager*

(Miss) YVONNE M. TREMOULET, *Assistant Manager*

Armored truck delivery service

Receipt, verification, custody, and shipment of currency and coin

Redemption of mutilated currency

Reports of unusual currency transactions on Form TCR-1, pursuant to instructions of the Treasury Department

Separation of unfit, uncurrent, foreign, and counterfeit coin

Sorting of currency for fitness, kind, and genuineness

Wrapping coin

FISCAL AGENCY DEPARTMENT

R. M. STEPHENSON, *Assistant Vice President*

C. D. LIEBMAN, *Manager*

(Miss) HELEN M. CANTRELLE, *Assistant Manager*

H. C. De BLONDE, *Assistant Manager*

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FISCAL AGENCY DEPARTMENT *Continued*

All Issues of Government Securities *(including Savings Bonds and Treasury Savings Notes)*
- Applications for lost or destroyed bonds
- Bonds held pending additional evidence
- General correspondence
- Inquiries pertaining to Treasury regulations
- Redemptions *(except by paying agents)*
- Redemption U. S. Savings Stamps
- Reissues and corrections

Central Accounting
- Daily reconcilement department liability
- Functional distribution of expenses
- General ledgers (liability accounts)
- Monthly and periodic reports to Treasury Department

Exchanges and Redemptions—U. S. Government Securities and Instrumentalities
- Denominational exchange
- Exchange of bearer for registered bonds and vice versa
- Redemption of Treasury bonds, notes, certificates, and bills, and all matured Treasury issues
- Transfer of registration

Government Coupon Accounts
- Matured Coupons
  - Nonresident alien tax
  - Philippine Islands
  - Puerto Rico
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FISCAL AGENCY DEPARTMENT *Continued*

Safekeeping—Member Banks
- Custody; safekeeping of member bank securities
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Sale and Safekeeping of U. S. Savings Bonds (all series) and Treasury Savings Notes
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- CCC Certificates of Interest *(other than Atlanta custodian issues)*
- Consolidated Federal Farm Loan issues
- Notices of allotments
- Records of deliveries, original issue
- Subscriptions for cash and exchange offerings
- U. S. Treasury Bill tenders

Tabulating Division
- Processing of Savings Bonds
  - Reissues
  - Original registration stubs
- Statistical reports of issues

Treasury Tax and Loan Accounts
- Custody of collateral
- Notices of withdrawals
- Qualification of depositaries
- Reconcilement of depositary balances
- Record of accounts

U. S. Savings Bond Redemption—Direct and by Paying Agents
- Accounts of paying agents
- A. F. L. Bond letters from agents
- Debit and credit adjustments

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FISCAL AGENCY DEPARTMENT *Continued*

- Savings Bond letters from agents
- Savings Bonds direct

U. S. Savings Bond—Issuing Agents
- Accounting for spoiled bonds
- Accounts of issuing agents
- Consignment of unissued Series E Bond stock
- Qualification of agents
- Reconcilement of agents' liability
- Reports of sales by agents

Vault Custodian
- Treasury issues
  - Cancelled and spoiled stock
  - Unissued stock

Withheld taxes: F.I.C.A., Income, R.R. Retirement, Excise
- Blanket receipt forms
- Cash and T. T. and L. payments
- Lost or destroyed receipts

LOANS AND DISCOUNT DEPARTMENT

R. M. STEPHENSON, *Assistant Vice President*

E. E. SMITH, *Supervisor*

Collection and analysis of credit data
Discounts for and advances to member banks—Regulation A
Distribution of Farm Credit File and other financial statement forms
Industrial loans—Regulation S
Loan guarantees for financing defense production—Regulation V
Open market purchases of bills of exchange, trade acceptances, and bankers acceptances—Regulation B
Purchase of warrants—Regulation E

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PERSONNEL DEPARTMENT

R. M. STEPHENSON, *Assistant Vice President*

C. J. THIBODAUX, *Manager*

Employee benefits
Employee recreational and welfare activities
Employment and placement
General personnel administration and maintenance
Infirmary, medical records and examinations
Job analysis and evaluation
Payroll
Personnel records
Salary surveys

SERVICE DEPARTMENT

L. Y. CHAPMAN, *Cashier*

C. J. THIBODAUX, *Manager*

Cafeteria
Duplicating and addressograph operations
Garage, drivers, and parking
Inactive records files
Mail and express
Maintenance of Bank premises, fixed machinery, and equipment
Messenger and page service
Protection and vault maintenance
Purchase of furniture, equipment, and supplies
Repairs and new building construction
Supplies furnished member banks, including operating circulars and Federal Reserve publications
Telephone service

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FUNDAMENTAL FACTS *About* *United States Currency*

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FUNDAMENTAL FACTS
About United States Currency That Every Bank Teller Should Know

By ROY E. MILLING
Assistant Vice President
Federal Reserve Bank of Atlanta

In order that the reader may be able to readily distinguish between genuine paper currency and counterfeits, he should thoroughly acquaint himself with the standard features of our paper currency, which are described herein.

Revised April 1, 1953

FEDERAL RESERVE BANK
OF ATLANTA

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UNITED STATES CURRENCY

The three current issues are:

United States Notes
Silver Certificates
Federal Reserve Notes

PORTRAITS

The portrait appearing on each denomination, regardless of the kind of currency is as follows:

$1	Washington
$2	Jefferson
$5	Lincoln
$10	Hamilton
$20	Jackson
$50	Grant
$100	Franklin
$500	McKinley
$1,000	Cleveland
$5,000	Madison
$10,000	Chase

UNITED STATES NOTES

Issued in denominations of $1, $2, and $5.

The Treasury Seal and the Serial Number are printed in *RED*.

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SILVER CERTIFICATES

Issued in denominations of $1, $5, and $10.

Authorization is in effect for issuance of $20 and $100 denominations, but, to date, these denominations have not been issued.

The Treasury Seal and the Serial Number are printed in *BLUE.*

FEDERAL RESERVE NOTES

Issued in denominations of:

$5	$50	$1,000
$10	$100	$5,000
$20	$500	$10,000

The Treasury Seal and the Serial Number are printed in *GREEN*.

There are twelve (12) Federal Reserve Districts, in each of which is a Federal Reserve Bank. The District Number of each bank and the corresponding letter symbol are as follows:

1	Boston	A
2	New York	B
3	Philadelphia	C
4	Cleveland	D
5	Richmond	E
6	Atlanta	F
7	Chicago	G
8	St. Louis	H
9	Minneapolis	I
10	Kansas City	J
11	Dallas	K
12	San Francisco	L

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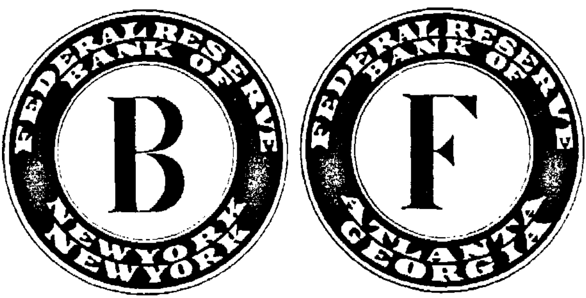
Federal Reserve notes are identified as to the Bank of issue by the District Number, which appears on both ends of the face of the note above, and below, the center line and just inside the engraved border.

The District Seal, bearing the name of the issuing Bank and printed in black, appears at the left of the portrait. In the center of the Seal is the letter corresponding with the District Number.

For example: The Federal Reserve Bank of New York is in the Second District. Therefore, on a note issued by that bank, the second letter of the alphabet, "B", appears in the center of the District Seal. The Atlanta Bank is in the Sixth District and the corresponding letter, "F", appears in the center of the District Seal, and so on with the other Federal Reserve Banks.



Early issues of Federal Reserve notes showed the District Number in the center of the Seal, as described above, instead of the corresponding letter.

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THE SERIAL NUMBER

The Serial Number appears on the face of all United States currency in the upper right and lower left portions.

No two notes of the same kind, denomination, and series have the same Serial Number.

Serial Numbers on all currency (except National bank notes, now in process of redemption) are always expressed in eight (8) digits. Thus the first note of a Series would be 00 000 001 and the second, 00 000 002, etc.

The Serial Number includes a prefix letter and a suffix letter (except as noted herein). The letters are a part of the numbering system.

When a note of a regular Series is mutilated in the process of engraving, it is replaced with a "star" note.

The Number of the "star" note will not run in sequence with the remaining notes in the strap.

A "star" note can be identified by a star in place of the prefix letter on United States notes and silver certificates, and by a star in place of the suffix letter on Federal Reserve notes.

The letter preceding the Serial Number on Federal Reserve notes corresponds with the District Number. Atlanta notes, for example, are Sixth District notes and the letter preceding the Serial Number is the sixth letter of the alphabet—"F."

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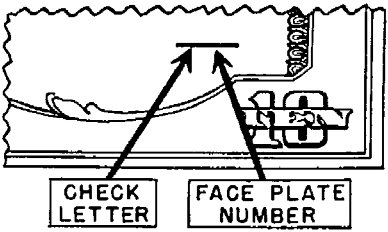
THE PLATE NUMBER AND CHECK LETTER



Prior to 1953, currency was printed from plates composed of 12 individual note faces or backs. Thus each impression produced 12 notes bearing the same Plate Number, which appears on the face of the note in the lower right-hand portion. The back Plate Number appears on the back of the note in the lower right-hand area just inside the engraved border.

The engraved plates also carry the Check Letter, which indicates the position of each note on the plate. The Check Letter appears on the face of each note in the upper left-hand corner and again in the lower right-hand corner in line with the Plate Number. Until 1953 the Check Letters ranged from "A" through "L."

A	G
B	H
C	I
D	J
E	K
F	L

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On April 2, 1953, however, the Treasurer announced that $1 silver certificates, Series 1935, are now being produced 18 notes to the plate and it is contemplated that before the end of the year all currency will be produced from such plates. This involves no change in the design of the individual notes, but the Check Letters have been extended to include "M" through "R." The new plates are composed of three vertical rows of six notes each.

A	G	M
B	H	N
C	I	O
D	J	P
E	K	Q
F	L	R

SERIES

All United States currency bears a Series identification. An example is "SERIES 1935 C." The designated year is that of the initial printing of the particular design. The suffix letter indicates, by alphabetical order, minor changes in the design of the Series. A change in signature, due to the advent of a new Secretary of the Treasury, is an example of a minor change.

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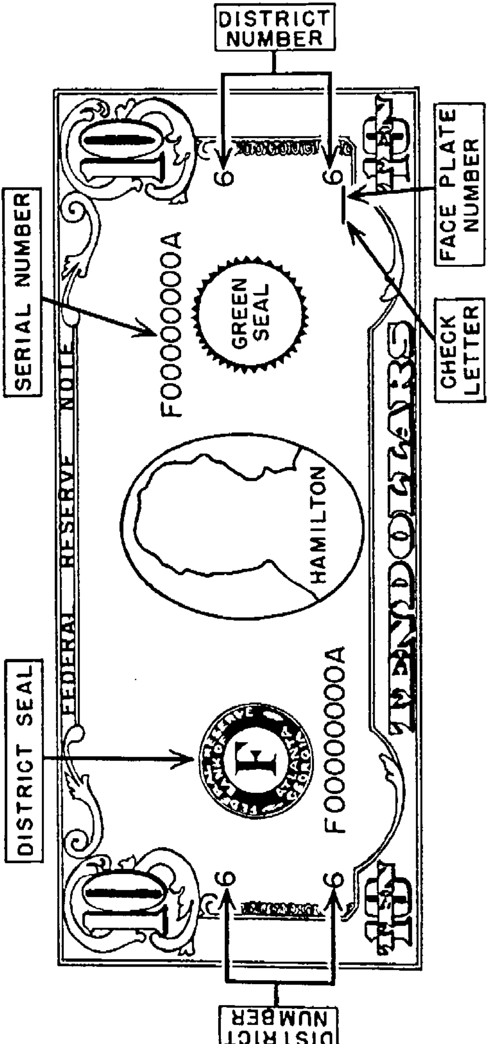

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First published in 1957
in connection with the opening
of our new branch building
at Jacksonville. The
enclosed brochure was also
prepared for the occasion.
Since that time the
pamphlet on the Federal
Reserve System has gone
through one revision and
has been used to inform
groups on a tour of the
bank and the general
public about the System

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The Louisville Industrial Foundation

A STUDY IN COMMUNITY CAPITALIZATION OF LOCAL INDUSTRIES

Research Department
FEDERAL RESERVE BANK *of* ATLANTA

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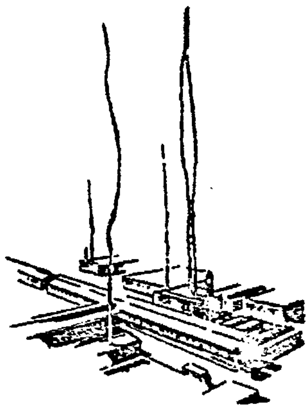
the Federal Reserve System



[1945]

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THE LOUISVILLE INDUSTRIAL FOUNDATION

A STUDY IN COMMUNITY CAPITALIZATION OF LOCAL INDUSTRIES

by ERNEST J. HOPKINS
Senior Economist

FEDERAL RESERVE BANK OF ATLANTA
FEBRUARY 1945

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FEDERAL RESERVE BANK OF ATLANTA

DIRECTORS

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Atlanta, Georgia

J. F. Porter, *Deputy Chairman,* President and General Manager
Tennessee Farm Bureau Federation, Columbia, Tennessee

W. D. Cook, President, First National Bank, Meridian, Mississippi

George J. White, President, First National Bank, Mount Dora, Florida

Robert Strickland, President, Trust Company of Georgia
Atlanta, Georgia

Fitzgerald Hall, President, Nashville, Chattanooga and St. Louis Railway
Nashville, Tennessee

Ernest T. George, President, Seaboard Refining Company, Ltd.
New Orleans, Louisiana

J. A. McCrary, Vice President and Treasurer, J. B. McCrary Company, Inc.
Atlanta, Georgia

Rufus C. Harris, President, The Tulane University of Louisiana
New Orleans, Louisiana

MEMBER OF FEDERAL ADVISORY COUNCIL

Keehn W. Berry, President, Whitney National Bank, New Orleans, Louisiana

INDUSTRIAL ADVISORY COMMITTEE

John E. Sanford, *Chairman,* President, Armour Fertilizer Works, Atlanta, Georgia

A. M. Lockett, President, A. M. Lockett and Co., Ltd., New Orleans, Louisiana

George Winship, President, Fulton Supply Company, Atlanta, Georgia

I. C. Milner, Executive Vice President, Gate City Cotton Mills, Atlanta, Georgia

W. W. French, President, Moore-Handley Hardware Company
Birmingham, Alabama

OFFICERS

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Malcolm H. Bryan, *First Vice President*

L. M. Clark, *Vice President*

V. K. Bowman, *Vice President*

S. P. Schuessler, *Assistant Vice President*

J. E. Denmark, *General Auditor*

H. F. Conniff, *Vice President*

C. R. Camp, *Assistant Vice President*

J. R. McCravey, Jr., *Assistant Vice President*

Pollard Turman, *General Counsel*

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BIRMINGHAM BRANCH

DIRECTORS

P. L. T. Beavers, *Managing Director,* Birmingham, Alabama

Edward L. Norton, *Chairman,* Chairman, Voice of Alabama, Inc.
Birmingham, Alabama

Donald Comer, Chairman of the Board, Avondale Mills, Birmingham, Alabama

James G. Hall, Executive Vice President, First National Bank, Birmingham, Alabama

Gordon D. Palmer, President, The First National Bank, Tuscaloosa, Alabama

Wm. Howard Smith, Planter and Cattle Raiser, Prattville, Alabama

M. B. Spragins, President, First National Bank, Huntsville, Alabama

OFFICERS

P. L. T. Beavers, *Managing Director*

H. C. Frazer, *Assistant Manager*

H. J. Urquhart, *Cashier*

*L. W. Starr, *Assistant Cashier*

JACKSONVILLE BRANCH

DIRECTORS

George S. Vardeman, Jr., *Managing Director,* Jacksonville, Florida

Charles S. Lee, *Chairman,* Citrus Grower, Oviedo, Florida

Frank D. Jackson, President and General Manager
Jackson Grain Company, Tampa, Florida

Walter J. Matherly, Dean, College of Business Administration, University of Florida
Gainesville, Florida

J. C. McCrocklin, President, First National Bank, Tarpon Springs, Florida

J. L. Dart, President, Florida National Bank, Jacksonville, Florida

Bert C. Teed, Executive First Vice President, First National Bank
Palm Beach, Florida

OFFICERS

George S. Vardeman, Jr., *Managing Director*

T. A. Lanford, *Cashier*

T. C. Clark, *Assistant Cashier*

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* On Leave—Military Service

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NASHVILLE BRANCH

DIRECTORS

Joel B. Fort, Jr., *Managing Director*, Nashville, Tennessee

W. E. McEwen, *Chairman*, County Farm Bureau, Williamsport, Tennessee

Clyde B. Austin, President, The Austin Company, Inc., Greeneville, Tennessee

W. Bratten Evans, President, Tennessee Enamel Manufacturing Company
Nashville, Tennessee

Leslie R. Driver, President, First National Bank, Bristol, Tennessee

B. L. Sadler, President, First National Bank, Harriman, Tennessee

Edward Potter, Jr., President, Commerce Union Bank, Nashville, Tennessee

OFFICERS

Joel B. Fort, Jr., *Managing Director*

Winslow E. Pike, *Assistant Manager*

E. R. Harrison, *Cashier*

NEW ORLEANS BRANCH

DIRECTORS

E. P. Paris, *Managing Director*, New Orleans, Louisiana

John J. Shaffer, Jr., *Chairman*, Sugar Planter, Ellendale, Louisiana

E. F. Billington, Vice President, Soule Steam Feed Works
Meridian, Mississippi

John Legier, President, National American Bank of New Orleans
New Orleans, Louisiana

J. F. McRae, President, The Merchants National Bank, Mobile, Alabama

T. G. Nicholson, President, First National Bank of Jefferson Parish
Gretna, Louisiana

OFFICERS

E. P. Paris, *Managing Director*

M. L. Shaw, *Cashier*

F. C. Vasterling, *Assistant Cashier*

W. H. Sewell, *Assistant Cashier*

L. Y. Chapman, *Assistant Cashier*

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FOREWORD

This pamphlet is the third in a series on the subject of industrial promotion methods that the Board of Directors of the Federal Reserve Bank of Atlanta has authorized the Research Department of the Bank to prepare for general publication. The first pamphlet, entitled *Mississippi's BAWI Plan,* deals with Mississippi's effort to promote a better balance between agriculture and industry by permitting local governmental units to issue bonds, under state direction and control, for the purpose of providing buildings and equipment to be used for manufacturing purposes by client concerns. The second, *The Alabama State Docks,* gives an account of the development and operation of Alabama's state-owned dock facilities at Mobile. The present pamphlet describes the nature and functions of the Louisville Industrial Foundation, a quasi-public industrial-promotion organization of Louisville, Kentucky.

Running through these studies is a concern with methods by which industrial development may be stimulated within a given area. The Mississippi study describes a method by which local governmental units actively participated in such promotion. The Alabama study describes a method of assisting the industrialization process by means of a state-owned and state-managed enterprise. The Louisville study offers an example of industrial stimulation achieved by means of a privately owned and managed corporation that has as its chief purpose the economic advancement of its community.

In thus publishing these studies of public or semipublic means of industrial stimulation, the Federal Reserve Bank of Atlanta takes a completely neutral position. The Bank wishes merely to contribute to the information about what has been tried in the way of regional and community self-help to bring about industrial development within a given area. The undertakings that have so far been described were selected for study because they seemed notable in themselves and had not previously been described in detail.

Underlying its interest in these plans of community self-help is the Bank's concern with the achievement of a better balance between agriculture and industry in the region that it serves. Composed of the states of Alabama, Florida, and Georgia and parts of Louisiana, Mississippi, and Tennessee, the Sixth Federal Reserve District is an area that traditionally has been largely agricultural in character. The growing use of machine technology and of improved production methods has tended to bring about an excess supply of labor in the region's agriculture, thus influencing farm people to leave their homes in order to find employment elsewhere.

A greater expansion of industrial employment is the paramount need of the region if it is to give sustenance to its people. In studying the means by which such expansion may be attained, the Bank is simply expressing its interest in that region with which it is primarily identified. This interest is in no sense original with the Bank for it is an interest that permeates the entire fabric of Southern thought on the need for a

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greater degree of industrialization. In publishing the results of its studies in pursuit of this interest, the Bank is endeavoring to perform a public service by sharing with others the results of its findings.

Individual copies of this pamphlet, or of any other of the series, will be provided without cost to those who request them. Bulk orders for copies will be gladly filled, but a charge will be made for actual printing costs and postage.

W. S. McLarin, Jr.

February 1945 *President*

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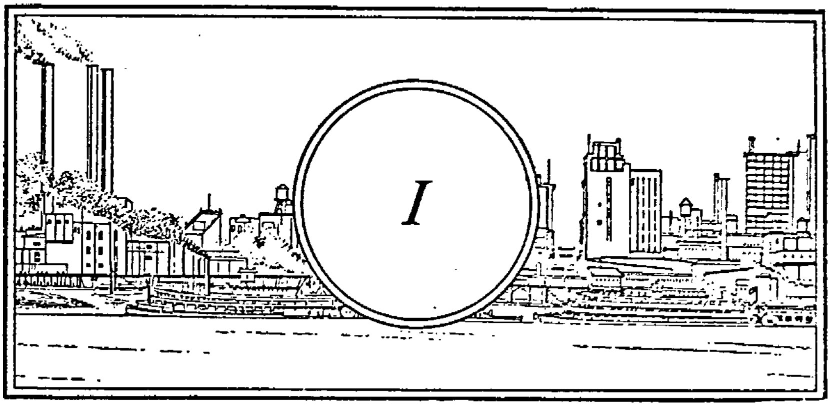

GENERAL DESCRIPTION OF THE FOUNDATION

A Private-Public Institution

For nearly three decades past, the expansion of manufacturing activity in Louisville, Kentucky, has been aided by a rather unusual local institution, the Louisville Industrial Foundation.[1] The Foundation presents a combination of private business characteristics and quasi-public motives. It was incorporated under the laws of Kentucky in 1916 as a technically profit-making enterprise, and its structure is the conventional one, consisting of a board of 15 directors, elected by the stockholders; an executive committee of the board; and a salaried administrative personnel. The articles of incorporation on their surface are those of a commercial investment company set up to deal in industrial securities. But one unique clause in the articles defines a broad public purpose, and this purpose has pervaded the activities of the Foundation. "The nature of its business," this clause sets forth, "shall be to advance and develop the City of Louisville and vicinity industrially."[2]

[1] Other somewhat similar foundations exist and several of these also provide temporary capital to industries. In its undated mimeographed pamphlet, *Community Industrial Financing Plans,* the Chamber of Commerce of the United States lists and describes 22 such organizations in the following communities: Akron, Ohio; Baltimore, Maryland; Brockton, Massachusetts; Danville, Illinois (2); Easton, Pennsylvania; Elmira, New York; Grand Rapids, Michigan; Greater Muskegon, Michigan; Hopkinsville, Kentucky; Hoquiam, Washington; La Crosse, Wisconsin; Little Rock, Arkansas; Louisville, Kentucky; New Bedford, Massachusetts; Omaha, Nebraska; Portland, Maine Rochester, New York; Scranton, Pennsylvania; Tulsa, Oklahoma; Wheeling, West Virginia; and Wilkes-Barre, Pennsylvania. Among these, the Louisville Industrial Foundation is the fifth in age, the second in size of capital fund, and one of the best known.

[2] See Articles of Incorporation, Sec. III, p. 63.

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It was the central theory of the founders of this institution that the work of community industrial development, supported in most cities by annual subscriptions from the business public, could be conducted as a form of business, involving the investment of capital for a return and capable at least of sustaining itself, if not of making profits. In accordance with this theory, the Foundation has pursued two lines of activity.

The first, which may be termed quasi-public, is that of an industrial bureau. The Foundation collects and disseminates information and data concerning the Louisville area, answers business queries, and at times compiles more than ordinarily reliable industrial briefs for site-seeking manufacturing concerns. This aspect of its work has brought results; in 28 years, 69 civilian enterprises and two important wartime developments, for which the Foundation supplied the preliminary contacts and information, have become established in Louisville. Initially, the 69 private companies had a total capital of $15,263,900, and their first-year pay rolls aggregated $3,928,540; many of them have expanded considerably since their arrival in the area. All these enterprises provided their own capital. This development service, being free, brings the Foundation no monetary return.

The development work, however, is supported by the second major function, which is that of making medium-term capital loans to manufacturing enterprises that cannot obtain adequate capital from other sources. The corporation has a fund, formed originally by the resident business firms and townspeople of Louisville, during a public subscription drive held in 1916, and maintained intact since that time. The subscribers consolidated their savings primarily as a contribution to the industrial advancement of their community, but in doing so they purchased common stock in the Foundation; in this way, the quasi-public promotional endowment became also the paid-in capital of the corporation, and its administration was confided to the business leaders who became the corporation's directors. This community fund, when all subscriptions were collected, amounted to $875,759; earnings from investments, above administrative expenses and losses, have since increased the total assets of the Foundation to $983,659.[3]

From its resources, the Foundation upon occasion provides temporary capital, in amounts up to $100,000 and for periods as long as 10 years, to selected manufacturing companies whose plants must be located within the Louisville area. It has made such capital loans, during its 28 years of life, to 44 manufacturing establishments. These enterprises, which are listed in table 1, have been additional to the 71 previously mentioned. Two civic situations, one of them a new public airport, also have been financed.

The loans to manufacturers are made for the construction or enlargement of plant, for the purchase or modernization of mechanical equipment, and for other purposes that are commonly associated with equity

[3] Semiannual Report of the Louisville Industrial Foundation, June 30, 1944.

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TABLE 1

CHRONOLOGICAL LIST OF 46 SITUATIONS FINANCED BY THE LOUISVILLE INDUSTRIAL FOUNDATION, STATING TYPE OF PRODUCTION FINANCED, DESCRIPTION OF ENTERPRISE AT TIME OF FIRST FINANCING, AND SUBSEQUENT STATUS OF ENTERPRISE

Type of Production	*First Financing by Foundation*		*Subsequent Status of Enterprise*
	Year	*Description of Enterprise*	
Garments	1917	Old-established	In operation today
Wood Products	1917	Completely new	In operation today
Cigarette foil	1918	Brought-in	In operation today
Automobile parts	1918	Brought-in	In operation today
Petroleum refining	1918	Brought-in	In operation today
Cottonseed products	1918	Old-established	In operation today[a]
Dairy products	1918	Brought-in	In operation today
Business equipment	1919	Completely new	In operation today
School furniture	1920	Completely new	Liquidated, 1930
Wood products	1920	Completely new	Liquidated, 1926
(Teachers' salaries)	1920	(Board of Education)	Loan repaid, 1921
Patent desks	1920	Brought-in	Liquidated, 1928
Cold storage	1921	Completely new	In operation today[b]
Automobile bodies	1921	Completely new	Liquidated, 1926
Electrical devices	1921	Recently founded	In operation today
Railroad metal	1923	Brought-in	Liquidated, 1942
Drying machinery	1923	Recently founded	In operation today
Toy balloons	1924	Completely new	Liquidated, 1927
Shoelaces	1924	Brought-in	In operation today
Hosiery	1924	Completely new	Liquidated, 1927
Petroleum refining	1925	Completely new	In operation today
Pipe organs	1925	Old-established	Liquidated, 1944
Structural steel	1925	Old-established	In operation today
Water heaters	1925	Brought-in	In operation today
Bakery products	1926	Brought-in	In operation today
Bakery products	1927	Brought-in	In operation today
Enameled metal	1927	Brought-in	In operation today[c]
Stamped metal	1927	Completely new	In operation today
Bedsprings	1928	Old-established	In operation today
Macaroni	1929	Completely new	In operation today
Metal sundries	1930	Brought-in	Merged, 1935[d]
Building materials	1931	Recently founded	In operation today
Wood products	1933	Recently founded	In operation today
Printing, magazine	1935	Old-established	In operation today[e]
Dairy products	1935	Completely new	In operation today
Food specialties	1938	Recently founded	In operation today
Wood products	1938	Old-established	In operation today
Printing, job	1939	Old-established	In operation today
Work garments	1939	Recently founded	In operation today
Cotton rope	1939	Old-established	In operation today
Bakery products	1940	Old-established	In operation today
Metal foil	1940	Completely new	In operation today
Food specialties	1940	Old-established	In operation today
Packed poultry meat	.1940	Recently founded	In operation today
(New public airport)	1941	(City-County Air Board)	In operation today
Radio cabinets	1943	Recently founded	In operation today

[a] Absorbed into national company, 1925.
[b] Absorbed into national company, 1931.
[c] Originally an affiliate, became independent 1934.
[d] Merged voluntarily with enameled-metal company, 1935.
[e] Purchased by magazine company, 1944.

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rather than with borrowed capital. The investments are retired gradually by the benefited enterprises through term payments, usually made monthly; are secured by first mortgages on the industrial property; and bear current rates of interest, normally 5 or 6 per cent in recent years. The Foundation supports its capital loans by a variety of business services, financial and other, rendered to the client establishments. Since its credits are extended only to manufacturing companies that cannot obtain the equivalent amount of capital on comparable terms from other sources in the same area, the Foundation performs a strategic role in rounding out and supplementing Louisville's structure of organized finance.

On its surface, the function of capital investment is a money-making activity. But, in turn, the Foundation's financial operations have always been influenced by public considerations. Membership on the board of directors, which expressly authorizes each transaction, is regarded as a community honor and civic responsibility.[4] Underlying each act of capital provision has been the prevailing motive of providing new employment, pay roll and industrial profits for the people of Louisville or, in times of depression, of preventing industrial decline. The enterprises financed by the Foundation have included 13 that were completely new, 8 that were recently founded and ready for expansion through capital, 12 that were brought in from other points, and 11 old-established concerns. With few exceptions these have been locally owned, independent in status, relatively small in size (none with more than 400 workers at the time of the Foundation's first investment), and engaged in types of production regarded as complementary to other local enterprises and appropriate to the area itself. The use of capital by the Foundation, accordingly, has had a considerable element of economic planning, distinct from the element of profits.

The Foundation has disbursed no dividends to its stockholders. All costs of the development work and business services have, indeed, been covered from the investment earnings, and the Foundation's assets have increased with time. But the return to those who contributed the fund

[4] The officials of the Foundation in 1944 were as follows: Officers: President, William B. Harrison; vice president, J. C. Engelhard, comptroller of the City of Louisville; vice president, Robert Montgomery, vice president of the Louisville Gas and Electric Company; secretary-treasurer, F. B. Ayres.

Directors: Robert P. Bonnie, secretary-treasurer, Kentucky Color and Chemical Company; George O. Boomer, vice president, the Girdler Corporation; C. R. Bottorff, president, Belknap Hardware and Manufacturing Company; W. S. Campbell, vice president, Kentucky and Indiana Terminal Railroad; A. H. Dick, president, Louisville Textiles, Inc.; J. C. Engelhard; Eugene D. Hill, president, Louisville Cement Company; William B. Harrison; E. H. Hilliard, J. J. B. Hilliard and Sons, investment bankers; E. J. Hoddy, general development agent, Louisville and Nashville Railroad; F. H. Miller, president, Louisville Railway Company; Robert Montgomery; Murray P. Nicol, president, Struck Construction Company; E. J. O'Brien, Jr., E. J. O'Brien and Company; and William A. Stoll, secretary-treasurer, Stoll Oil Refining Company.

Executive Committee: Messrs. Harrison, Engelhard, Montgomery, and Hilliard; Ayres, secretary.

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has been indirect, accruing from the participation of local business firms and residents in the increased community income and social wealth that have resulted from the industrial development. As an instance of this process, the well-known Reynolds Metals Company came to Louisville in its infancy, in 1917, partly because the Foundation existed, and its early expansion was fostered by a capital loan of $30,000 from the community fund. Today this one group of interests, grown to a $91,000,000 national corporation, operates nine of its more than 40 major war plants in the Louisville area, and employs many thousands of workers within the community. Owing to this and other cases, there is little disposition in Louisville to question that the community-fund formation of 1916 has been a paying investment, though the return to the individual investors is impossible to compute.

Purpose of the Study

The 28-year experience of the Louisville Industrial Foundation appears significant at the present time in relation to two impending issues of the readjustment period. In many communities, where the necessity of sharing in the postwar revival of civilian production is perceived, community funds at present are being contemplated or actually raised. Problems are involved in this activity. Since the Foundation has encountered virtually every difficulty and has won virtually every type of success connected with community-fund administration, its record in this respect may have practical advisory value.

But in addition, the Foundation has specialized, for many years past, in the difficult and controversial field of small business financing, and this aspect of its history offers a suggestive case study bearing upon a major problem of banking and investment in the present time. The particular methods and technics developed in Louisville in capitalizing the small personal enterprises of that area may or may not be universally applicable, but they have had a path-finding character, in practice have met with considerable success, and, accordingly, are described in some detail in this report.

Device of the Revolving Fund

The primary working policy of the Foundation, whether in relation to its developmental work or to its investment activity, is the treatment of its capital as an interest-bearing revolving fund. The original $875,759 of paid-in capital, loaned, repaid, and reloaned, has provided $3,849,045 in gross industrial investment from the beginning of 1917 to June 30, 1944.[5] This policy contrasts sharply with the practice of communities that have raised smaller funds and expended them outright, for purposes

[5] The gross amount has included $2,603,947 in "new money" for capital purposes in manufacturing and $200,000 in civic situations, the remainder including refinancing investments and one current working-capital account.

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of advertising or to subsidize particular enterprises. The argument that is used to justify the nonpayment of dividends by the Foundation, namely that the return upon investment is indirect, is, to be sure, the same argument that is ordinarily used in behalf of promotional or subsidy expenditures. But here the resemblance ceases, for whereas an advertising or subsidy appropriation is usually expended outright, the original capital fund that was formed in Louisville has turned over four and a half times in 28 years and has not only renewed itself but has increased in size and is larger than ever today.

No further fund drive for Foundation purposes has been held since 1916. The interest earnings from investments have covered all current expenses,[6] whether of the free industrial service, the work of loan collection and accounting, or of the aids to client industries. Also, this income has overcome four items of early capital loss amounting to $209,021, a contingent loss of $31,304 from the closing of a bank in the depression, and five items of interest write-off amounting to $57,895. Meanwhile the increase in total assets above the original paid-in capital has amounted to 12.3 per cent, or an average annual gain of 0.44 per cent for the 28-year period.

Under the revolving-fund plan, in short, the enterprises that borrowed the community capital may be said to have paid the costs of Louisville's development, as far as that development may be ascribed to the Foundation; and there is the further important fact that these enterprises have not been recipients of charity and, though temporarily indebted, have retained their independent status. The Foundation on June 30, 1944, had liquid assets of $399,355 and a reserve against possible losses amounting to $90,000, in addition to industrial investments of $567,698. The revolving fund, accordingly, was apparently in a position to protract its developmental and financial services indefinitely.

Limits of the Investment Field

The field of the Foundation's investment activities is definitely restricted. All loans must be made within the Louisville metropolitan area, which had in 1940 a population of 435,408. No loans may be made to trade, service, construction, or other enterprises outside the field of manufacturing.

The supplemental position of this financial service constitutes another important limitation. As a community institution, the Foundation avoids competing with the banking concerns, investment banks, building and loan associations, and other loan-making institutions of its area. Maintaining this supplemental position has been a matter of canvassing, in each particular case, the possibility that an applicant enterprise might obtain its needed capital from some other local source.

The building and loan associations of Louisville, with which the

[6] Total expenses of the Foundation in the first half of 1944 amounted to $17,619, this amount being typical of recent periods. This includes $5,945 income taxes.

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Foundation most nearly competes, emphasize the residential rather than the industrial mortgage. The investment banks deal, ordinarily, with a larger type of enterprise.

In relation to the commercial banks, the Foundation's position has been one of independence plus co-operation. The institution preserves its supplemental character by accepting at times a type of risk somewhat more marginal than that desired by the usual bank and also by lending for longer periods and in larger amounts in ratio to the value of security than is ordinarily done by banks. Because of these differences in standards, the Foundation has made no loans in participation with banks. It does not lend for the purpose of debt consolidation or take over debts from previous creditors, including banks. Various stand-by agreements, however, have been made with banks, for example, in cases in which a bank has established a short-term line of credit for working-capital purposes at the same time that the quasi-public agency has supplied five-year or 10-year capital for expansion purposes. For many years past, no banks have been directly represented on the board of the Foundation, though its directors at times have also been directors of banks. Thus the Foundation is not a credit pool of the local banks, though it performs, independently, a supplemental service.

Serving as the final restriction on the field of investment is the policy of avoiding too hazardous risks. The Foundation is administered on strict business principles; its directors are businessmen who do not abandon prudence in investment when serving the community. Even though the Foundation operates at times in a twilight zone of risk, in practice that zone is narrow. For many years past, the first mortgage loan has been the primary transaction. In appraising risks, the executive committee considers first the experience and ability of the man or men operating the enterprise, next the prospective marketability of the product, and the breadth or reliability of the market base. Most of the enterprises financed in recent years have been basically sound, and many of the financings have been in aid of wartime and other constructive expansions.

In spite of the policy of safety, however, the orthodox standards of risk acceptance have been relaxed at times. The weak capital position is quite commonly financed. Where the application of new capital has promised a definite increase in employment, or would save an established enterprise from the necessity of releasing workers, a certain degree of hazard has been assumed.

Occasional criticisms may be heard in Louisville to the effect that the Foundation is too conservative. Some basis exists for these criticisms: for the 44 manufacturing situations accepted, the record shows 356 rejections; also, only two strictly new enterprises and no importations of enterprise have been financed since 1930.[7] In brief, the investment

[7] Since 1930, however, many enterprises have been brought in that provided their own capital. This situation, of course, is regarded as preferable by the Foundation.

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activity, except in the initial period, has had only partially the character of a venture foundation. But numerous capital-needing local enterprises have received a financial aid that they could not otherwise have obtained, and no capital loss has been sustained since one that resulted in 1930 from a situation entered in 1921.

Constructive Influences of the Foundation

Within the four limits described—those of the geographical area, of the manufacturing investment, of the supplemental position, and of business conservatism in the use of its capital—the Foundation has exerted a strategic influence over the manufacturing economy of Louisville. A community that in 1916 was limited mainly to the distilling, tobacco, and woodworking industries is today a center of diversified manufacturing. Much of this development is due to the industrial work of the Foundation. The variety of products it financed directly is seen in table 2.

By two of its loans, the Foundation assisted in expanding the dairying industry in Louisville, and this industry has had a far-reaching effect upon agriculture in the bluegrass area. Another loan was instrumental in making Louisville an important aluminum, cigarette foil, and magnesium center. In woodworking, the fund has been used to encourage within its area the higher forms of lumber processing. Almost equally constructive has been the financing of small food-products plants, the output of which has replaced certain edible products that formerly were imported. Another investment helped to give Louisville its first major commercial cold-storage plant. A recent transaction enabled the City-County Air Board to purchase a needed airport, which in turn is utilized by two important aircraft factories. Finally, Louisville was deficient in metal-working and other heavy industries until the Foundation helped to capitalize additional steel, metal-stamping, metal-enameling, and machinery-making plants.

By encouraging the private investor to place his funds in local industries, the institution has performed one of its most constructive services. Under its charter, the Foundation may advance no more than one third of the total tangible capital value of any manufacturing enterprise. This limitation necessarily implies that private ownership must hold the majority interest. Accordingly, the quasi-public corporation has found itself repeatedly in a participating position with resident manufacturing proprietors, whether silent backers or active owner-managers. This circumstance has induced local private capital to flow, apparently to a somewhat unusual degree, into those local enterprises that the Foundation has accepted as its clients. Various instances have occurred in which a local investor has agreed to put money into a manufacturing enterprise because the Foundation also was behind that enterprise, had appraised and approved it, would service it, and had undertaken a financial and moral commitment for its support. In effect, the Foundation has provided a type of guarantee behind the risks of the local industrial investor.

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TABLE 2

TYPES OF PRODUCTION FINANCED BY THE LOUISVILLE INDUSTRIAL FOUNDATION, 1917-44 (JUNE 30), STATING NUMBER OF ENTERPRISES AND AMOUNTS OF NEW CAPITAL PROVIDED, BY INDUSTRY GROUPS

	Number and Types of Enterprises Financed					
Industry Group	*Completely New*	*Brought In*	*Recently Founded*	*Old Established*	*Total Number of Enterprises*	*Amount of New Capital Provided*
Metal products [a]	4	6	2	2	14	$875,518
Food products [b]	3	3	2	2	10	565,619
Wood products [c]	3	1	2	1	7	432,082
Fiber products [d]	1	1	1	2	5	271,228
Civic situations [e]	1	—	—	1	2	200,000
Printing [f]	—	—	—	2	2	150,000
Petroleum products	1	1	—	—	2	100,000
Unclassified [g]	1	—	1	2	4	209,500
TOTAL, 46 Financings	14	12	8	12	46	$2,803,947 [h]

[a] Cigarette foil, automobile parts, business equipment, automobile bodies, electrical devices, railroad metal, drying machinery, structural steel, water heaters, enameled metal, stamped metal, bedsprings, metal sundries, metal foil.

[b] Dairy products, cold-storage service, bakery products, macaroni, food specialties, packed poultry meat.

[c] Plywood and veneer, furniture, school furniture, patent desks, laminated woods, radio cabinets.

[d] Garments, shoelaces, hosiery, work garments, cotton rope.

[e] Teachers' salaries (loan), interim financing of new airport.

[f] Magazine printing, general job printing.

[g] Cottonseed products, toy balloons, pipe organs, synthetic building materials.

[h] Total includes $2,071,897 initial investment and $532,050 subsequent investment for manufacturing purposes, and $200,000 loaned to civic agencies.

Policy of Persistent Support of Clients

Only once in its history has the Foundation foreclosed upon a debtor enterprise, although, technically, it could have done so many times. The fundamental motive of upbuilding industries and creating employment has led to a constructive policy in relation to credits that is not distinguishable from the policy of actual equity participation in point of the desire to keep the client manufacturing enterprises alive and to put them in a stable operative and financial position. What is especially notable in this connection is that the Foundation's policy of persistent support of each undertaking, though based upon the public motive, has also proved to be sound from a business point of view. This policy was not applied in the earliest years, and some business failures and losses resulted; but, since affirmative aids to borrowers became the working principle, the enterprises in most cases have attained success, and in all cases have reimbursed

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the fund, and paid the interest charges in full, sometimes after many years.

This policy of loan support has arisen largely from the exigent nature of the Foundation's financial field and also from the long duration of its accounts. Because of the characteristic variability of the position and earnings of the smaller enterprises, few investments have been retired without departure from the contract schedules in one direction or the other. Of the 44 manufacturing accounts, 18 were retired ahead of time—2 within a year, 7 in less than 4 years—and, since no penalty for premature retirement was charged, the Foundation in these cases forfeited anticipated interest earnings. Other accounts lagged, were extended and, on 15 occasions, were refinanced. Of 18 accounts that were still on the Foundation's books at the end of 1943, 9 were of more than the standard 10 years of age: 1 of these was more than 23 years old; 1, 20 years; and 2, 19 years. Of the retired accounts, 1 was fully paid up after 23 years and 9 months, 1 after 22 years and 4 months, 1 after 15 years, and 1 after 14 years.

Had not the Foundation adapted its credit policy to these variations, and, further, extended active aids to its clients in time of need, many enterprises that ultimately retired both principal and interest in full would not have survived.

Policies of Adaptive Financing

This policy has had an important reciprocal aspect. Because the Foundation has been a constructive creditor, and also because it represented the community and was operated by leading businessmen, the client manufacturing concerns and their backers generally have regarded a debt to this institution as a debt of honor and have been pertinacious in ultimately retiring the obligation.

The policy of seeing the enterprises through to success has taken several forms, the first of which is financial. In the cases of 17 clients, the first outlay of Foundation capital proved insufficient. In these cases, additional capital loans were made, numbering 30 in all. These subsequent advances were generally consolidated with the earlier unpaid balances and accompanied by time extensions of the entire debt. In all, 14 accounts have been extended and refinanced, many others informally extended. In five cases, where clients encountered emergencies that jeopardized their business positions, amounts of accrued interest were written off.

The second form is contractual. The Foundation also has increasingly sought to adapt its collection terms to each enterprise's prospective ability to pay. One adaptive device, embodied in most contracts made since 1939, has represented an endeavor by the Foundation to forecast the business position of the client and to meet that position by grading the payments. For example, on a 10-year loan of $100,000, the contract called for monthly payments of $500 for the first 2 years, $700 in the third year, $800 in the fourth, $900 in the fifth and sixth, and $1,000 thereafter. This contract was based on the expectancy of a progressive increase in the business earnings. On a 5-year loan of $40,000, the monthly payments were fixed at $500 for the first 6 months, $1,000 for 2

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years, $800 for 6 months, and were graded down to as little as $100 toward the end. This arrangement was based upon a war contract that was expected to reach its peak in the third year and then decline. By this device, technical delinquencies in payment have been markedly reduced.

Another device that has been employed for several years is the so-called recapture clause, under which a borrowing enterprise that has earned net profits in the preceding year pays to the Foundation 15, 20, or 25 per cent of those profits, in addition to the current payments. The payments made on recapture apply to the notes of the most distant maturities, in reverse order, thus shortening the total time period and saving interest to the borrower in the end. Under conditions of wartime prosperity, several clients have abbreviated their time of indebtedness by a year or more, and one has recaptured from its profits the notes of the last five contract years.

By these adaptive and flexible devices, designed to correspond with the small-business fluctuations, the Foundation has aided the financial position of its client concerns, has safeguarded the community fund from loss, and has insured its own ultimate profits. The approach has been an individual one in the case of each particular client.

Attendant Services and Business Aids

Finally, the Foundation long ago abandoned the usual aloofness of the creditor position in favor of a close concern with the inner affairs of some, at least, of its client enterprises. Its attitude in these cases has amounted to that of a partnership. A certain degree of contact with clients was provided for in the charter of the institution[8] and this relationship, developing with time, has taken the form of business services of an informal and intimate type.

Formal marketing surveys or other economic aids have not been found necessary, such studies probably being more appropriate to larger enterprises than to the smaller ones. Technological services, though desirable, have not been within the organization's sphere. But the small businesses at times have needed specific aids on an individual basis. In the earlier stages, some aids were disciplinary in character: an insistence by the Foundation upon better accounting practices, a demand for improvements and even changes in management or submanagement, and in one case a threat of grand jury action if a financial control that had crept into a company was not eliminated. More difficulties of this sort arose in connection with brought-in concerns than with any other type, for such plants were sometimes affiliated with distant interests that tended to regard the Foundation as a subsidizing agency.

The prevailing type of service, however, may be termed personal. The Foundation has helped some of its client companies to make contact with

[8] See Appendix A, page 63. Under this provision, Mr. Harrison, president of the Foundation, was a director of 10 client companies in 1944. Mr. Ayres, secretary-treasurer of the Foundation, was secretary of five companies.

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private capital, to locate needed sales managers and other key men, and to find better quarters. It has served as business counselor on many occasions, has represented its clients in conferences with trade creditors, has worked out agreements with banks, and has obtained on its own credit materials needed for manufacturing purposes. In one case, the organization investigated and disproved a libel that was damaging a company's standing. Not all the client concerns have required such services, and accordingly some establishments have not received them, but in other cases the relationship, while advisory, has been extremely close. To the small and detached local enterprises, the advice and support of an organization including leading businessmen of the community have been of no small advantage.

The general effects of the Foundation's constructive interest in its financial clients have been twofold: to reduce the risk of its own accounts, and to strengthen the employment-creating potentialities of the enterprises within the community. The private business motive and the quasi-public motive have been found to coincide. Not only has capital been made institutionally and locally available to the small and independent enterprises of Louisville, but the methods of investment and the services that accompanied the investment also have been adapted to their individual needs.

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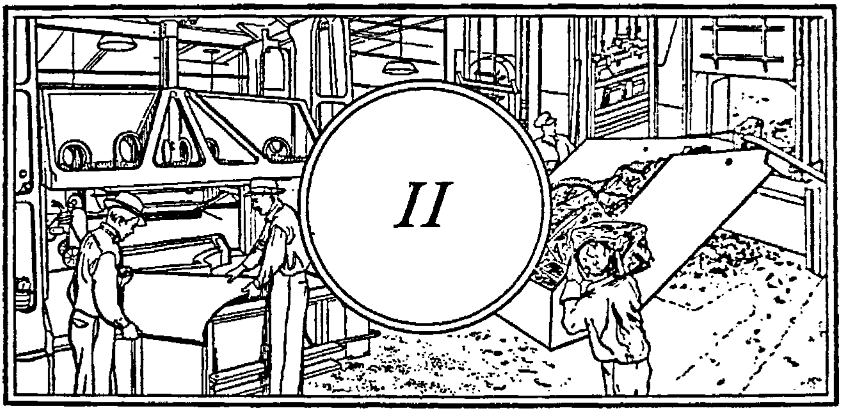

THE BIRTH OF THE FOUNDATION

The Background of Local Depression

In 1916, Louisville, then a city of about 225,000 population, was in a serious situation. The community was not participating in the productive activity of the first world war and none of its leading industries—distilling, tobacco processing, and woodworking—was in good condition. The town's labor force was leaving to find employment along the Great Lakes. Homes were becoming vacant, trade was ebbing, and some stores along the main streets were boarded up.

The Louisville Board of Trade held a series of conferences of business leaders. Generations of family residence had bred in these leaders a strong sense of community trusteeship. The conferees became determined to take action to save the town. Recognizing the primary influence of industrial employment and profits upon other phases of the local economy, they decided to concentrate their efforts upon a development of new and diversified manufacturing in the Louisville area.

The community, which previously had been prosperous, did not lack capital. Also, Louisville was a center of eight railroads, had river transportation, a good power supply, and cheap land for factory sites. The tradition of individual enterprise and of resident ownership of manufactures was strong, so that these leaders thought almost automatically in terms of the development of industries of the independent local order. How to stimulate the desired expansion became the problem.

Community funds were being formed in other cities at this time, for purposes of advertising community advantages, of subsidizing industries, and in some cases of combating unionism. The Louisville leaders readily conceived of raising a fund, but none of these purposes appealed to them. They were looking for something unique—some advantage to the inde-

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pendent manufacturer that would give their area a lasting locational advantage in competition with other areas.

Who among the conferees originally suggested a fund that would be used for the purpose of supplying temporary capital to manufacturing enterprises is a matter of uncertainty today. Many minds obviously contributed. At all events, it was suggested that if Louisville, as a community, could provide a systematic and organized capital source for the small industrialist, the desired development might result; and this thought gained ground. Always in the past the independent enterpriser had had to spend much of his time seeking for personal capital to back his inventions or ideas. Merely to simplify this search, the Louisville leaders considered, would attract industries to their community.

It was decided, accordingly, to solicit the public to create a "Million Dollar Factory Fund." This fund was to be placed under the control of a corporation to be called the Louisville Industrial Foundation.

Proposed Standards of the Foundation

The founders of the movement proceeded to plan the standards of the Foundation. Upon one point they were agreed: the fund, if raised, should be administered along business lines. Those leaders had no patience with loose practices in investment or with any form of industrial subsidization. They settled upon a few broad principles, which later were embodied in the literature of the fund campaign and in the articles of incorporation of the Foundation.

First, the fund was to be raised not only from the business public but from the general public as well. It was reasoned that if the town revived and grew, not only the business community but the entire residential population would benefit.

Second, the capital to be supplied to the manufacturing enterprises should be medium-term temporary capital. This idea was suggested by bankers, who saw the need of establishing a type of financial service that their own institutions at the time did not supply. But there was also another root to this suggestion: the businessmen of Louisville knew the independent manufacturer to be typically an individualist who wanted above all to preserve the freedom of his business, and who viewed equity sale, on other than a temporary basis, as a threat to his prerogative of control. The medium-term investment, retirable in instalments, was calculated not only to furnish capital but also to preserve the independence of the manufacturer who owned his enterprise.

Third, such an investment fund would be a revolving fund. The principal of each investment would be gradually amortized, and interest would be paid. Thus, the original fund could be reinvested again and again, would support itself without depleting capital funds, and might even pay profits. One partly fallacious idea that lingers in Louisville today apparently dates from these discussions; namely, that if ownership shares were bought outright, the fund would lack the revolving character,

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because the equities of small concerns usually would not be resalable and thus the fund would merely become tied up in a million dollars' worth of "freezings." (This belief overlooked the fact that common stocks or partnership shares may be made serially retirable.) Two methods were perceived by which the earnings of the industries would enable the fund to revolve: either capital loans might be made on a term-payment basis, or preferred stock, which was popular at the time, might be purchased upon a serial retirement plan. The Louisville leaders of 1916 preferred the latter course, and the Foundation appears to have been set up primarily to purchase preferred stock, though any type of temporary investment was permitted.

Fourth, the investments were to be made on a selective basis. Some hazards would be taken, and some losses would undoubtedly arise, in accordance with the spirit of venture enterprise. But the risk position was to be restrained, while all invasion of the province of the banks or other investment institutions was to be avoided; the restricted yet supplemental position of the proposed fund was defined from the start.

Fifth, in formulating the administrative agency, the conferees decided that the proposed corporation should have a directorate of 15 leading businessmen, of whom 10 must vote affirmatively for the making of any investment. The contributors to the fund would elect the directors, but the Board of Trade would nominate them.[9] Thus, the business standards of investment would be perpetuated and the fund would remain in conservative hands.

Sixth, no single investment might amount to more than one third of the total capitalization of the client concern. Such capitalization was to exclude any valuation of copyrights, going-concern value, or other intangibles. This provision was made in order to obviate the danger that the Foundation might exert the control of a holding company over its client concerns, also to keep the fund from being called upon to supply the majority of capital for a completely new venture.

Seventh, not more than 10 per cent of the capital of the Foundation might be invested in any single concern. Since a million-dollar fund was contemplated, the maximum investment would be $100,000.[10] The purpose of this provision was to prevent an undue absorption of the fund by one or two large investments and to diversify the portfolio of risks.

Eighth, the Foundation would retain the right to be informed regarding the business affairs of client companies and also to appoint one of its own officials or directors to the directorate of a client concern.

[9] The Board of Trade was to name three tickets of directors, in order that the stockholders might have a choice. The stockholders also were entitled to make nominations. In fixing a one-year term for the board of directors, the planners made a mistake that was later revised. Since 1919, each director serves for three years, and one-third of the board is elected annually. This has proved to be a very workable arrangement.

[10] Some difficulty later arose over this provision, for the fund proved partly uncollectible, amounting in 1921 to only $843,205. Meanwhile some loans of $100,000 had been made. The Foundation, by advice of the attorney who drafted the charter, has continued to regard $100,000 as the maximum investment, interpreting the word "capital" to mean authorized rather than paid-in capital.

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Finally, the compromise course, midway between venture and safety, between incautious squandering and overcautious hoarding of the fund, was further embodied in several matters of detail that were written into the charter.

Whether or not the community fund would earn enough profits from its investments to be able to pay dividends to its contributors was a subject of considerable difference of opinion. Some of the conferees confidently expected that dividends would be paid. Others, including bankers in the group, recognized that, though profits might be earned in certain cases, the type of investment that was contemplated presented a considerable prospect of loss. It was decided, however, to incorporate for technical purposes of profit. Doubt existed as to whether a community fund for investment purposes could be legally incorporated on a non-profit basis. Some leaders doubted, moreover, whether a million-dollar fund could be raised from the public if dividends were not at least theoretically in prospect; and this practical desire for a successful fund drive apparently went far to determine the decision.

Such were the general standards set up by the business leaders of Louisville in advance of the drive for funds. In experience, one or two of these standards were to become somewhat modified. But the decisions, on the whole, proved wise, and the charter has not required amendment.

Raising the Community Fund

Louisville's drive for its "Million-Dollar Factory Fund" was typical of the high-pressure drives of the period. Under the direction of R. E. Hughes, a vigorous young promoter with banking experience, drive teams were organized by industry groups, by subgroups and by areas, to the end that no business establishment and no individual in Louisville might remain uncanvassed. The salesmen were trained and assigned to work in pairs. Employers agreed to canvass their employees.

Enthusiastically worded pamphlets were distributed and, with speeches and newspaper publicity, aroused public sentiment. One pamphlet gave figures purporting to show that if 10,000 additional wage earners were employed in the town, the result would be $9,000,000 in additional annual income of local business and trade. The appeal was at once to town patriotism and the pocketbook. "Good business judgment," said this pamphlet, "is the still, small voice that bids you act, for your city and for yourself."

The campaign was set for nine days beginning July 17, 1916. On its eve, the teams met at a rally and were given a "pep" leaflet and a pamphlet marked "confidential." The leaflet began, "COMPATRIOTS! Louisville's psychic hour booms! The tragic question is: Charge or Retreat? Our future chance is a bid for action!"

The confidential pamphlet gave some instructions in high-pressure salesmanship and dealt as follows with the matter of prospective profits:

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Remember, you are not asking anybody to *give* anything. You represent a clean-cut business proposition in which citizens are invited to subscribe for shares of stock.

If you find someone who won't buy because he does not believe the capital will be kept intact or pay dividends, appeal to civic pride and get a subscription, although considered a donation.

Lay emphasis upon the responsibility of the men who will manage the Foundation.

In its technical aspects, the drive was a campaign to obtain signatures upon pledge notes. The notes were promises to buy stock in the Foundation, at $100 a share, and would become valid only if a total of one million dollars was pledged. If this goal was reached, the notes would become payable in semiannual instalments, over a five-year period. During the collection period, the subscriber would receive an interim certificate, privileged for voting. The final shares would be received upon completion of payment.

The drive moved rapidly, and on the ninth day the million-dollar goal was reached and passed, a total of $1,024,800 being pledged. For a community of the size of Louisville, this was a very large amount, averaging about $4 a person for the entire population. Subscribers numbered 3,118; subscriptions ranged from $100 to $25,000. Table 3 shows the types of subscriber that contributed the greater part of the fund.

The largest single subscribers were the Louisville Gas and Electric Company and the Louisville Railway Company. Each contributed $25,000. Thirty-six pledges of $5,000 to $15,000 were received, 17 from department stores and other large business enterprises and 19 from banks. The banks subscribed a total of $60,500, for the most part in $5,000 lots.[11] Of the merchants, 88 wholesalers and 583 retailers subscribed a total of $190,700. In the industrial group, 190 manufacturing concerns subscribed, evidently in the belief that manufacturing would benefit as a whole. Attorneys, doctors, dentists, and other professional men made moderate subscriptions, and barbers, florists, pawnbrokers, and other very small business concerns also subscribed.

The list, however, also included many individuals—clerks, salesmen, office secretaries, and other employed workers, as well as town residents, 37 of whom were classed as "widows." According to one classification, 2,185 miscellaneous individuals pledged a total of $421,200. By another classification, 2,042 subscribers each purchased a single $100 share.

This indiscriminate method of fund raising developed into a long-standing problem for the Foundation. In later years, some of these small subscribers were to visit the offices of the community fund and ask for their money back, saying that the salesmen had promised them dividends or that their employers had brought pressure upon them. In the heat of the campaign, some unwise promises were undoubtedly made and some extreme things done. The overselling process is recognized today in

[11] Bank subscriptions to stock became illegal at a later date.

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TABLE 3

SUBSCRIBERS TO THE ORIGINAL FUND OF THE LOUISVILLE INDUSTRIAL FOUNDATION BY OCCUPATIONAL CATEGORIES

Business Classification	*Number of Subscribers*	*Amount*
Banks	19	$ 60,500
Brick, tile, and cement companies	7	12,100
Brokers	39	15,700
Building contractors	49	12,800
Clerical workers	123	15,800
Clothing manufacturers	55	25,000
Department stores	4	25,000
Insurance companies and agents	69	24,000
Lawyers	150	30,200
Liquor and beer manufacturers	17	48,000
Lumber dealers	25	15,800
Lumber manufacturers	23	22,300
Managers of companies	110	21,000
Paint, varnish, and oil manufacturers	16	29,900
Physicians and surgeons	87	12,500
Presidents of corporations	123	64,500
Printers and lithographers	52	14,400
Real estate companies and agents	101	27,500
Retail grocers	118	17,600
Retail liquor and wine dealers	92	20,500
Secretaries and treasurers of corporations	110	24,600
Vice presidents of corporations	58	23,200
Wholesale drygoods companies	10	11,400
Wholesale hardware companies	6	23,500
Total Principal Subscribers	1,463	$ 597,800
Smaller Subscribers, business and individual	1,655	427,000
TOTAL	3,118	$1,024,800

Louisville as having been a mistake, because it tended to damage the later public relations of the Foundation. But there was also a more concrete consequence. About $200,000 of the individual subscriptions proved partly or wholly uncollectible, so that for several years the size of the capital fund was actually in doubt. Both results could have been avoided by limiting the solicitation of funds to those individuals and business concerns that were clearly in line to benefit from an increased industrial pay roll in the community.

Incorporation of the Foundation

The capital fund having been pledged, the articles of incorporation were filed and the Louisville Industrial Foundation came into legal existence on September 7, 1916. Its authorized capital was set at $1,100,000. The

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election of the first board of directors soon followed.[12] Offices were established in the Board of Trade building and the Foundation was ready to operate.

[12] Lewis R. Atwood was elected the Foundation's first president. Tampton Aubuchon was appointed secretary-manager. The original board of directors was made up as follows:

Lewis R. Atwood, paint and varnish manufacturer; John W. Barr, Jr., bank president; W. E. Caldwell, machinery manufacturer; V. H. Engelhard, coffee manufacturer; William Heyburn, hardware jobber; R. E. Hughes, bank executive; Charles F. Huhlein, implement manufacturer; Percy H. Johnston, bank president; Fred Levy, retail merchant; Donald McDonald, president of gas and electric company; Caldwell Norton, real estate broker; C. M. Phillips, secretary of title company; Fred M. Sackett, president of coal mining company; Embry L. Swearingen, bank president; Thomas Floyd Smith, president of paper company.

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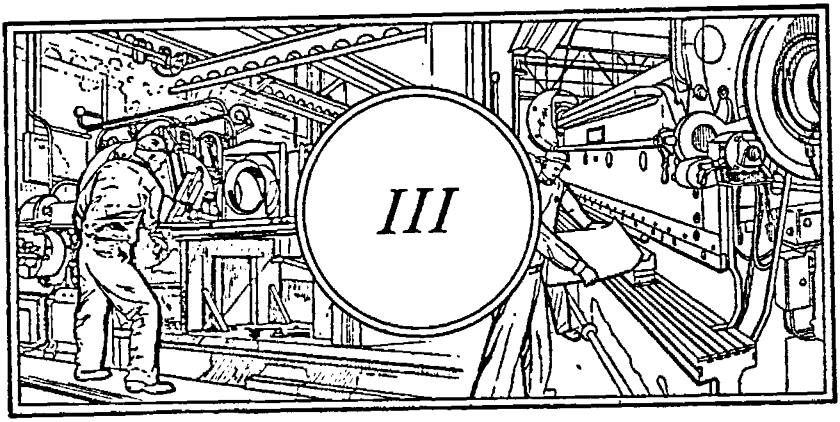

MAJOR PERIODS OF THE FOUNDATION'S DEVELOPMENT

The Four Major Periods

The development of the Foundation may be traced through four distinct and contrasting periods: (1) the experimental period, 1917-22; (2) the bull-market, 1923-29; (3) the depression, 1930-37; and (4) the years of recovery and war, 1938 to the present. The division into periods is based upon the fact that the directors' investment policies and practices altered significantly at the indicated times, as a result not only of the business cycle—with which the changes roughly corresponded—but of the cumulative trial-and-error experience of the Foundation itself.

The experimental period was characterized by the greatest assumption of hazards, including the founding of new and, in some cases, unsound industrial ventures. The bull-market years saw an increase in total investments above those in the first period, with a marked advance in soundness of risk selection and in the development of diversified and heavy industries. Losses, however, resulted in this second period from certain ventures of the first. The depression brought a dearth of new undertakings; during the early 1930's the Foundation was devoted primarily to supporting and salvaging its existing clients. The fourth period began with a revival of investment, primarily for the expansion of previously established enterprises, and culminated in a considerable amount of financing in aid of war production. During the entire time, gradual advances were taking place in the Foundation's techniques of risk appraisal, in its adoption of flexible and adaptive policies and terms, and in its rendition of service aids to client concerns.

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The Experimental Period, 1917-21

At the beginning of operations, various difficulties had to be overcome. First, the capital fund came in slowly. By the end of 1916, only $100,907 of the pledged amount had been paid in; during 1917, only $179,729 more was received. The second full year, 1918, however, saw the total of paid-in capital mount to $455,909, and the time of stringency was passed. The fund totaled $620,374 at the end of 1919. But the additional collections during the following two years amounted to less than $100,000, and at the end of 1921, uncollectible pledges of more than $200,000 were written off,[13] principally those of small subscribers. Since operating deficits also had occurred, the total assets at this time amounted to only $817,634 instead of the anticipated $1,024,800.

A second difficulty arose from the natural expectation of the stockholders and the public that results of the fund would be immediately forthcoming. Actually, advertising the existence of the community fund and of the other industrial advantages of Louisville, considering the large number of queries and applications that began to flow in, and selecting the important initial investment, all involved considerable preliminary work. But the pressure for action was hard to withstand, and it is probable that at least some of the early instances of ill-considered investment were caused by the uneasy knowledge that the public was saying, "They've got a million-dollar fund—why don't they do something with it?"

The third major difficulty was the Foundation's early involvement in a labor dispute. Its initial transaction, made in June 1917, was a loan of $50,000 to an old-established garment factory that needed working capital. Just after the loan was made, a strike to unionize this plant occurred. A Foundation director, himself a textile manufacturer, plunged into the argument on the employer's side, and the developmental agency found itself attacked in labor circles as being a concealed open-shop fund.

This unanticipated complication led to conferences between the directors and the labor leaders and to the adoption of a resolution that might well have been included in the charter in the first place. The resolution disclaimed any involvement of the Foundation in labor disputes, deprecated strike action in time of war, and favored the peaceful arbitration of grievances. All subsequent contracts of the Foundation with client enterprises have in consequence contained the following protective clause:

> It is mutually agreed and understood that said party of the second part (the Foundation) shall not be a party in determining or adjusting relations or disputes between said party of the first part (the manufacturing concern) and its employees, or their representatives.

[13] Additional payments continued to come in gradually for several years after 1921, until, finally, the paid-in capital amounted to $875,759.

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The fourth important difficulty was, perhaps, the most serious of all. It involved the formulation of a policy that would apply to cases of joint investment in the same enterprise by the Foundation and by its directors or their associates and friends. The men who were chosen as trustees of the community fund were likely, in their business capacities, to be more or less closely associated with other local men of means. To have ruled out all personal investment by the friends of directors in enterprises partly capitalized from the community fund would have seriously reduced the desired flow of local capital into local enterprise; yet the director who advocated a Foundation investment in an enterprise in which an associate was interested was likely to be criticized, rightly or wrongly, for manipulating the community fund for private purposes. The greatest protection in this dilemma proved to be the charter provision that required an affirmative vote of 10 directors, or two thirds of the board, in order to ratify an investment. Also, it became established as an ethical tradition in the board that any interest of a director in a given transaction would be frankly declared and that a director whose vote might be open to criticism would refrain from voting on the particular matter. Subsequent experience of loss from investments that were supposedly backed by influential men further showed the practical wisdom of impartial lending standards.

In spite of these four types of difficulty—the slowness of capital payments, the public pressure to perform, the early strike involvement, and the troublesome question of influence—this first period brought a remarkable amount of new industrial activity and venture to previously somnolent Louisville. The widespread interest aroused by the forming of the fund, and the work of the Foundation as an industrial bureau, brought into the community 34 manufacturing enterprises, with total initial capital of $8,326,900, that required no financing. In addition, the Foundation financed 14 industrial enterprises and one civic situation, investing a total amount of $803,869, all of which was new money. These investments are summarized in table 4 and are listed in table 5 in their chronological order, together with the subsequent history of each account.

Of the 14 manufacturing enterprises that drew $728,869 in initial capital from the community fund in this period, 11 were new to Louisville, including six completely new ventures and five enterprises brought in from other points. In these 11 establishments the Foundation made initial investments of $513,869, or an average of $46,715 to the enterprise. Three additional investments, amounting to $75,000, also were made soon afterward in two of the same enterprises.

The six completely new ventures were set up to manufacture plywood, a newly invented business machine, school and other furniture, and an automobile body to go with a well-known make of car; one was to supply cold-storage service. Three of these new ventures—two that were based on products of limited sales appeal and one that had an inexperienced management—were to liquidate after a few years. Of the five brought-in concerns, one (the future Reynolds Metals Company) manufactured at

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TABLE 4

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS EXPERIMENTAL PERIOD, 1917-22

Item	*Number*	*Amount*
TOTAL INVESTMENTS	18	$803,869
Initial investments in new undertakings	15	728,869
Completely new enterprises	6	361,058
Brought-in enterprises	5	152,811
Recently founded enterprise	1	15,000
Old-established enterprises	2	100,000
Civic situation	1	100,000
Additional investments in previous undertakings	3	75,000
Completely new enterprises [a]	1	10,000
Brought-in enterprise [a]	2	65,000
Refinancing of current accounts	—	—
Accrued interest written off	—	—
Capital loss written off	—	—
TOTAL ASSETS, conclusion of period		$852,449

[a] At time of initial investment.

first an abrasive cleaning powder, later a container for gunpowder, and, later still, cigarette foil, aluminum, and many other products. Another made automobile parts, another dairy products; the latter developed a new industry in Louisville. One produced a recently invented variety of office desk, and the fifth was a branch oil refinery that is today of considerable size. The desk concern liquidated after eight years, but four of these enterprises became firmly established.

Louisville, of course, gained as a community even from those investments that were later to result in liquidations, absorptions, and losses to the Foundation and to private investors. The companies that did not survive created employment while they lasted, which was generally several years; also, the factory buildings erected for these enterprises from Foundation funds in all cases proved available for new manufacturing occupants and are used as factories today. Thus the four items of capital loss from industrial loans in the record of the community fund are rather to be regarded as involuntary subsidies, resulting in permanent expansion of Louisville's industrial facilities, than as outright losses.

The Foundation made three loans, totaling $115,000, to already established local industries. One was the garment factory that offered an initial difficulty in the form of a labor strike. The second was a cottonseed-oil plant affiliated with outside interests; the controlling group later encountered trouble, and the Louisville plant was taken over by a large national concern, which operates it today. The third was a young enterprise, locally owned, that was beginning to make electric tools and appliances and was ripe for its first expansion.

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TABLE 5

LIST OF 15 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN THE EXPERIMENTAL PERIOD, 1917-22, WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

Type of Production	Description of Enterprise	First Investment Year	First Investment Amount	Additional Investment Year	Additional Investment Amount	Account Refinanced Year	Account Refinanced Amount	Interest Written Off Year	Interest Written Off Amount	Capital Loss Incurred Year	Capital Loss Incurred Amount
Garments	Old-established	1917	$50,000	——	——	——	——	——	——	——	——
Wood products	Completely new	1917	50,000	——	——	——	——	——	——	——	——
Cigarette foil	Brought-in	1918	30,000	——	——	——	——	——	——	——	——
Automobile parts	Brought-in	1918	25,000	1918	$15,000	——	——	——	——	1927	$55,309[b]
				1921	50,000						
Petroleum refining	Brought-in	1918	50,000	——	——	——	——	——	——	——	——
Cottonseed products	Old-established [c]	1918	50,000	——	——	——	——	1940	$19,500[c]	——	——
Dairy products	Brought-in	1918	24,236	——	——	——	——	——	——	——	——
Business equipment	Completely new	1919	65,000	1928	90,000	1940	$60,700	——	——	——	——
				1940	15,000						
School furniture	Completely new [d]	1920	30,157	1927	7,500	1927	22,500	——	——	1930	9,301
Wood products	Completely new [e]	1920	100,000	——	——	——	——	——	——	1929	99,945
(Teachers' Salaries)	(Board of Education)	1920	100,000	——	——	——	——	——	——	——	——
Patent desks	Brought-in [f]	1920	23,575	——	——	——	——	——	——	——	——
Cold-storage plant	Completely new [g]	1921	94,383	——	——	1926	77,883	——	——	1930	44,466
Automobile bodies	Completely new [h]	1921	21,518	1922	10,000	——	——	——	——	——	——
Electrical devices	Recently founded	1921	15,000	1924	10,000	1924	15,000	——	——	——	——
				1932	10,000						
				1937	7,500						
TOTAL, 15 FINANCINGS			$728,869		$215,000		$176,083		$19,500		$209,021

[a] Except as otherwise noted, enterprises were in operation under original ownership in 1944.
[b] Enterprise remained in operation.
[c] Absorbed into multiestablishment company, 1925; remained in operation.
[d] Liquidated, 1930.
[e] Liquidated, 1926.
[f] Liquidated, 1928.
[g] Absorbed into multiestablishment company, 1930; remained in operation.
[h] Liquidated, 1926.

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An emergency civic service also was performed. Just before Christmas 1920, the local Board of Education found itself without funds to pay its teachers' salaries. Although the charter had omitted to provide for investments of a civic nature, the Foundation lent the Board of Education $100,000 on a 30-day unsecured note at 2 per cent flat interest. No stockholder objected, and the loan was duly repaid from tax moneys.

Thus, of the total amount of $803,869 invested from the community fund in its initial six-year period, $703,869 went into manufacturing concerns. The appraisals of risk were not always sound. Nevertheless, at no later time was the community fund more experimentally and venturesomely applied than it was in the years 1917-22.

In regard to the technic of investment, the preconceived ideas of the directors toward the end of this period underwent a change. Of the 14 manufacturing investments, 5 were purchases of preferred stock yielding 7 per cent; 2 were loans on security of preferred stock; 1, a purchase of bonds; 1, a loan on security of bonds; and 3 were loans on endorsed notes. But as some of the enterprises began to falter, the possibility of their liquidation called attention to the weakness of the preferred-stock position. In 1921, two loans were made on first-mortgage collateral of land, buildings, and equipment; thenceforth, the first-mortgage term loan was to become the standard deal. (The largest instance of loss in the record of the Foundation, that of $99,945 on a single $100,000 transaction, developed from a preferred-stock investment.)

In the latter part of the experimental period, a change in management occurred. The first secretary-manager, Mr. Aubuchon, resigned at the end of 1919. He was succeeded in March 1920 by Frank B. Ayres, who still, after 24 years, is secretary-treasurer of the Foundation. Mr. Ayres had been in railroad developmental work, first with the Missouri Pacific, then with the Southern Railway System. He was thoroughly familiar with the Foundation, since he had participated in the initial planning and also, in his railroad connection, had been instrumental in bringing the infant Reynolds concern to Louisville and placing it in contact with the development services of the Foundation.

When Mr. Ayres assumed his new duties, the investments that were to occupy the remainder of 1920 and 1921 were already under consideration. These were carried through but took the form of secured loans. At the end of 1921 the directors wrote off about $200,000 in uncollectible subscriptions, and during 1922 they authorized no further investments but reconsidered the entire situation of the organization. Mr. Ayres placed the industrial bureau upon a systematic basis, and in 1921 and 1922 the Foundation brought in, without any use of its own capital, 10 manufacturing establishments, having a total capital of $3,552,500.

The Bull-Market Period, 1923-29

The bull-market period of the Foundation's history began in 1923 and extended through 1929. With the beginning of this period, the Foundation

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made a new start. Although speculative excesses characterized those years for the nation as a whole, the policies of the Foundation were put on an increasingly sound basis. More rigid standards of acceptance were adopted, and a greater emphasis was placed upon the development of heavier industry, upon the creation of employment for skilled labor, and, especially, upon the diversification of the local manufacturing structure. A beginning was made in the adaptation of loan-repayment schedules to the debt-paying ability of the borrowers. This change included the abandonment of annual or semiannual payments in favor of monthly payments, since the longer intervals had proved to be a cause of defaults. Finally, the investments were almost exclusively term loans on the basis of first-mortgage security.

The transactions of this period are summarized in table 6. In dollar volume, the Foundation's activity exceeded that of the first period. The number of its new manufacturing undertakings, namely 15, was larger by 1, and the average amount of initial capital was slightly larger, namely $48,315. All investments amounted to $957,611, and investments of new money totaled $842,228. Five new industrial beginnings were financed, 6 industries were brought in from other points, and 4 previously existing local industries were aided, all by capital loans. In the 15 new accounts, the Foundation invested $724,728 of initial money.

The completely new ventures, listed in table 7, were a toy-balloon factory, a hosiery mill, an independent oil refinery, a metal-stamping plant, and a macaroni factory. The six brought-in enterprises were a manufacturer of iron accessories for railroads, a shoelace factory, a manufacturer of water heaters for dwellings, a metal-enameling plant, and two companies that helped to make Louisville a bakery-products center. The Foundation also loaned $151,000 in new money for the expansion of four previously established local enterprises: one that built pipe organs for churches and motion-picture houses and was overburdened with work at the time, a fabricator of bridge iron and structural steel, a maker of bedsprings and spring mattresses, and a former brewery affiliate that had been taken over by new management and was beginning to make machinery for dehydration purposes.

While four of the 15 undertakings of this period were ultimately to liquidate, only one of the four cases—that of the hosiery plant, which lasted but three years—could be regarded as an instance of dubious appraisal by the Foundation. The rise in the world rubber price, which caused the toy-balloon factory to shut down in 1927, could hardly have been foreseen; and liquidation of the railroad-iron and pipe-organ concerns did not occur until 1942 and 1944 respectively. No capital loss to the Foundation resulted from any of these 15 investments, partly because the credits were well secured but even more because the appraisals of investment risk had generally been sound in advance. Three criteria were being applied before a financial undertaking was made.

First, in all cases excepting that of the hosiery plant, the managements

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TABLE 6

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS BULL-MARKET PERIOD, 1923-29

Item	*Number*	*Amount*
TOTAL INVESTMENTS	22	$957,611
Initial investments in new undertakings	15	724,728
Completely new enterprises	5	243,062
Brought-in enterprises	6	330,666
Recently founded enterprise	1	15,000
Old-established enterprises	3	136,000
Additional investments in previous undertakings	4	117,500
Completely new enterprises [a]	2	97,500
Brought-in enterprise [a]	1	10,000
Recently founded enterprise [a]	1	10,000
Refinancing of current accounts	3	115,383
Completely new enterprises [a]	2	100,383
Recently founded enterprise [a]	1	15,000
Accrued interest written off	—	—
Capital losses written off	2	155,254
Completely new enterprise [a]	1	99,945
Brought-in enterprise [a]	1	55,309
TOTAL ASSETS, conclusion of period		$884,354

[a] At time of initial investment.

were well qualified, not only in the technical work of production but quite as importantly in knowledge of the market and in the art of selling. Also, all these managers held some degree of ownership in their businesses and were of the hard-working type, willing to make modest withdrawals and undergo other personal sacrifices for the sake of upbuilding their enterprises.

Second, the list of products included none that was strictly new or unfamiliar. The risk of financing inventions that required initial market establishment had become evident from the experiences of the first period. Most of the companies that were financed in the second period produced quality variants of familiar products.

Third, in the financing of one-purpose concerns, care was taken to make sure that the market prospects were reliable. In cases such as the machinery-making and metal-working concerns, that sold durable goods to a limited business market, the specific marketing contacts were closely examined. In the case of nondurable products, such as those of the toy balloon, shoelace, baking, and macaroni plants, the markets were of the type that involved sales in small lots to a large number of consumers and had a high factor of replacement sales. Some of the best results were obtained from this type of sales situation.

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TABLE 7

LIST OF 15 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN BULL-MARKET PERIOD, 1923-29, WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

Type of Production	Description of Enterprise	First Investment Year	First Investment Amount	Additional Investment Year	Additional Investment Amount	Account Refinanced Year	Account Refinanced Amount	Interest Written Off Year	Interest Written Off Amount	Capital Loss Incurred Year	Capital Loss Incurred Amount
Railroad metal	Brought-in [b]	1923	$25,000	......	......	......	......	......	......	......	......
Drying machinery	Recently founded	1923	15,000	......	......	......	......	......	......	......	......
Toy balloons	Completely new [c]	1924	39,000	......	......	......	......	......	......	......	......
Shoelaces	Brought-in	1924	62,728	1932	$ 3,500	1930	$29,780	......	......	......	......
Hosiery	Completely new [d]	1924	50,000	......	......	......	......	......	......	......	......
Petroleum refining	Completely new	1925	50,000	......	......	......	......	......	......	......	......
Pipe organs	Old-established [e]	1925	60,000	1940	7,500	1930	30,000	......	......	......	......
						1939	34,900				
Structural steel	Old-established	1925	60,000	......	......	......	......	......	......	......	......
Water heaters	Brought-in	1925	100,000	1932	25,000	1932	56,000	1943	$ 6,628	......	......
Bakery products	Brought-in	1926	60,000	1927	10,000	1934	19,800	......	......	......	......
				1934	50,000						
Bakery products	Brought-in	1927	33,000	......	......	......	......	......	......	......	......
Enameled metal	Brought-in [f]	1927	49,938	1939	10,000	1939	45,934	1934	13,596	......	......
				1941	30,000						
				1941	13,500						
Stamped metal	Completely new	1927	54,062	1933	5,000	1933	54,218	1941	12,575	......	......
				1942	40,000						
Bedsprings	Old-established	1928	16,000	......	......	......	......	......	......	......	......
Macaroni	Completely new	1929	50,000	1930	12,500	......	......	......	......	......	......
				1931	10,000						
				1934	15,000						
TOTAL, 15 FINANCINGS			$724,728		$232,000		$270,632		$32,799		

[a] Except as otherwise noted, enterprises were in operation under original ownership in 1944.
[b] Liquidated, 1942.
[c] Liquidated, 1927.
[d] Liquidated, 1927.
[e] In liquidation, 1944.
[f] Became independent of original controlling group, 1934; formed new company with metal-sundries company, 1935.

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Just as the Foundation's experience was proving that the retirement of its investments depended ultimately upon good management and upon sales, so also it was becoming evident that intimacy of contact with its client enterprises was essential to the safety of the community fund. In the earlier years, the organization had been content to place a member of its board of directors upon the directorate of a client company. But this degree of representation failed to provide a sufficiently close contact with the business situations; difficulties developed at times, as to which the directors were not adequately informed. Mr. Ayres became secretary of his first client company toward the end of this period, and in other ways the Foundation began to take a greater interest in its client enterprises and to lay the basis for its later and more constructive policies of loan support.

But financial troubles were developing. Several of the earlier undertakings had begun to falter as early as 1922. A summary of the first 19 manufacturing investments, made in December 1924, disclosed that seven accounts, all dating back to the previous period, had become delinquent in their principal payments. The Foundation felt itself committed to support these ventures and continued to do so; additional loans, totaling $117,500, were made in four cases in order to bolster previous investments. Three accounts were refinanced, for a total amount of $115,383. Several informal time extensions were granted. Nevertheless, toward the end of the bull-market period, two serious capital losses occurred. The automobile-parts company in 1929 experienced a reorganization that involved a write-off of $55,309 by the Foundation. A wood-products enterprise liquidated, creating a further loss of $99,945. Because of these losses and the various delinquencies in interest payments, the assets of the institution showed a gain for the seven-year period of only $31,905, amounting in 1929 to $884,354. However, more than 20 prosperous undertakings were successfully repaying their capital loans, and the industrial structure of the community had been lastingly enlarged and improved. Industries that had been developed for Louisville without financing during the bull-market years numbered 23 and had total capital amounting to $6,530,000.

The Depression Period, 1930-37

The collapse of stock-market values in late 1929 and the ensuing business depression were reflected in the Foundation's operations. When the depression began, the directors were in a conservative frame of mind. The national crisis contributed to this attitude, and, in addition, losses were incurred in 1930, on top of those of 1929. The school-furniture concern failed, causing a write-off of $27,450, later reduced by recoveries to $9,301. Almost simultaneously, the cold-storage enterprise faltered and was absorbed by a large competitor; the Foundation foreclosed to protect its investment of $77,383 and in the end wrote off a loss of $44,466. Moreover, on November 17, 1930, the National Bank of Ken-

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tucky closed its doors; the Foundation, at the time, had a deposit of $95,835 in this bank.[14]

These losses created a "hold everything" attitude on the part of the board. There was little effort to pursue an investment policy counter to the business cycle. Loans were indeed sought, but, in conformity with the psychology of the period, few applications were held acceptable. These businessmen felt themselves to be trustees of the comunity fund; they were determined to bring that fund out of the depression intact. The investments accordingly emphasized the preservation of existing industry above the creation of new. Also, as is shown in table 8, the total amount of Foundation financing was markedly reduced.

In contrast with the 15 undertakings of the first period and the 15 of the second, only five additional situations were entered by the Foundation during the eight years of the third period, and only $173,300, or an average amount of $34,660, was invested in these undertakings. Table 9, in which the new commitments are listed, shows that they included only one completely new enterprise, a baking concern, and only one brought-in industry, a small metal-sundries factory. The Foundation loaned $50,000 to modernize an old-established printing concern and made two new investments, totaling $65,300, in recently established local industries of the immature variety. These undeveloped enterprises were, respectively, a building materials and wood-products concern. Both had been previously founded by personal proprietors, capitalized on the proverbial shoestring, and nursed along by earnings to the point of potential expansion. The experience of the Foundation was beginning to show the favorable quality of this type of investment, which had superior aspects of safety, involved quick creation of new employment, and required only a minimum amount of capital.

Additional new money was needed during the depression by nine of the previous client concerns. Some of them required more than one supporting loan, so that 12 secondary loans were made, amounting to $158,250. The refinancing of old accounts constituted the largest item of investment; seven such refinancings totaled $225,848. In other words, of a gross total of $557,398 invested during the eight-year period, $384,098, almost 70 per cent, was devoted to the maintenance of existing industries rather than to industrial expansion.

The capital losses of the institution during the depression were not large. They were confined to the losses sustained in 1930, minus the recoveries that later occurred. While several accounts dragged along,

[14] In 1931 the depositors of the National Bank of Kentucky received two thirds of their deposits, the Foundation recovering $64,210. The balance of $31,305 was written down to $1 on the Foundation's books. But in 1939, $9,584 was recovered, leaving a nonbook asset of $21,721 that is still unrecovered. The United States Supreme Court decided, on March 8, 1944, that stockholders of Banco Kentucky, the parent holding company, were liable to the extent of $2.31 a share and for interest since 1936 on obligations of the National Bank of Kentucky. Under this decision, the Foundation may recover additional amounts.

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TABLE 8

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS DEPRESSION PERIOD, 1930-37

Item	*Number*	*Amount*
TOTAL INVESTMENTS	24	$557,398
Initial investments in new undertakings	5	173,300
Completely new enterprise	1	40,000
Brought-in enterprise	1	18,000
Recently founded enterprises	2	65,300
Old-established enterprise	1	50,000
Additional investments in previous undertakings	12	158,250
Completely new enterprises [a]	4	42,500
Brought-in enterprises [a]	3	78,500
Recently founded enterprises [a]	5	37,250
Refinancing of current accounts	7	225,848
Completely new enterprise [a]	1	54,218
Brought-in enterprises [a]	3	105,580
Recently founded enterprises [a]	2	36,050
Old-established enterprise	1	30,000
Accrued interest written off	1	13,596
Brought-in enterprise [a]	1	13,596
Capital losses written off	2	53,767
Completely new enterprises [a]	2	53,767
TOTAL ASSETS, conclusion of period		$889,191

[a] At time of initial investment.

others paid interest and principal promptly, and no enterprise that was supported by the Foundation was liquidated in this period after 1930. Total assets of the institution in 1937 were $889,191, compared to $884,354 at the end of 1929. Not only had the fund survived the depression intact, but it had slightly increased in size, and had maintained its client enterprises as well. Also, by its contact and informational work, the Foundation in this period was instrumental in bringing to Louisville 11 manufacturing concerns, with $407,000 total capital.

The increased recognition accorded to the existing but small and undeveloped enterprises during this period may be regarded as an advance in standards of appraisal. Also, there were two additional developments in flexible financing. As the straight-line monthly payments proved too rigid for some enterprises to bear, lower payments were arranged for the earlier stages of the accounts, then graded upward, in anticipation of an upswing. A director suggested to Mr. Ayres, in 1937, that there should also be a means of increasing the Foundation's income above the fixed interest return when a client enterprise was earning profits. This suggestion led to the requirement, in the loan contract, that, in addition to the regular payments, a certain percentage of each previous

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TABLE 9

LIST OF 5 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN DEPRESSION PERIOD, 1930-37, WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

Type of Production	*Description of Enterprise*	*First Investment*		*Additional Investment*		*Account Refinanced*		*Interest Written Off*		*Capital Loss Incurred*	
		Year	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*
Metal sundries	Brought-in [b]	1930	$18,000	—	—	1939	$13,566[b]	—	—	—	—
Building materials	Recently founded	1931	50,000	1932	$ 3,000	—	—	1943	$5,596	—	—
Wood products	Recently founded	1933	15,300	1936	11,750	1936	13,250	—	—	—	—
				1937	5,000	1937	22,800				
Printing	Old-established	1935	50,000	—	—	—	—	—	—	—	—
Dairy products	Completely new	1935	40,000	—	—	—	—	—	—	—	—
TOTAL, 5 FINANCINGS			$173,300		$19,750		$49,616		$5,596		

[a] Except as otherwise noted, enterprises were in operation under original ownership in 1944.
[b] Merged with enameled-metal company, 1935.

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TABLE 10

SUMMARY OF FINANCIAL ACTIVITIES OF THE LOUISVILLE INDUSTRIAL FOUNDATION DURING ITS RECOVERY-AND-WAR PERIOD, 1938-44 (June 30)

Item	*Number*	*Amount*
TOTAL INVESTMENTS	26	$984,400
Initial investments in new undertakings	11	645,000
Completely new enterprise	1	50,000
Brought-in enterprise	—	———
Recently founded enterprises	4	154,000
Old-established enterprises	5	341,000
Civic situation	1	100,000
Additional investments in previous undertakings	11	181,300
Completely new enterprises [a]	2	55,000
Brought-in enterprises [a]	3	53,500
Old-established enterprises [a]	6	72,800
Refinancing of current accounts	4	155,100
Completely new enterprise [a]	1	60,700
Brought-in enterprises [a]	2	59,500
Old-established enterprises [a]	1	34,900
Accrued interest written off	4	44,299
Completely new enterprise [a]	1	12,575
Recently founded enterprise [a]	1	5,596
Old-established enterprise [a]	1	19,500
Brought-in enterprise [a]	1	6,628
Capital losses written off	—	———
TOTAL ASSETS, conclusion of period		$983,659

[a] At time of initial investment.

year's net profits be paid on account, to be applied to the retirement of the mortgage instalments of the most distant maturities. This recapture clause has the merit of increasing the liquidity of the fund, but it also operates to diminish the duration of debts and, to that extent, reduces the Foundation's income from interest payments.

Another important development of the period was the final expansion in the Foundation's personnel. The president of the organization had always been a businessman with broad connections in the financial, industrial, and civic life of Louisville. The late John W. Barr, Jr., had served for many years in this capacity, and J. C. Engelhard, long a member of the executive committee, had also been president. In 1934 it was decided to retain a full-time president, and on January 20 of that year the directors elected William B. Harrison in that capacity at the conclusion of his term as mayor of Louisville. Mr. Harrison had taken a leading part in many public and civic activities as well as in the business field. On one occasion, he was a gubernatorial candidate in Kentucky. Mr. Harrison today not only serves as president of the Louisville Indus-

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TABLE 11

LIST OF 11 FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION UNDERTAKEN IN RECOVERY-AND-WAR PERIOD, 1938-44 (June 30), WITH SUBSEQUENT DEVELOPMENTS OF EACH FINANCING [a]

Type of Production	*Description of Enterprise*	*First Investment*		*Additional Investment*		*Account Refinanced*		*Interest Written Off*		*Capital Loss Incurred*	
		Year	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*	*Year*	*Amount*
Food specialties	Recently founded	1938	$10,000	......	......	......	......	......	......	......	......
Wood products	Old-established	1938	56,000	1940	$ 8,800	......	......	......	......	......	......
				1942	12,000						
				1944	12,000						
Printing	Old-established	1939	100,000	......	......	......	......	......	......	......	......
Work garments	Recently founded	1939	30,000	1940	......[b]	......	......	......	......	......	......
Cotton rope	Old-established	1939	75,000	......	......	......	......	......	......	......	......
Bakery products	Old-established	1940	35,000	1941	15,000	......	......	......	......	......	......
Metal foil	Completely new	1940	50,000	......	......	......	......	......	......	......	......
Food specialties	Old-established	1940	75,000	......	......	......	......	......	......	......	......
Packed poultry meat	Recently founded	1940	14,000	1943	17,500	......	......	......	......	......	......
(New public airport)	(City-County Air Bd.)	1941	100,000	......	......	......	......	......	......	......	......
Radio cabinets	Recently founded	1943	100,000	......	......	......	......	......	......	......	......
TOTAL, 11 FINANCINGS			$645,000		$65,300						

[a] All enterprises were in operation under original ownership in 1944.
[b] Current working-capital account, on security of accounts receivable. Amount of credit varies.

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trial Foundation but as a director of several of its client companies and of various civic organizations, and also he is chairman of the board of one of Louisville's largest wood-products manufacturing establishments.

The Recovery and War Period, 1938 to the Present

With the beginning of 1938, the Foundation's activity revived. Attractive pamphlets were published for the purpose of advertising Louisville and its industrial advantages. In the years 1938 and 1939 alone, 156 per cent as much investment was made, and as many new situations were entered, as in the preceding eight years. That the financial activities of the present period have been the greatest, on annual average, of any period in the history of the community fund, is shown in table 10.

This increased rate of activity has since continued. The situations entered since 1937 are listed in table 11. From January 1, 1938, to June 30, 1944, the Foundation made 11 new undertakings, in which it placed initial investments of $654,000.[15] The average initial investment was $58,636, the largest such average for any period. Additional new money for previous situations amounted to $181,300, bringing the total investments of new money to $826,300. Though this financial activity exceeded even that of the bull-market period, the emphasis of investment showed a significant change.

No importations of industry were capitalized. Of the 11 financings undertaken, only one was a newly established venture, and one was a public or civic situation. Thus nine already-existing enterprises were financed, and of these, five were old-established companies, to which the Foundation loaned $341,000, in most cases to capitalize on expansion for war work. The remaining four were existing but undeveloped enterprises; these were expanded by loans amounting to $154,000, and three of them were made eligible for war contracts. By financing wartime expansions, in the total amount of $495,000, the Foundation performed a significant service and undoubtedly brought about a greater increase in employment than it would have done by an equal investment in new industries or importations at the time.

The mature enterprises were manufacturers of wood products, bakery products, food products, and cotton cordage, and a printing concern. The recently founded enterprises that were expanded produced work garments and uniforms, wood products, and processed foods for military use. One undeveloped and one new enterprise, a radio-cabinet and a metal-foil concern, respectively, encountered material shortages and engaged in war production while waiting for the supply situation to become normal.

One of the mcst important investments of the Foundation, made in 1941, not only was instrumental in giving Louisville its second airport

[15] One current financing, unique in the Foundation's record, is omitted from these figures.

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TABLE 12

TOTAL INVESTMENTS OF THE LOUISVILLE INDUSTRIAL FOUNDATION, 1917-44 (JUNE 30), BY PERIODS AND BY TYPES OF INVESTMENT

Period	Total Investments No.	Total Investments Amount	Investments of New Money No.	Investments of New Money Amount	Initial Investments No.	Initial Investments Amount	Additional Investments No.	Additional Investments Amount	Refinancing Investments No.	Refinancing Investments Amount	Write-offs of Interest No.	Write-offs of Interest Amount	Capital Losses No.	Capital Losses Amount
Experimental, 1917-22	18	$ 803,869	18	$ 803,869	15	$ 728,869	3	$ 75,000	....	....	....	....	....	....
Bull-Market, 1923-29	22	957,611	19	812,228	15	721,728	4	117,500	3	$115,383	....	....	2	$155,254
Depression, 1930-37	24	557,398	17	331,550	5	173,300	12	158,250	7	225,848	1	$13,596	2	53,767
Recovery-and-War, 1938-44	26	981,400	22	826,300	11	645,000	11	181,300	4	155,100	4	44,299	....	....
TOTAL	90	$3,300,278[a]	76	$2,803,947	46	$2,271,897	30	$532,050	14	$496,331	5	$57,895	4	$209,021

[a] One current financing for working-capital purposes is omitted from these figures,accounting for the differences between this total and the total of $3,849,045 reported by the Foundation on June 30, 1944.

TABLE 13

INVESTMENTS OF NEW MONEY, INITIAL AND ADDITIONAL, BY THE LOUISVILLE INDUSTRIAL FOUNDATION, 1917-44 (JUNE 30), BY PERIODS AND BY STATUS OF ENTERPRISE AT TIME OF INITIAL INVESTMENT

Period	Total Investments of New Money No.	Total Investments of New Money Amount	In Completely New Enterprises No.	In Completely New Enterprises Number	In Brought-in Enterprises No.	In Brought-in Enterprises Amount	In Recently Founded Enterprises No.	In Recently Founded Enterprises Amount	In Old-established Enterprises No.	In Old-established Enterprises Amount	In Civic Situations No.	In Civic Situations Amount
Experimental, 1917-22	15	$ 803,869	6	$371,058	5	$217,811	1	$ 15,000	2	$100,000	1	$100,000
Bull-Market, 1923-29	15	842,228	5	340,562	6	340,660	1	25,000	3	136,000	....	....
Depression, 1930-37	5	331,550	1	82,500	1	96,500	2	102,550	1	50,000	....	....
Recovery-and-War, 1938-44	11	826,300	1	105,000	....	53,500[a]	4	154,000	5	413,800	1	100,000
TOTAL[b]	46	$2,803,947	13	$899,120	12	$708,477	8	$296,550	11	$699,800	2	$200,000

[a] Additional investment in previous undertaking.
[b] Omitting one current financing.

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but indirectly helped to bring in two large aircraft factories. The organization acted in an interim capacity in the airport transaction, financing the City-County Air Board to the purchase of the site of Standiford Field, and enabling the site to be leased to the Civil Aeronautics Authority. The Foundation's investment of $100,000 in this airport transaction was its second venture in a public or civic situation; the first had been the financing of teachers' salaries in 1920.

The industrial bureau also performed the important service of supplying data that led to the establishment of important war industries in Louisville. One of these war establishments more than doubled the total capital value of the manufacturing enterprises whose presence in the area previously had been ascribed to the informational work of the organization.

War prosperity came to most of the manufacturing clients; seven accounts were retired in full, some of them of many years' standing. The Foundation aided one of these retirements by writing off accrued interest of $19,500. The propserity of the times also reduced the refinancings, which numbered only four and totaled but $155,100. No capital losses were sustained. Two liquidations that occurred in 1942 and 1944, those of the railroad-metal and pipe-organ concerns, resulted from wartime conditions.

The rendition of business services by the Foundation to its client enterprises attained full development in this period. These aids have been of whatever nature a particular concern might require at a particular time and have frequently been emergency aids. To find a more intimate creditor-debtor relationship than that which exists between this quasi-public corporation and many of its clients today would be difficult indeed. Some manufacturing managers and proprietors in Louisville have found the services of the organization almost indispensable.

Including investments of $567,698 in Louisville industries, the Foundation's assets totaled $983,659 on June 30, 1944. Fourteen accounts were still current. A reserve of $90,000 had been established against possible future losses. Liquid assets included $26,245 in cash and $373,100 in securities, mainly United States Government bonds. Louisville's community fund, formed in 1916, in 1944 was ready to meet the problems of the approaching readjustment period on an expanded basis financially and with the experience of 28 years as a guide to its administration.

Summary of the Investment Activities

The total investment history of the Foundation is summarized in tables 12 and 13. Table 12 shows the grand total of term investments as having been $3,300,278, the amount of one current financing being omitted. Of this total, the initial investments have amounted to $2,271,897, and the additional investments in the same enterprises to $532,050, making $2,603,947 of new money that was supplied from the community fund to 44 manufacturing concerns and $200,000 to two civic situations. Since

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eight of the manufacturing companies were liquidated and one was merged with an associated concern, these manufacturing investments have been instrumental in creating or maintaining 35 industrial establishments that are operating at the present time. To this number may be added two large aircraft plants that were developed indirectly by the airport financing, the 69 civilian factories to which industrial information was supplied, and two additional wartime developments for which preliminary studies were made.

Table 12 shows that the refinancing investments amounted to $496,331, or 19.0 per cent of the total new money supplied to manufacturing clients. Total capital losses in 28 years amounted to $209,021, or 8 per cent of the total of new manufacturing capital provided. All losses were incurred from undertakings of the first six years. Write-off of accrued interest amounted to $57,895, or 2.1 per cent of the manufacturing capital invested.

Table 13 shows that the Foundation has provided funds to 13 completely new, 12 brought-in, 8 recently founded, and 11 mature industrial enterprises, and to 2 civic situations. Of the total new money invested, whether initially or at a later period, 32.1 per cent has been invested in manufacturing ventures that were completely new at the time the Foundation undertook their financing; 25.3 per cent in brought-in concerns; 10.6 per cent in recently founded enterprises; 25.0 per cent in old-established enterprises, and 7.0 per cent in civic situations. In the successive periods, the emphasis of investment has shifted gradually away from the new and brought-in enterprises to the recently founded and old-established types of concern. The proceeds from the investments financed the work of the industrial bureau, paid the Foundation's entire costs, covered all losses, and increased the capital fund by $107,900.

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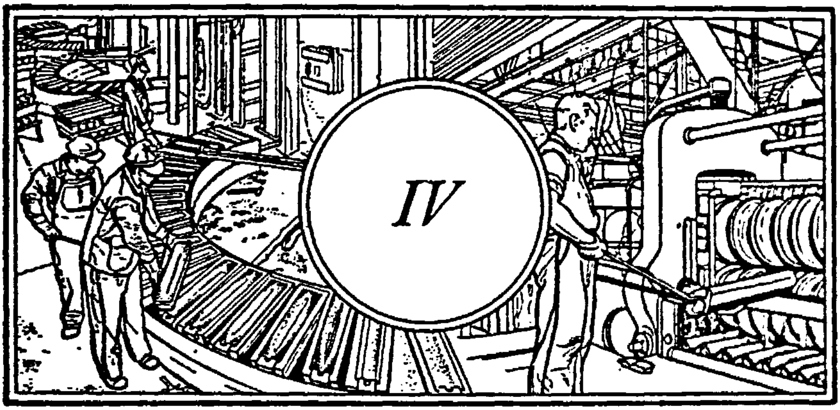

THE FOUNDATION AT WORK

Varied Character of the Case Record

In order to illustrate the working methods of the Foundation and the general strategy by which its capital was applied, a selection of several cases is necessary. So much variation and contrast is found in the detailed records of the 46 accounts that no single case may be regarded as typical. This diversity among situations and experiences, far from being a matter of accident, was intrinsic in the character of the Foundation and of the supplemental financial function that it performed. The community fund in the first place entered only those off-standard situations to which the normal and customary standards of financing did not apply. Initial variations further arose because the institution purposely was using its capital in an attempt to diversify the manufacturing economy of Louisville. But an even greater significance attaches to the sudden and often incalculable changes that affected many of the accounts during the long periods of loan retirement. These subsequent changes were the direct result of the fact that the Foundation was making term loans in one of the most flexible and fluctuant of all investment fields, that of small business. Time after time, individual decisions of personal proprietors or their keymen, changes in the character of the financial backing, and above all the abrupt upward or downward variations of localized and specialized markets, altered the status of accounts that had appeared to be at least measurably standardized and calculable. It was not from any theory, but from the dictates of its repeated experience with small business, that the organization came to regard unforeseen change as probable and to stand ready to adapt its financial and service policies to the volatile nature of its investment field.

The cases that follow are selected primarily because they show the

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Foundation at work. Since the connection of the community agency with its client enterprises was on the whole a temporary one, often occurring at some turning point in the life of an enterprise, the following summaries of investment experiences are not to be regarded as complete histories of the enterprises themselves. What resulted in general from the access to loan capital is, however, generally indicated.

Cleaning Powder, Tobacco Foil, Aluminum

F. B. Ayres, as industrial agent of the Southern Railway, in 1917 performed the developmental feat of inducing R. S. Reynolds and his two brothers, rising young industrialists, to move their original manufacturing venture to Louisville. Mr. Ayres in doing this was impelled by his desire to assist the new Foundation, the formation of which he had observed with interest during the previous summer. Inasmuch as this incipient Reynolds enterprise was destined to become the industrial backbone of Louisville and to develop into the $91,000,000 Reynolds Metals Company of the present day, the Foundation may be said to have obtained the greatest of all its results indirectly, through the good offices of a friendly railroad man, even before it had made its first loan. Records, however, also show that in 1918 the Foundation further aided the expansion of the growing young Reynolds corporation by a temporary capital loan.

The Reynolds brothers, nephews of R. J. Reynolds, the tobacco manufacturer, had gone into business independently, selecting Bristol, Tennessee, as their first location. They established a plant and manufactured a brand of household cleaning powder on a formula of their own. Their venture prospered; a second plant was soon added; the product became established against strong competition in the markets of 18 major cities. Then, in December, 1916, both the Bristol plants were destroyed by fire within a week's time.

Instead of abandoning their business, the brothers promptly went in search of a vacant factory. In St. Louis, while conferring with a group of railroad men, they met Mr. Ayres. The industrial agent first took them to see some locations in East St. Louis, none of which proved suitable. Then he suggested that they consider Louisville, where many plants were vacant. He apprised them of the possibility of obtaining capital from the newly formed Foundation and read from his notebook the description of a certain building in Louisville that seemed to fit their needs. As a result, the brothers left for Louisville that night. Ayres, following, escorted them to the building in question, which they leased on January 4, 1917.

This building today is preserved by the Reynolds Metals Company as an industrial landmark. In it the brothers resumed the manufacture of the cleaning powder and earned enough profits to buy the structure, paying for it in six months' time. Then a second setback occurred. Under a wartime order from Washington, the company was deprived of materials and was forced to discontinue operations.

R. S. Reynolds met this second blow by inventing a paper drum for

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shipping gunpowder overseas. It was based upon the moisture-proof container that had held the cleaning powder. The device cost 52 cents, replaced an expensive metal container, and was bought by the Government in large quantities. Plant expansion became necessary, and the Foundation now served directly. A Louisville bank, in April 1918, arranged a term loan of $30,000 for enlargement of the Reynolds plant, the loan actually being made by the Foundation. The increased earnings enabled this loan to be retired in full in October 1918.

When the war contract terminated, the brothers turned to the manufacture of tobacco foil and, in 1919, incorporated the United States Foil Company. This enterprise, too, soon needed expansion capital, and in May 1920, the Foundation was again applied to, this time for a $100,000 temporary investment in preferred stock of the new corporation. The deal was authorized and the contract was drawn by Mr. Ayres, who had become the Foundation's secretary-manager. But the Foundation at this time was short of funds, had only $50,000 available, and while it was trying to borrow or collect the additional amount R. S. Reynolds withdrew the application.

This ended the Foundation's association with the Reynolds enterprises. How foil manufacture led to aluminum processing, bauxite production, and to the operation of more than 40 war plants in various parts of the United States during the second world war is well known. The Reynolds Metals Company was incorporated in 1928 and in 1944, with its affiliates, operated 9 major plants and several smaller establishments in the Louisville area. The Foundation's total profit from the Reynolds connection was the $1,056 accruing from the loan of $30,000 in 1918. How much the community fund would have profited had the same amount been invested in equity shares of the young and expanding enterprise can only be surmised. Speaking as guest of honor at a banquet in 1943, R. S. Reynolds recognized Mr. Ayres in the audience and referred to him as "the man who introduced me to opportunity—somewhat against my protest."

Petroleum Refining

In 1918, a large oil company, then in its expansion period, chose Louisville as the location for a new refinery. Since participation by Louisville capital was requested, the Foundation undertook to interest local private investors and also loaned $50,000 at 7 per cent, accepting as collateral the note of the parent corporation, secured by like amount of outstanding bonds. The contract for the loan, which was to be repaid in three and one-half years, called for no retirement in the first year and a retirement of $15,000 in the second, $15,000 in the third, and $20,000 in the first half of the fourth year. The refinery was constructed and placed in operation.

Under the terms of its loan contract, the Foundation was empowered to receive an annual audit report of the borrowing company. When the

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first such audit report was due, in 1919, the parent corporation declined to furnish it and retired the Foundation's loan in full. The refinery is a large one today.

Products of Cotton and Cottonseed

During the first World War, an old-established Louisville concern that manufactured cottonseed oil and other cotton derivatives engaged in experimental work on its own account in an endeavor to overcome the shortage of cotton linters needed for the production of explosives. The company also had the motive of providing off-season work for its employees. A capital shortage resulted, and in 1918 the Foundation loaned $50,000 on a 90-day note, secured by 7 per cent guaranteed first preferred stock. The note was to be retired by annual payments of $5,000.

The first two annual payments had been made when the Tennessee cotton interests with which the Louisville enterprise was affiliated went into receivership. In the reorganization of these interests, the Louisville plant was omitted. As a consequence, the enterprise became bankrupt and was taken over by a national chain.

The debt to the Foundation was personally assumed by a Louisville capitalist who had been instrumental in arranging the loan. This capitalist struggled for many years to repay what was purely a debt of honor on his part. The directors of the Foundation as early as 1929 offered to write off the portion of the debt that represented unpaid dividends on the preferred stock; in the subsequent years, the directors granted repeated extensions on the debtor's voluntary note. Payments were made little by little over a long period of time until at the end of 1940—22 years after the date of the original loan—the debt was finally retired. This was an extraordinary instance of the integrity of an individual who was determined that the community fund should not suffer loss.

School Equipment and Other Wood Products

An outstanding instance of persistent support of an undertaking began in 1920 when a school-equipment salesman covering Southern territory convinced the Foundation that school boards throughout the South, which were buying school desks made in the North, would prefer to buy from a Southern concern. The Foundation capitalized this sales idea by providing a building costing $30,157, on a 7 per cent first mortgage. Payment was scheduled to be made at the rate of $1,500 semiannually.

This venture encountered trouble. Sales costs were high, political work was involved, established competition was strong, and the large payments were difficult to meet. The first two notes were retired on time, but from 1921 to 1926 no further payments were made. When the company could not pay an instalment in full, it did not pay at all, and this experience convinced the Foundation that a monthly payment plan was sounder than a plan requiring larger payments at less frequent intervals.

A partner took over the business in 1927, changed it to the manufacture

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of household refrigerators and other wood products, and made up part of the delinquency. The Foundation invested $7,500 of new money in an addition to the plant, refinanced the old balance of $22,500, and arranged monthly payments. Moderate success resulted, and payments were made regularly until 1929, when the partner became inactive and a hired management was installed. The company again began to decline, and in 1930 the enterprise was liquidated. The Foundation avoided foreclosure by accepting a deed to the property for the unpaid debt of $27,450; but it was left with an empty building on its hands, and for some time was under the necessity of providing a watchman and paying insurance premiums, so that an expense amounting to $3,045 was incurred.

The directors were on the verge of ordering this building pulled down to save expenses, when, in 1932, an elderly craftsman who had previously run a small woodworking plant came to the Foundation with a proposal to start a new enterprise. This man was given the use of part of the vacant building for seven months, rent free, and, with the aid of $2,000 provided by his son and an additional $2,000 borrowed from friends, he proceeded to build up a new manufacturing venture. The Foundation assisted by obtaining lumber, paint, and varnish for the new concern on credit. The proprietor and his son did most of the work at first and soon the little enterprise was producing low-priced kitchen cabinets and selling them successfully.

Some $20,000 worth of idle machinery still remained in the building. Seeing that the experiment was working out, the Foundation arranged for the proprietor and his son to buy this equipment from the receivers for $2,000 in common stock. This new equipment put the venture on its feet. Production and sales began to expand, and within a year the common stock was repurchased, the borrowed $2,000 was repaid, and in 1933 the Foundation agreed to sell the building to the partnership for $15,300. This price was less by $9,301 than the book value of the property and the Foundation wrote off a loss in that amount.

The payments under the purchase contract were only $50 a month for the first two years, then rose to $85 a month. But in 1936, the company's sales having continued to increase, the community agency loaned $11,750 for a further expansion of the plant and refinanced the unpaid balance of the purchase account. As security, all common stock in the company was deposited with the Foundation, which also held the voting rights. Mr. Ayres became secretary of the company. The relationship thus became extremely intimate.

Expansion proceeded, the old building was outgrown, and in 1937 the Foundation invested an additional $5,000 for the purchase of an adjoining lot and the construction of a warehouse. The company in 1940 retired its debt to the Foundation in full. By that time, its capital had increased, out of earnings, to $100,000. Shortly afterward a war contract was obtained, and today this enterprise, of which the son is now in charge, employs 120 workers and is on a stable basis.

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Furniture and Other Wood Products

A furniture-making enterprise was founded in 1920 by a prominent retired capitalist who was interested in placing his son in the management of a business. Primarily because they knew the father and relied upon his support, the directors of the Foundation voted an investment of $100,000, in 8 per cent first preferred stock of the new concern. A large plant was built and elaborately equipped.

This venture encountered trouble from the outset. The young manager, who lacked business experience, engaged a succession of hired assistants, each of whom put in new equipment and carried out his own experimental ideas. The investment from the community fund was to have been retired at the rate of $10,000 annually, but no retirements were made. The company was voluntarily liquidated in 1929, the plant passed into the hands of mortgage creditors, and the Foundation took a total loss of $99,945, the largest in its history. The anticipated backing by the father was not forthcoming. This experience convinced the directors of the weakness of the equity position and the superiority of the first-mortgage loan under circumstances of liquidation, as well as of the vital necessity of experienced management.

Commercial Cold-Storage and Ice Manufacture

In 1921, a long-established brewery was forced to discontinue its activity. The company decided to turn its refrigeration plant into a commercial cold-storage concern, since Louisville had only limited facilities of this type at the time.

This venture required a considerable amount of capital. A Chicago investment banking house undertook the financing and floated a $750,000 issue of first mortgage 6 per cent bonds. The company obtained $675,000 from this financing. The Foundation purchased $100,000 (face value) of these bonds for $94,383.

The bonds were to be retired in annual payments over a 10-year period. But the fixed charges resulting from the financing overburdened the venture. The Chicago investment house in 1926 refinanced the bond issue, and the Foundation accepted $83,500 worth of 6½ per cent refinancing bonds in lieu of the unretired $77,883 of the original issue. The enterprise declined and late in 1929, for the only time in its record, the Foundation foreclosed to protect its interest, writing off a loss of $44,466. Various private Louisville investors lost even more heavily.

The plant, which was well equipped and was fundamentally a good business proposition, was taken over by a national concern and is operated successfully as an affiliated enterprise at the present time.

Shoelace Manufacture

Two young Pittsburgh men, experienced jobbers of shoelaces, started shoelace manufacturing in a small way in Providence, Rhode Island.

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Their experience indicated that a "hole in the market" existed for shoelaces of a higher quality and that these could be made for sale at the standard price by the use of mechanical improvements. They had heard of the Foundation and, coming to Louisville in 1924, they applied for a capital loan. The directors were impressed by the fact that these partners had saved a considerable amount from their previous earnings, as well as by their evident knowledge of the shoelace trade. The partners, accordingly, were financed for the construction of a new plant costing $62,728, on first mortgage security at 6 per cent interest. No payments were required for the first year.

This venture began to gain ground after a hard struggle. The partners hired competent technical management and devoted themselves largely to building sales, successfully invading a highly competitive market on the principle of quality competition. Annual sales soon reached $250,000, but most of the earnings were either applied to the mortgage debt or plowed back into the purchase of new equipment and the expansion of the plant. After six years, the Foundation aided the plowing-back process by refinancing the debt, which had been lowered to $29,780, and reducing the monthly payments. The next year, the Foundation invested $3,500 in new money for needed equipment, and two years later it granted an extension of all remaining notes. The proprietors continued to work day and night and to make only the minimum amount of withdrawals. Thus aided, the business grew so rapidly that the company retired the Foundation's entire investment in 1939, five years in advance of the due date on the refinancing.

This company has continued to prosper and expand. Its gross sales in 1940 were $300,500, and in 1943 they amounted to $525,000. Its connection with the Foundation has continued, Mr. Ayres being secretary of the company today. The superior strength of a product that sells to a multiplicity of consumers and is differentiated in quality from that of competitors, and the connection between unpretentious hard work and success, were demonstrated to the Foundation by this experience.

Manufacture of Pipe Organs

One of the oldest concerns in Louisville was a partnership of three brothers, making and installing pipe organs. These brothers were descendants of a family that had built pipe organs in England as early as 1820, had moved to Chicago in the late 1860's, and moved again to Louisville after the Chicago fire of 1871. In 1925, when many churches and motion-picture houses were installing new pipe organs, an expansion of the Louisville plant was required. The company applied to the Foundation and received a loan of $60,000, secured by the physical assets and also by the endorsement of the three brothers.

At the insistence of the brothers, it was arranged for the loan to be retired by annual payments of $7,500 for four years, with a balloon note for $30,000, one half the amount of the loan, to be paid in the fifth year.

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The company met the first four notes promptly. But when the balloon note fell due in 1930, not only was the depression causing slowness in payments of church debts but also the motion-picture industry was shifting to the use of mechanical sound equipment and abandoning the pipe organ. The Foundation refinanced the $30,000 obligation for five years, $5,000 being payable annually for four years, with a $10,000 balloon note payable at the end of the fifth year.

The first $5,000 payment was received, but extensions were necessary in 1931 and, again, in 1934 and 1935. A problem of succession now arose, complicating the financial problem. Through the retirement of two of the brothers and the death of the son of the third, the business was left in the hands of one partner, an elderly man, and one surviving heir. Nevertheless, in 1939, when the debt had been increased by $4,900 in unpaid interest, the Foundation again refinanced the obligation at a reduced rate of interest, under a contract calling for monthly payments over a 10-year period. The organ market had partly revived and some payments were made under the new arrangement.

The tolerance shown by the Foundation was rewarded when, in 1943, the company developed new vigor by obtaining a war contract for highly specialized airplane parts. This contract in turn attracted an Eastern concern's attention to the special machinery in the organ factory and resulted, in 1944, in the sale of the enterprise. Although the liquidation process is not yet completed, the Foundation will apparently receive the return of its investment in full.

Production of Bakery Goods

Two baking enterprises financed from the community fund have histories that are to some extent interrelated. The first company originally was located 30 miles up the Ohio River from Louisville. In 1926 its manager wanted to move into the city to save production costs. The Foundation provided the company with a site and a new four-story concrete building, costing $60,000, but when the mortgage was filed, the stockholders living in the upriver community learned of the impending move and secured an injunction, tying up the machinery. Thus the company had a vacant building on its hands and no equipment other than one automobile.

Interested in protecting its investment, the Foundation loaned an additional $10,000, located private investors who put up $10,000, and, later, found an individual backer who invested $50,000. The vacant building became excellently equipped, and production began.

Sales were made locally, and for a time the business appeared to be moderately successful. But after a certain period, delinquency in the payments indicated that the company was operating at a loss. Upon studying the situation, the Foundation determined that a new sales policy was necessary and located a sales manager, experienced in another line, who was willing to undertake the task. Under the changed policy, city

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sales were dropped and bakery products were sold in carload lots to out-of-town wholesalers. This policy not only paid but resulted in a greatly increased production in a few months' time, so that an expansion of plant became necessary. The Foundation in 1934 refinanced the unpaid balance of $19,800 and made an additional investment of $50,000. Thus expanded, the company prospered, becoming consolidated in 1936 with a national baking concern and retiring the Foundation's investment in full.

A young man who had helped to upbuild the revised sales policy that had benefited this concern later brought to the Foundation a proposal for the salvage of another baking company, an old-established but obsolescent enterprise that was on the verge of being taken over and liquidated by its creditors. On the condition that this man be employed as general manager, the Foundation made a loan of $35,000 and also located private investors.

Within a short time, this enterprise, too, was rehabilitated. The plant was streamlined, a modern baking tunnel and other mechanical devices were installed, and within a year's time the business was placed on a profitable basis. An expansion became necessary in 1941, and the Foundation loaned an additional $15,000.

This company's gross sales, which prior to 1940 had averaged about $225,000 a year, in 1943 amounted to $987,000. The Foundation's account was retired in full in 1944, the last 28 monthly notes having been recaptured out of profits.

Manufacture of Enameled Metal Products

The Foundation in 1927 asked the manufacturers of Louisville to list whatever materials or partly processed supplies they were obtaining from places other than Louisville. The purpose was to identify those types of manufacturing that would at once increase industrial employment in the community and accomplish cost savings for its existing industries. From this inquiry it was learned that several manufacturers were sending metal parts elsewhere to be enameled. The Foundation accordingly communicated with several metal-enameling concerns, one of which was eventually invited to establish a plant in Louisville.

The Foundation loaned $49,938 to build a plant for this concern. The plant was completed and production began, but the enterprise did not prosper and the account, retirable semiannually over a 10-year period, after a time became delinquent.

Upon investigation, it developed that friction existed between the Louisville investors and the controlling stockholders in another city. This situation finally came to a head when, after a six-year period of unsatisfactory operation, the Foundation acted as umpire. Under the arrangement that was finally worked out, the absentee interests were bought out by Louisville investors. The plant manager, who was considered capable by the local interests, became president of a new independent concern. The former controlling group paid half of about $26,000 in accrued interest, and the Foundation wrote off the other half and

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extended the remaining notes. After achieving its independence, the enterprise became profitable and began systematically to retire its debt.

Meanwhile, the Foundation had brought to Louisville, by an investment of $18,000, a small metal-working plant of a complementary type. This plant was located next to the first plant, and, after a close association had developed, the two concerns in 1935 merged voluntarily into a single company. Their combined indebtedness to the Foundation at this time was $62,500. Over a four-year period this debt was reduced to $59,500, and in 1939 the Foundation aided the merged enterprises by investing an additional $10,000 of new money and at the same time refinancing and extending the previous $59,500 obligation.

The combined company gradually expanded. Early in the current war its president invented an ingenious all-metal box for the shipment of gunpowder abroad, and obtained a large military contract for its production. Plant expansion was required, and the Foundation loaned $30,000 for this purpose and also made a further loan of $13,500 for tools and equipment, the latter loan to be retired on a royalty basis at the rate of 10 cents for each metal box delivered. This loan was retired in full at the end of only five months. By the first part of 1944, the enterprise had considerably increased its personnel, had paid its current notes a full year in advance, had expanded further from earnings, and had recaptured its last 12 monthly notes.

Production of Stamped-Metal Devices

The Foundation's outstanding experience in financing an inventor began in 1927 and has continued until the present time. The inventor was a designer of ingenious stamped-metal specialties, who had formed a corporation with two brothers in Chicago. The company decided to move to Louisvile and to make furniture hardware. The corporation had only a modest capital; accordingly, the Foundation loaned $54,062 on a 6 per cent first mortgage, to provide a building. This was a 10-year loan, retirable monthly, and, on the expectation of increased earnings, the monthly payments were graded from $150 at the start to $960 in the tenth year.

From furniture hardware, the production soon expanded to include automobile accessories, advertising premiums, and many metal novelties. In spite of this versatility, money was apparently being lost, and the Foundation's analysis disclosed the fact that some articles were being sold below cost. Better cost-finding methods were installed, and more capital was obtained as the result of the improved position.

The enterprise became embarrassed, however, in 1930, by the closing of a bank in which its funds were deposited. At that time the company had an excellent contract for automobile hood catches, made for a Detroit concern, but the day came when it had no materials and no credit. The Foundation acted promptly and obtained a carload of steel by guaranteeing the credit of the company.

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In the following year the various creditors threatened to bring about a liquidation. But this catastrophe was averted by the Foundation, which acted as virtual receiver, carrying the pay roll, arranging extensions and allocating the income. An additional $50,000 was raised in New England by the inventor. The difficulties, however, continued. The company was indebted to a Louisville bank, as well as to the community agency. By funding into a new mortgage the unpaid balance, the accrued interest, and an additional loan of $5,000, the Foundation in 1933 kept the venture alive. This transaction was made conditional upon the extension of the bank loan for one year, and the bank granted the extension.

With the secretary-treasurer of the Foundation acting as secretary of the company, the business was reorganized and carried on until, shortly before the current war, an excellent contract was obtained, covering the manufacture of carpet-sweeper parts for a chain-store concern. The inventor designed the parts and made the necessary dies, but again steel was lacking; a carload was obtained, once more through the Foundation's effort. The carpet-sweeper contract, along with the tolerance of the creditor organization in granting extensions and performing various aids, gave the company a new start.

The account was being satisfactorily retired when, early in 1941, the company obtained a good sized war contract. A building expansion immediately became necessary, and the Foundation provided $40,000 for this purpose. But also, this contract called for a plant modification costing $400,000 and required working capital in the amount of $600,000. A Government agency was willing to supply the necessary funds but required a performance bond, which no bonding company would underwrite because of the debt to the community fund. The Foundation, accordingly, revised its old mortgage, eliminated $12,575 in accrued interest, and by improving the company's statement enabled the bond to be written.

The enterprise increased its employment to 300 workers and began operating on three shifts. From the proceeds of the war contract all delinquencies in the Foundation's account were removed, and in 1944 the full retirement of the investment was not far distant. The plant operation has become highly efficient and the company's postwar prospects are regarded as good.

Macaroni Manufacture

A member of a firm of macaroni manufacturers in Chicago, desiring to establish a business to which his two sons might eventually succeed, sold his partnership and cast about for a new location. The former manager and sales manager of the Chicago company proposed to go to California, but since Louisville had a source of capital it was decided to establish a new plant there. The Foundation was willing to lend $50,000 for building purposes but required that the private capital amount to $100,000; the former partner supplied $65,000 of this sum and his associates put up the

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rest. The Foundation's loan started the enterprise, and the struggle for a market began.

At first the local market proved unresponsive and in its first full year of operation the concern lost $15,000. But the Foundation supported its commitment by additional loans of $12,500 in 1930 and $10,000 in 1931. These investments brought results, and in its third year, 1932, the company made a profit of $65,000. The head of the firm soon bought out his associates and the father and his two sons had the enterprise to themselves. In 1934 a plant expansion became necessary, and the Foundation loaned an additional $15,000 for this purpose.

Sales had now increased so that the company was selling its macaroni over a considerable territory, including some sales to California. The father and sons worked hard, and this was another case in which nearly all the earnings were plowed back into the business. Although the Foundation had extended its credits on a 10-year basis, all four of its investments were fully retired in 1938.

In 1939 the enterprise required $200,000 for further expansion. This amount was above the Foundation's lending limit, but aid was rendered in obtaining the necessary credit from an insurance company that was making industrial loans. Today this macaroni company, with 500 workers steadily employed, is among the larger enterprises that have received Foundation aid.

One of the sons, in 1938, saw an opportunity to engage in a related line of business without breaking his connection with the parent company. He invested in a small concern that was making chili sauce and other food products to be sold with macaroni, and the Foundation aided this side venture by lending $10,000 for its expansion. Within three years this investment was repaid.

The intimate contact of the Foundation with the macaroni enterprise has continued. This episode further proved the value of the broad market and the less spectacular type of venture as the basis of risk appraisal.

Printing

The printing industry in Louisville owes much to the Foundation, two important printing concerns having been rehabilitated and kept in existence by loans from the community fund. The first was an old-established company that printed pulp magazines for a New York publishing house. This publishing business had grown so that for some time prior to 1935 the plant had been working on a three-shift basis. Its equipment was running down from overwork, and in 1935 the loss of the printing contract was threatened. A Foundation loan of $50,000 enabled the plant to be put in good mechanical condition and also provided necessary working capital. The contract, accordingly, was saved. The loan was fully repaid in three and a half years. Expansion continued, and in 1944 the publishing house bought this plant for a reputed price of one million dollars.

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Another long-established enterprise, engaged in job printing, likewise became obsolescent and in 1939 was in the hands of a creditors' committee. The Foundation loaned $100,000, of which $60,000 modernized the plant and $40,000 provided working capital. This investment protected the employment of about 400 members of the printing trades. The payments on this loan have been kept consistently a full year in advance, and at midyear of 1944 an additional year's payments had been recaptured from profits.

Manufacture of Work Garments and Uniforms

A Louisville bank, taking over the assets of a defunct debtor, came into possession of a small garment plant. The bank retained, to adjust the estate, an experienced buyer of garments who was known to certain officers of the Foundation. The adjuster did a successful job and was enabled, partly through Foundation support, to buy the machinery from the bank and engage in garment manufacture.

This venture, launched on very little working capital, expanded from earnings. A vacant building had just been acquired when the Louisville flood of 1937 occurred. A partner who had entered the business then induced the original enterpriser to move to Virginia. A year later the founder returned to Louisville and applied for a Foundation loan. He had used his share of the earnings to buy out his partner and now owned the machinery in Virginia and an interest in the vacant building in Louisville.

The Foundation loaned $30,000 to bring back the machinery and reopen the plant. But the capital position of the enterprise was so weak that bank credit was unavailable. In addition, two developments, both in 1941, created an acute expansion problem. The proprietor had designed a work suit that resulted in a large chain-store order, and almost simultaneously an army contract for uniform pants was obtained.

Accordingly, the Foundation, for the only time in its experience, undertook to finance a business on the security of accounts receivable. All chain-store and Government payments were assigned to the Foundation, which established a drawing account for working purposes. The result was that the company expanded to 250 workers and in 1944 was doing a good business, about 60 per cent of it in war production and 40 per cent in work clothing for the chain-store trade. More than $500,000 had passed through the drawing account by the middle of 1944. The capital loan also was being steadily retired. A local bank in 1944 extended a line of credit to this company.

Packed Poultry Meat

An individual enterpriser with a good idea but little experience started a tiny venture, in a shed, in the canning of poultry meat. The product had merit, and investors became interested to a limited extent, but progress was slow and when application for a capital loan was made to

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the Foundation, the credit was declined. One of the investors was a man whom the Foundation originally had brought to Louisville to be sales manager of a client concern that made food products. Through a business consolidation this sales manager had become displaced, and in 1940, when the poultry-packing enterprise went into the hands of its creditors, he became its receiver, paying all the debts in full. Under his leadership a corporation then was formed, with sufficient capital to start the enterprise anew. Application was made to the Foundation for the second time, and in view of the improved managerial and financial status this application was granted, the Foundation advancing $14,000 for a new building.

Rarely in the Foundation's experience did a small investment prove more fruitful in terms of business expansion. The product took hold, sales mounted, and from three employees the working force soon increased to 50 or more. In 1943 a war contract for the product was obtained and, since a further expansion was required, the Foundation made a second loan of $17,500. The employment proceeded to expand to 125 workers. In 1944 the poultry meat was being packed and sold in carload lots and the Foundation investment was being rapidly retired, both through current payments and the recapture process.

Financing of a New Public Airport

Concluding this selection of case stories is the record of the Foundation's part in creating a new public airport for Louisville. Bowman Field, Louisville's original airport, was developed after the first world war as an addition to the public-park system on land bought from the Alien Property Custodian. As Louisville grew the location of this airport interfered with suburban development, and community planners wanted a change. Early in the war the demands of the army training program exceeded the capacity of Bowman Field, and this condition, coupled with the possibility of attracting aircraft manufacture, created the need of an additional airport in an industrial location. This need concurred with the ultimate intention of the city planners. Land for the new airport was available, but a difficulty was encountered that would have been hard to solve but for the community fund.

The difficulty arose from the fact that the Civil Aeronautics Authority could not take over and develop an airport site that was encumbered, whereas the Louisville and Jefferson County Air Board lacked funds for an outright purchase of the needed land. At first it was proposed that the Air Board should borrow $100,000 at 3 per cent from the Foundation, but this would have involved a lien. The law, however, contained a provision permitting a public agency to exchange one piece of property for another, and this provision provided the solution. The Air Board gave the Foundation a deed in fee simple to 140 acres of land that actually constituted a considerable portion of Bowman Field. The Foundation paid to the Air Board $100,000 as a technical purchase price. The Air Board simultaneously leased back the Bowman Field property from the

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Foundation for $3,000 annually, which was the equivalent of 3 per cent interest on a $100,000 loan. The Army, of course, remained in undisturbed possession of Bowman Field, and now the Air Board used the $100,000 to purchase and consolidate the various parcels of land that became the new Standiford Field.

This site was leased to and developed by the Civil Aeronautics Authority, and the Vultee and Curtiss-Wright aircraft plants became established as the result of the new development. Part of the transaction had been a "gentlemen's agreement" by the Air Board to repurchase the Bowman Field property from the Foundation as tax funds became available. The Air Board encountered a tax windfall in 1943 and recovered the deed from the Foundation by repaying the $100,000 in full. This act completed the interim-financing service of the community fund. After the war, Standiford Field will probably become Louisville's principal airport, allowing Bowman Field to be converted for park and recreation purposes.

Many other episodes in the Foundation's variegated financial history could be recited, but the foregoing selection provides a sufficient indication of the types of business problem encountered and the Foundation's unformulated and opportunistic methods of work.

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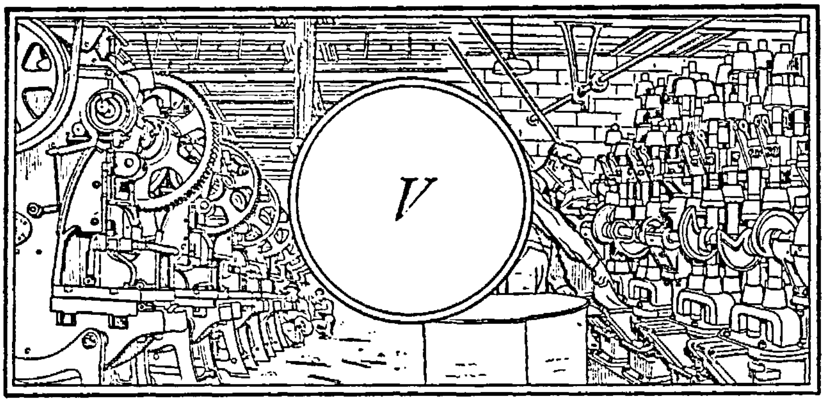

IMPLICATIONS OF THE FOUNDATION'S EXPERIENCE

In exploring the implications of the Foundation's experience, the same difficulty is encountered that is common to all sampling studies: namely, that the sample may or may not be typical of the general situation in a larger field. The Louisville plan, primarily presenting a combination of industrial-bureau activity with the provision of term capital to those manufacturing situations that are not ordinarily eligible for investment, might succeed elsewhere and it might not. Such a plan fundamentally depends upon the particular industrial character of a given area and upon the particular extent to which the demand for manufacturing capital in that area is or is not otherwise fulfilled. Also the many attendant issues involved in developmental policy or in community-found administration depend to a considerable degree upon purely local conditions, including the economic background, the abilities of individuals, and the quality of the community leadership. Knowledge of the conditions that exist in a given area, accordingly, must determine judgment as to the applicability of the plan. It may be generally accepted, however, that countless communities will exert themselves to influence industrial location in the fluid period of readjustment, and also that small businesses, as well as large, must have an adequate access to capital and credit. Some of the methods developed by the Louisville Industrial Foundation in the course of its long and singularly varied experience appear to have suggestive implications in both of these connections.

Developmental Role of Investment Funds

The entire record attests, for Louisville at least, to the effectiveness of supplementing and increasing the flow of capital, as a medium of industrial development. Louisville, largely under the influence of its

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community fund, grew from a semirural community to a flourishing industrial center. When allowance is made for the advantages that the community intrinsically possessed, an ample margin remains that can only be credited to the known availability of funds for manufacturing purposes. The effects of the community fund were both direct and indirect: direct with respect to the enterprises that were financed, indirect in encouraging private capital to flow into those enterprises and in leading other enterprises to become located in the area. The many enterprises that came to Louisville without being financed did so largely because funds might be at their command in time of need. The general expectation of the Louisville leaders of 1916 that the community would make industrial progress if a supplemental capital source was established, has been abundantly fulfilled.

The Revolving Fund as a Developmental Device

The decision of the original planners to use the community fund as a revolving fund also appears to have been extremely sound. This policy presents a contrast with the policy more generally followed in communities of the South; namely, that of bringing in industries by subsidizing them. Although subsidization has undoubtedly increased industrial employment in underindustrialized areas, its critics have never been satisfied that the offer of subsidies attracted the better types of enterprises or that the principle of subsidy itself was not a violation of the standards of fair competition. As generally applied in the South, subsidization often has led to the development of branch plants whose profits have not been retained within the production area.

In comparison, the revolving-fund policy in Louisville has tended to develop independent enterprises, largely owned locally. While these companies temporarily incurred debt, the debts were generally repaid at interest and the business independence accordingly was preserved. Also, from the point of view of the community, the establishment of a loan fund proved to be an economical method of development, inasmuch as the industries themselves bore the developmental costs and actually increased the community fund.

A slight suggestion of subsidization may be noted in some Foundation transactions. The absence of direct dividends and the investment by the public for indirect returns are of the general nature of subsidy. The capital losses may be considered unintentional subsidies, and the few cases of interest write-off were subsidies in a more direct sense. But the various extensions that were granted, and the free aids that were furnished to the business clients, were much less subsidies than sound business policies of investment support.

Relative Desirability of Types of Enterprise

A recurrent problem of community development has been that of making a selection among the many different types of industry that might be

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encouraged or brought in. With respect to types of production, the Foundation's answer may be expressed in the one word: "diversified." By fostering a wide variety of manufactures, the institution has helped to provide a versatile opportunity of employment for the resident worker, to prevent the community from being dependent upon the ups and downs of single industries, and to reduce the production costs of other local enterprises.

But there is another aspect to this problem of selection. The Foundation has financed new, brought-in, recently founded, and old-established enterprises and has obtained in many respects its best results in financing those enterprises classified as recently founded. Manufacturing ventures that had been already started by individual venturers and carried through their difficult periods of infancy without outside financing proved more responsive to capital assistance when it came, and gave less trouble to the investor, than any other type. The financial record bearing out this point is given in table 14.

As the table shows, all eight of the undeveloped enterprises survived, whereas in every other category one or more businesses liquidated. The recently founded ventures, furthermore, averaged considerably less in their capital requirements than the other three types; they required less initial capital than any other type and less additional or subsequent investment. Also these young but proved-up ventures needed less refinancing than any other type except the mature establishments. The table also shows that no capital loss was sustained from the undeveloped ventures. As some of the case stories suggest, employment in the recently founded concerns expanded notably when capital was applied.

In contrast, the new enterprises required the largest average amount of capital, needed the largest amount of refinancing, and incurred the largest number of liquidations as well as the highest amount of capital loss. The brought-in enterprises ranked second in total capital requirement, but their record in this respect was somewhat deceptive, as their initial capital requirements were fairly low, whereas their subsequent need of follow-up new money was the greatest, on the average, among the four groups. However, only one capital loss was incurred in this group and liquidations were but two. The mature enterprises ranked third in total capital requirement and required very little subsequent investment; there was no capital loss in this group. But this type of investment was not, in all cases, especially productive of new employment.

The Foundation itself has increasingly favored the already-established but undeveloped enterprise as an object of investment.

The Marginal Financial Area

Beyond the implications for developmental work, the Foundation's methods also have somewhat important implications in the field of finance. In Louisville, as doubtless would be true in many other communities, there arose from time to time a fundamentally worthy type of

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TABLE 14

COMPARISON OF COMPLETELY NEW VENTURES, BROUGHT-IN CONCERNS, RECENTLY FOUNDED AND OLD-ESTABLISHED ENTERPRISES IN THE 44 MANUFACTURING FINANCINGS OF THE LOUISVILLE INDUSTRIAL FOUNDATION [a]

Item for Comparison	*Completely New Enterprises*	*Brought-in Enterprises*	*Recently Founded Enterprises*	*Old-established Enterprises*
Number of enterprises financed . .	13	12	8	11
Number afterward liquidated . .	5	2	0	1
Average gross investment	$85,725	$73,047	$43,450	$69,518
Average total new money	69,163	59,040	37,069	63,618
Average initial new money . .	53,394	41,790	31,163	57,000
Average additional new money	15,769	17,250	5,906	6,618
Ratio of additional to initial new money	29.5%	41.3%	19.0%	12%
Average refinancing, amount . .	16,562	13,757	6,381	5,900
Ratio of refinancing to total new money	23.9%	23.3%	17.2%	9.3%
Number of capital losses	3	1	0	0
Average capital loss to each group	11,824	4,609	0	0
Ratio of capital loss to total new money for each group . . .	17.1%	7.8%	0	0

[a] Averages derived from figures in tables 4 to 13.

investment situation that was unable to command financial support from the usually established sources. This fact is indicated by the 44 manufacturing situations, all more or less ineligible for the ordinary types of financial accommodation, that were undertaken by the Foundation and, with only four exceptions, ultimately repaid or are at present repaying the investments.

It is not clear what the companies that were financed would have done without the funds supplied by the Foundation; nor is it clear what is done by companies in other communities that are similarly unable to meet the standard requirements of investment, especially of medium-term credit for capital purposes. It has long been suspected that formulated investment standards have been a factor in the industrial mortality rate. Yet the Foundation's experience indicates that the actual risk presented by the off-standard business situation may be, at times, less than theoretical credit standards might imply. Capital itself, properly applied, can greatly reduce the chances of business mortality.

The Importance of Services to Clients

But the Foundation has exerted itself to protect and improve the business status of its clients and, by so doing, has aided the community and protected its own investments. The community motive in the corporation's

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investment dealings led the institution to adopt a highly co-operative and constructive creditor-debtor relationship, and this relationship proved to be sound business policy. In this respect, the Foundation appears to have anticipated a modern trend, in response to which certain banks today are rendering technological, managerial, and marketing aids and giving advisory services to their industrial clients. The aids rendered by the Foundation have been of the informal and intimate type characteristic of a purely local and autonomous organization, and these activities undoubtedly have had the effect of salvaging many accounts that otherwise would have lapsed. The small and independent enterprises especially are likely to show a favorable response to services and aids rendered in connection with credits, and the Foundation's experience in this respect strongly indicates that an active policy of investment support may be an important clue to success in the financing of small business.

The Importance of Flexible Financing

In further presenting flexible financing as a desirable and indeed necessary principle, the Foundation makes perhaps its most important contribution. Essentially, its development of flexible financing procedures was the outgrowth of circumstances. The original administrators of the community fund evidently regarded the smaller enterprises as being capable, like the larger units, of meeting fixed-charge obligations consistently and of retiring capital investments in regular instalments of considerable size. But experience proved that the small businesses, even when fundamentally capable of carrying and retiring a considerable debt, could seldom do so without variation in their payments upon account. Markets fluctuated, products changed, and some business experiments met with acceptance while others did not. Apparently, the smaller, the more personal, and the more venturesome the enterprise, the more must the investor expect and be prepared for a variable return.

The Foundation cannot be said to have welcomed the fluctuating position of its accounts or to have adopted flexible collection terms on any basis of choice. Rather, its policies of adaptation were developed under the compulsion of conditions that continually recurred in the small business sector itself. Once recognized as deeply characteristic of this order of enterprise, the fluctuations were easily met. Because semiannual payments proved too large to be practicable, the Foundation turned to monthly straight-line payments. Because the straight-line fixed charges did not conform to business realities, graded or variable payments were adopted. When these did not run parallel to the income curves of the enterprises, extensions and refinancings were liberally granted. Finally, the repayment of debt was put into a partial relationship with the profit status of each enterprise, year by year, through the recapture device. This constant search of compatability in the financing undeniably saved the lives of some enterprises, whereas a rigid adherence to stated and rigid terms would have resulted in foreclosures and business deaths.

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It should be possible to extend flexible financing further than the Foundation has done. Maximum flexibility, of course, would be gained through purchasing common stocks outright and sharing in the profit-and-loss position of the client enterprises. To this proposal, the present leaders of the Foundation object on the ground that if the community fund were invested in small business equities, which are seldom resalable, the power of the fund to revolve would be gone. Yet in its earlier stages the Foundation bought preferred stocks on serial retirement plans, and, similarly, common stock or a partnership may presumably be purchased under a retirement contract.

Terms of investment retirement have varied widely in business finance. For example, companies have paid some portion of their profits into sinking funds, to provide for the retirement of equity holdings at the will or discretion of the investor. Under a plan of this type, each client of the Foundation might have established a fund upon which the investing organization could draw at its own discretion for the reduction of its investment or the attainment of a sufficient liquidity. Such a fund could have been established from profits of the businesses, from fixed charges, or both in any desired proportion. Another plan of this general type is represented in what is known as "founder's shares," in which the principal amount of an equity investment is gradually and regularly retired but the return upon the investment is derived from and depends upon profits. A third plan is that of the flexible interest rate, in which the interest charge is related to the profit status; this plan somewhat resembles the recapture arrangement, except that it applies to current payments.

Plans such as these are mentioned only as illustrations of further developments that are possible in flexible financing. The Foundation not only has called attention to the important principle of flexibility in its bearing upon the financial problem of small business but has made considerable progress along the pathway of its application.

The Question of Equity Participation

The fundamental objection made by leaders of the Foundation to any form of equity participation is that ownership does not protect the investor in the event of liquidation. It is, of course, true that the mortgage holder comes before the equity owner in his claim upon the assets of a defunct concern.

The central consideration in this connection is the attitude toward the prospect of liquidation itself. A policy of complete loss avoidance became ingrained in financial practice as a consequence of the depression and had a considerable effect in curbing industrial experimentation. To concentrate upon the possibility of failure and liquidation is, of course, to lead the investor, almost inevitably, away from all forms of risk participation and to paralyze the spirit of venture in finance. In the case of the Foundation it led to the well-secured credit; yet it seems significant that only eight of the Foundation's 44 client situations, in a 28-year period

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that included two depressions, resulted in liquidations, voluntary or forced. Nevertheless, the specter of liquidation still is seen in the avoidance of equity investment and the insistence upon first-mortgage security, even though one result is a limitation upon investment returns.

What would have been the Foundation's proportion of total losses to total profits had it purchased one-third equities in its various client enterprises (assuming such equities were for sale) instead of making the same amount of investment in fixed-return loans? Unfortunately, data are lacking for the evaluation of the equities of these concerns during the varying periods involved in this record. Hence an exact comparison study cannot be made. Of the 44 manufacturing concerns, 8 were liquidated, about 10 provided livings for their workers and proprietors, about 18 earned moderate profits over periods of years, and about 8 expanded considerably and became genuinely profitable—in some of the cases, extremely so. The profit balance of the whole portfolio accordingly, was well over on the right side and the Foundation, had it held equities, evidently would have profited considerably more than it would have lost. Equities in the 30 manufacturing situations entered since 1922 would almost certainly have paid greater returns than did the interest. As it was, by adopting a lending position and defining its earnings in terms of the fixed rates of interest, the Foundation indeed placed a floor under its losses but, at the same time, put a ceiling over its possible returns.

The Importance of Sound Appraisal

Obviously the fundamental consideration in either credit or equity investment is soundness in appraisal of the business prospects of an enterprise. The Foundation's appraisals became increasingly sound. Those appraisals have rested upon two primary factors: the business ability and working capacity of the men behind the enterprise and the prospective marketability of the products. In appraising the personal factor, the Foundation generally accords little weight to past histories of business trouble, as long as no dishonesty was involved. A weak capital position of an enterprise is regarded as hopeful if the man be energetic and the sales prospect good. The disappearance of losses in the Foundation's record after 1930 was evidently much more closely related to the improvement in appraisals than to the insistence upon physical security. Probably, on the same appraisal basis, the equity position, which is the true venture position, could have been safely assumed.

The Community as a Capital Source

The culminating implication of the Foundation's financial experience is that a high degree of local autonomy is necessary to an organization that would successfully finance the smaller and less-standardized business ventures. Most situations with which the institution was concerned were local situations, no two of which were identical in scope and terms. This fact

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of variation in turn required a neighborhood intimacy of contact and often an extremely original course of action by the Foundation in entering and supporting its accounts.

In Louisville, this intimacy of approach and independence of action are regarded not only as essential but also as implying that small business can be successfully financed only by a purely local organization, having no overhead affiliations, no red tape, and no outside control. So strongly is this believed that some Foundation leaders have expressed the view that an investment agency of national or even regional scope, public or private, would fail in this particular financial field. The reason given is that large institutions ordinarily have rigid rules and standards and do not give their local representatives a sufficiently free hand.

Certainly the Foundation's success in financing and servicing the local and decentralized business concerns of its immediate vicinity has arisen directly from its ability to maintain close personal contacts and to make such immediate and specific decisions as each situation might require. It is argued, by extension, that the community itself is the most appropriate source of capital for the enterprises of local ownership and scope.

A dilemma is presented by this contention. On the one hand, it may be accepted that a high degree of local automony in the administration of the financing agency is essential to success. On the other hand, a purely local financial institution has but limited funds at its command. How to preserve the necessary autonomy while bringing into play the abundant resources of national or regional investment capital accordingly becomes the problem.

One solution contemplates the borrowing of central funds by the Foundation for reinvestment purposes, should additional resources be needed in the readjustment period. The charter of the corporation permits it to borrow up to $250,000.

Other suggestions for safeguarding local autonomy when other than local capital funds are obtained have also been made. One is the proposal that the smaller businesses themselves should combine into credit associations, somewhat similar to those in agriculture, for purposes of joint borrowing. Another is the suggestion that region-wide or area-wide venture foundations should be formed and capitalized to participate with local funds such as that of the Foundation. The general advantages of a two-level system, combining central guidance and resources with local administrative autonomy, have been shown in another connection.[16]

It is conceivable, in theory, that large central suppliers of capital funds might learn to operate through self-governing local branches, or through unaffiliated local agencies. The problem is essentially one of administration. In demonstrating within its locality the necessity for informal contacts and for unconventional and prompt decisions, as part of the financial relationship, the Foundation has emphasized a principle that requires consideration if funds from central and standardized institutional

[16] E. J. Hopkins, *Mississippi's BAWI Plan: An Experiment in Industrial Subsidization* (Federal Reserve Bank of Atlanta, January 1944).

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sources are to be translated into the terms of the decentralized and variegated small business situations.

An adequate supply of capital is a necessity of business life. The retirable term investment, whatever its precise form, represents a primary need of the personal, decentralized, and independent order of business. With the term investment, a willingness on the investor's part to make necessary adaptations in the retirement schedules becomes almost a necessity of life for the fluctuating small enterprise; and a program of business aids, accompanying the investment, is both appropriate in dealing with the personal ventures and necessary, in many cases, as an investment support. In contributing importantly to the development of its own community, the Louisville Industrial Foundation has performed the more general service of illustrating three working principles—flexibility in financial arrangements, constructive participation in the nonfinancial problems of client enterprises, and the individualistic approach that comes with high local autonomy—involved in the successful financing of the smaller business enterprises.

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APPENDIX A

Articles of Incorporation of the Louisville Industrial Foundation

I

NAME

The name of this corporation shall be Louisville Industrial Foundation.

II

PRINCIPAL PLACE OF BUSINESS

Its principal place of business shall be in Louisville, Jefferson County, Kentucky.

III

BUSINESS

The nature of its business shall be to advance and develop the City of Louisville and vicinity industrially, and to accomplish this purpose the Foundation shall have full power and authority to subscribe for, own, hold or transfer stocks, bonds or other securities in, any manufacturing corporation now or hereafter established in Louisville or vicinity; to advertise the advantages of said City and vicinity; to empower one or more of its stockholders to act as director or directors, for and on its behalf, in any corporation in which the Foundation may be a stockholder; and to perform and do all other acts which may be deemed necessary to carry into effect the purposes for which the Foundation is organized.

IV

CAPITAL STOCK AND INVESTMENTS

The authorized capital stock of the Foundation shall be Eleven Hundred Thousand Dollars ($1,100,000.00), divided into eleven thousand (11,000) shares of the par value of One Hundred Dollars ($100.00) each.

The stock shall be paid for in ten (10) equal installments: the first installment of 10 per cent to be paid at a date to be fixed by the first Board of Directors, and further installments of 10 per cent each to be paid at intervals of six months until the stock is paid for in full.

Any stockholder may anticipate the payments of his stock, in whole or in part.

On the payment of the first installment ad interim stock certificates shall be issued to the subscribers, and thereafter, as each installment is paid, the amount so paid shall be credited on the said stock certificates. When all the installments have been paid, the regular stock certificate shall be issued to the subscriber.

As it is the purpose of the Foundation to conduct its affairs so as to make its investments as safe as possible, consistent with the purposes of the corporation, the Directors, when subscribing to the shares or bonds

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or other securities of any corporation, shall, when in their judgment it seems advisable, require any or all of the following: that securities shall be redeemed within a given period; that respresentation shall be allowed on the Board of Directors; the appointment of an expert accountant to examine the books and accounts at regular intervals; that if common stock is taken there shall be no preferred stocks or bonds outstanding; that if preferred stock is taken there shall be no bonds outstanding; and any other safeguard which the Foundation's directors may deem necessary.

The Board of Directors may use such part of the income or the capital of the Foundation as seems to it discreet, in paying its necessary expenses and in other ways in carrying on the business of the Foundation and the purpose for which it is organized.

As the Foundation is organized for the purpose of promoting the industrial development of Louisville and vicinity, the Board of Directors is not to be in any way responsible on account of any loss which the Foundation may suffer by reason of subscription to or purchase of stocks, bonds, securities, or property, real or personal, of corporations in which the said Board of Directors may determine to invest said funds.

A statement of the affairs of the Foundation shall be published semi-annually for the information of the stockholders.

V

SUBSCRIPTION BY INCORPORATORS

For the purpose of incorporation each of the undersigned hereby subscribes to three shares of the capital stock of the Foundation.

VI

TIME OF COMMENCING BUSINESS

The Foundation shall commence business as soon as a copy of these Articles has been recorded in the office of the Secretary of State as provided by law, and shall continue thereafter for a period of fifty (50) years unless sooner legally dissolved; Provided that no subscriptions shall be binding until bona fide subscriptions to the amount of One Million Dollars ($1,000,000.00) have been made.

VII

MANAGEMENT

The affairs of the Foundation shall be conducted by a board of not less than seven nor more than fifteen directors.

At the first meeting of the stockholders fifteen (15) directors shall be elected, and no change shall be made in the number to be elected annually unless the Board of Directors shall, at least two months prior to an annual meeting, fix, by resolution subject to the ratification of the stockholders at the next meeting, a different number and cause notice thereof to be sent to the stockholders.

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From the directors chosen there shall be elected by them a president and two vice-presidents.

The directors shall also elect, either from their number or outside of their number, a secretary, a treasurer and a general manager, but may combine any two or all three of these offices in one person.

The Board of Directors shall fix salaries of officers and employees and shall determine what subordinate offices shall be created, and may fill the same themselves directly or through appointment by an executive officer; but all officers and employees shall hold office at the pleasure of the Board.

The Directors shall determine, by By-laws, from what officers and empoyees bonds shall be exacted, and the expense of such bonds shall be borne by the Foundation.

The Directors are to be elected by the stockholders at a meeting held for that purpose after the recording of a copy of these Articles of Incorporation in the office of the Secretary of State as provided by law, and thereafter Directors are to be elected annually at the regular meeting to be held at the office of the Foundation in Louisville on the fourth Monday after January 1 of each year.

It shall be the policy of the Foundation to elect the President of the Louisville Board of Trade as one of the Directors, and to elect at least one-half of the remaining Directors from a list of Foundation stockholders containing three times the number to be chosen, nominated by the Board of Directors of the Louisville Board of Trade immediately prior to the first meeting of the stockholders, and thereafter at their regular meeting in each January: Provided, however, that any Foundation stockholder may exercise his right to vote for any stockholder he chooses, as Director, under the laws of Kentucky.

The vacancies in the Board shall be filled by the Board until the next regular election.

VIII

SAFEGUARDING INVESTMENTS

Investments in the stocks or bonds or other securities of any manufacturing establishment shall be made only with the assent of two-thirds of all the Directors of the Foundation.

The Foundation shall not invest more than 10 per cent of its capital in any one concern, nor shall it subscribe to more than 33 1/3 per cent of the total cash paid-in capitalization of any one concern; and in considering capitalization, patents, franchises, sales rights, good will and similar items shall not be included.

IX

QUALIFYING DIRECTORS

The Directors shall have the power to transfer to one or more Foundation stockholders a sufficient number of shares of stock in any corporation in which the Foundation may be a stockholder to enable such Foundation

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stockholder or stockholders to be elected a director or directors in such corporation; and such stockholder or stockholders shall hold said stock as trustee for the Foundation.

X

LIMIT OF INDEBTEDNESS

The highest amount of indebtedness or liability which the Foundation may at any time incur shall not be in excess of Two Hundred and Fifty Thousand Dollars ($250,000.00).

XI

PRIVATE PROPERTY OF STOCKHOLDERS EXEMPT

The private property of the stockholders shall be exempt from the corporation's debts.

APPENDIX B

STANDARD CONTRACT OF THE FOUNDATION[18]

It is hereby mutually agreed by and between__________, a corporation, party of the first part, and LOUISVILLE INDUSTRIAL FOUNDATION, a corporation, party of the second part, both of Louisville, Kentucky:

WITNESSETH, that for and in consideration of the covenants contained in mortgage of even date between said party of the first part and party of the second part, the party of the first part hereby agrees:

1st. That until said mortgage shall be fully complied with, it will at all times, keep proper books of account and will maintain a standard and modern system of accounting; and that said party of the second part may, so long as the party of the first part shall be indebted to it, make, or cause to be made at the expense of the party of the first part and in such manner and at such times as the party of the second part may require, inspections and audits of any books, records and papers in the custody of the party of the first part, or others, relating to its financial or business conditions, including the right to make copies thereof and extracts therefrom.

2nd. That within one hundred and twenty (120) days after the close of each fiscal year, the party of the first part shall furnish to the party of the second part an audit, certified by a reputable certified public accountant satisfactory to the party of the second part, showing in form and detail, satisfactory to the party of the second part, the financial condition and results of the operations for the preceding twelve (12) months of the party of the first part.

3rd. That so long as the party of the first part shall be indebted to the party of the second part in any amount, it covenants that it will not, without the written consent of the party of the second part, effect or in

[18] This agreement is accompanied by mortgage contract of usual form, except as to the graded-payment and recapture provisions, and by the standard form of note. The Foundation ordinarily requires separate note covering each monthly payment.

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any manner make sale or lease of, or any merger or consolidation which involves all, or substantially all of its assets.

4th. That in the event of a default of any of the terms and conditions of said mortgage, or this agreement, which should in law give cause for action in foreclosure, the party of the second part may, at its option and without liability on its part, participate actively in the management of the Company and at the expense of the party of the first part, make such management changes and additions as are best calculated in the judgment of the party of the second part to conserve the assets and business of the Company and the investment of the party of the second part.

5th. To furnish, at its own expense, evidence satisfactory to the party of the second part of its title in fee simple to the premises covered by mortgage of even date, and further agrees to pay all necessary expenses for the examination of title and closing of the loan, including all recording and notary and attorney's fees.

6th. To elect to membership on its Board of Directors a director nominated by said party of the second part, who shall be satisfactory to said party of the first part.

7th. That said party of the first part shall promptly refund to said party of the second part the taxes paid by it to the state or other taxing authority, as intangible taxes on the unpaid portion of the notes described in said mortgage, as returned by the party of the second part for taxation.

8th. It is mutually agreed and understood that said party of the second part shall not be a party in determining or adjusting relations or disputes between said party of the first part and its employees, or their representatives.

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STATEMENT ON GENERAL CREDIT CONTROL AND DEBT MANAGEMENT

BY

MALCOLM BRYAN

FEDERAL RESERVE BANK

OF ATLANTA

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STATEMENT BEFORE THE SUBCOMMITTEE ON GENERAL CREDIT CONTROL AND DEBT MANAGEMENT

OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

82ND CONGRESS

BY MALCOLM BRYAN
PRESIDENT
FEDERAL RESERVE BANK OF ATLANTA

MARCH 19, 1952

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THE STATEMENT

Mr. Chairman and Gentlemen of the Committee:

I appreciate the opportunity of appearing before this Subcommittee. The issues it is considering are far-reaching, complex, and of the utmost gravity, not only to the parties immediately concerned but to every citizen.

The management of money is of paramount importance to our economic well-being and social stability. Because of its importance—so great, indeed, that defense, public order, and justice are measurably related to it—the periodic examination of monetary policy is a basic right and duty of the Congress; and the discharge of its responsibility by a qualified, objective body, such as this Subcommittee, is entirely to be welcomed.

Let me speak, then, to some of the issues that your Chairman has said are pertinent to this hearing:

I. *Power and purpose of a central bank... Inflation and an expanding economy... Selective and direct controls... Inflation and the national debt... Monetary policy and economic stability*

The Congress has created a central banking organization, the Federal Reserve System, as its most important single agent in the

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field of monetary management. As your Chairman has wisely remarked, the Congress has created an agency because the Congress, which is itself charged with Constitutional responsibility for money, ". . . is not organized in such a manner that it can effectively manage monetary policy from day to day or even from year to year. If it were . . . it would not be well organized to perform its fundamental deliberative tasks under the Constitution." The Congress has created the System in the form of a banking organization because the money supply, under modern conditions, so largely consists of bank credit.

The Federal Reserve System, as a central banking organization, has only one fundamental power, the power to create and to extinguish bank reserves, either through its own investment account or by lending to commercial banks, and thus to influence the supply of money. All other powers are merely incidental or facilitating.

The power of the System is directed to an equally fundamental purpose. The idea of central banking, in our country and our time, is the use of monetary powers to increase the stability of a free economic system—not stability in a static sense, but of an expanding sort that reflects a rate of growth sustainable within the limits of our manpower, materials, equipment, and economic arts. Accordingly, almost by definition, central banking endeavors

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in the public interest to prevent the costly distortions that appear in an economy as a result either of large deflationary or large inflationary movements.

The meaning of this is that the central bank must lean against the breeze both in times of boom and inflation and in times of depression and deflation, no matter how strong the wind. Since a certain control over the supply of money is, essentially, the only power that a central bank possesses, the further and more explicit meaning is that the Federal Reserve System, endeavoring to adjust its policy to the strength and direction of the gale, must take restrictive measures—must reduce the supply of its credit or make its credit more expensive and less attractive—in times of boom and inflation; and it must take expansionary measures—must increase the supply of its credit or make its credit less expensive and more attractive—in times of deflation and depression.

If the central bank does not so act, then I am unable to see much purpose in central banking. A central bank—I have the Federal Reserve System in mind—that commits itself to an undeviating policy, regardless of the business cycle, abandons the fundamental premise on which central banking is based, namely, that credit expansions and contractions are causally related to the inflationary and deflationary convulsions of the economic system. If a policy is to be undeviating through thick and thin, so that the

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supply of credit money is to be constantly expanded or constantly contracted, without reference to the prevailing economic situation, then I think that we can find easier devices than central banking.

This seems to me worth saying because central banks, including the Federal Reserve System, have often accepted responsibilities incompatible with their fundamental idea as I have stated it. For instance, the Federal Reserve System, in company with most of the central banks of the world, has been charged in times past with the responsibility of maintaining, through thick and through thin, the fixed convertibility of gold and credit money, so that holders of metal could always obtain currency or deposits, and holders of currency and deposits could always obtain metal. That responsibility, as we all learned the hard way, at times proved incompatible with the fundamental and overriding idea. Latterly, many have assumed that a similar responsibility of the Federal Reserve System as a central bank is to maintain the fixed convertibility of Government securities.

That will not work, either. It will not work, as with the convertibility of gold, because it commits the central bank to a thick-and-thin policy; it effects the creation and extinction of central bank credit without reference to the business cycle; it contradicts the fundamental idea of central banking, to-wit and in repetition,

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the idea that economic stability should be promoted by discouraging the expansion and use of the money supply in times of boom and inflation and by encouraging such expansion and use in times of depression and deflation.

I am aware that the fundamental idea of central banking is nowadays challenged by some, not effectively challenged, I think, but challenged. It is said, for example, that economic expansion and the control of inflation by monetary means cannot be accomplished together. It is said that monetary instruments are obsolete and ineffective and that newer and better instruments, such as selective and direct controls, are available. It is said that the cost of carrying the public debt precludes the use of monetary means of inflation control; that central banking will not be able to prevent economic fluctuations, anyway. And so on.

I do not believe that there is any real contradiction between an expanding economy and the control of inflation by restraining the expansion of credit money. On the contrary, I believe that the allocation of our manpower, materials, and real capital can be best accomplished by controlling inflation, precisely by monetary means, and that in the longer run, consequently, the greatest expansion of goods and services is thus accomplished.

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Whenever an economic fluctuation has caused or is causing the appearance of unutilized resources of labor, plant capacity, and materials, then it is obviously in point to expand the supply of money, and to make borrowing and the use of money attractive. But when manpower, plant capacity, and materials are fully utilized, so that increases in the money supply through credit expansion merely serve to bid up prices—in other words, to cause an inflation—then the limiting factor to the production of goods and services is the stringency of manpower, capacity, and materials, not money. An increase in the money supply in such a situation does not add to the economic well-being or the strength of our country. If it did, then the modern age of miracles would be at hand.

If it be objected that, even so, some fractional net increment to the production of real goods and services is induced by running an inflationary fever, then I would simply reply that such additional production is gained at a wholly excessive cost to the productive efficiency of our economic and social institutions. The subsequent loss of production will shortly be far greater than any immediate and apparently expedient gain.

The additional production stimulated by inflation is achieved at the expense of applying a perfectly savage and discriminatory tax upon all those who have or must make savings in the form of

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money. The small additional production is thus gained at the cost of discouraging savings and the holding of savings in money forms. Since our economy is built to function, and function efficiently, around savings in money forms, the small production increase induced by an inflation has, on its expense side, the disruption of the economic organization—just as soon as savers catch on to what is happening, which they shortly do—and the further effect of inducing a high rate of money expenditure at exactly the time when it should be curtailed.

An inflation causes a severe misallocation of economic society's resources of real capital. The earnings of companies and industries come to depend not only on their operating efficiency but also on extraneous and uneconomic considerations. They are greatly affected by the existence or nonexistence of inventory markups; by the existence of large or small plant accounts, with depreciation on an historical cost basis; by the ease or difficulty with which their particular prices ride the crest of the advancing price wave or are inhibited by custom, law, or coinage units; and by the inclination of consumers, thinking they have a plethora of money, to engage in luxurious or ill-considered expenditure.

Thus, companies that are losing money and should be curtailing their expenses and watching their production efficiency imagine that they are making it; companies that are earning a

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meager return on their capital imagine themselves earning a satisfactory return; and companies earning a satisfactory return imagine that they are getting rich. All these are inclined to expand or to expand faster than they should, to relax their control of costs, to pay handsome bonuses, and to call in the decorators to refurbish the president's office. Just so, companies and industries whose earnings are restrained by the opposite working of the same factors will either not expand at all or expand less rapidly than they should.

The fact is, either a large inflation or a large deflation simply makes a mess of real capital allocations in any economic system. By destroying money as a reliable measure of real value and real earnings, such inflationary or deflationary developments induce capital commitments in ways that do not and cannot survive the long-run test of society's need for various goods and services in a market in which consumers are permitted voluntarily to choose the goods and services they desire.

We sadly discover this fact afterward, of course, when idle plant and equipment begin to appear and, in their train, the enforced idleness of manpower and materials incident to the dreadfully slow and painful process of readjusting capital commitments. Since economic society, even in such a relatively rich country as the United States, has no real capital to spare—there

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are still a lot of poor people—any wastage of real capital through inflation is the gravest of injuries. It far outweighs, in my judgment, the temporary fractional increases of production that may be gained by running an inflationary temperature.

There are those who believe that selective credit controls, credit rationing, direct allocation of materials and manpower, price controls, and other devices of this kind, are desirable and satisfactory substitutes, in an inflation, for general credit restraint. The contention is that general credit control is a sort of blunderbuss instrument, clumsily affecting decisions throughout the whole economic system, whereas selective, direct, and administered controls can be precisely and simply adjusted to secure a desired and specific result.

To such views I take firm exception. I am willing to concede that there may be some circumstances in which a particular, direct control instrument may be momentarily helpful. But I also believe that the burden of proof is always upon those who seek to use administered, direct controls; that their attractiveness is generally very superficial, even in situations that are apparently exigent; and that they cannot function satisfactorily to stop inflation unless they are accompanied by general credit restraint.

The administered, direct control of economic affairs is theo-

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retically neat and precise, but its neatness and precision necessarily and immediately evaporate in administrative practice. The administrator promptly finds his controls producing collateral effects that he could not foresee; and his direct control on that score has no advantage, net, as against monetary management. Actually, because the control at the beginning is established for the purpose of affecting the economy by seizing hold of only limited segments of economic operations, the control must usually be severe, and the collateral repercussions more unforeseeable and hazardous than in the case of general credit restraint, which spreads its effects more evenly, in the first place, and allows the economy in its millions of facets to make adjustments that are individually small and therefore easier.

The simplicity of administered, direct controls also evaporates in practice. The economic system daily involves millions of decisions by firms and individuals, decisions that cannot be efficiently and quickly made except with regard to the immediate economic and business environment of the firm and the individual. The administrative apparatus can have neither the detailed background, nor full enough information, nor the infinite business experience necessary to a wise adjudication of these particularized decisions; and yet it is upon the efficiency of these millions of particularized decisions that the total efficiency of the economic

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system depends. What is more, the administrative apparatus cannot have the flexibility needed to cope with the economically necessary changes and adjustments that occur from hour to hour and from day to day; and yet it is upon this flexibility that the total and continuing efficiency of the economic system also depends. Accordingly, the administrative direct control, of whatever sort or character, is compelled to proceed by rule and rote, and the administered, direct control, so logically neat in its theory, becomes in practice the blunderbuss instrument. The proponents of direct controls and critics of monetary management, in my opinion, have this matter exactly backwards.

In any event, if a selective credit control could prevent an expansion of credit to finance a particular segment of the economy, its selectivity must shortly disappear in the absence of general monetary restrictions. If one segment of the economy is restrained in the presence of cheap and unrestricted credit, then the money or credit simply flows into other segments of the economy, which in turn must be controlled . . . and in turn . . . and in turn. In an inflationary situation, in the absence of restraint by general monetary means, there can, in the end, be no such thing as a selective control.

The effectiveness of central banking powers in accomplishing the fundamental purpose that I have stated has been greatly

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disputed. I am tempted to believe that much of the dispute arises in the minds of those who are beguiled by the thought that they could administratively run the economic system better than it can be run by the democratic process of a free market. In any event, I note that much of the dispute is self-cancelling; for, on the one hand, the opinion is advanced that an increase in the cost of credit is ineffective, and, on the other hand, that it is too effective. It is argued, on the one side, that a small increase in the cost of credit will have no restraining effect, and, on the other side, that a large increase in the cost of credit will have altogether too great an effect.

The pedestrian fellow who might like to aim a few well-chosen words in defense of monetary management and central banking is thus left with a moving target, which my military friends tell me is fine tactics. For my own part, however, I wish that the critics of monetary management would make up their minds. In the meantime, I suspect that monetary management, used with timeliness and courage, can be more effective in aiding economic stability than has been commonly supposed by many people in many times and places.

When a central bank, in an inflationary situation, reduces the supply of its credit or makes the use of its credit more expensive, it does not act for the purpose of raising interest rates. Obviously,

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however, if the central bank reduces the supply of its credit available in the market, or makes the terms of its loans more restrictive, then interest rates will rise.

Equally obvious is the fact that the rise in interest rates in turn dampens down the demand for funds and the use of funds in bidding for society's real resources. If the rise in interest rates did not so act, if there remained, in short, a continuous excess of demand over supply, the increase in interest rates would be unlimited, even with a small reduction in the availability of funds. Actually, of course, this does not happen, as we well know from long experience, which should, I think, dispose once and for all of the notion that the cost of money has no influence on the demand for it and the use of it.

The central bank operations by which the availability of credit is reduced and the cost of credit is increased influence decisions in many ways. Here and there a man or a business decides that money, after all, may be valuable, and that he will save more of it. Here and there a trust committee decides that it may not be wise to run so frantically after instruments conveying real property and that it might be wise to retain a little more cash or put a little more money, say, into Government bonds. Here and there a businessman takes a more cautious and less excited view of the economic prospect. A treasurer of a company calculates his finan-

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cing charges on a project, as against its yield and the hazard of capital depreciation, and decides that the lessened difference between the cost and yield makes it less attractive than he had originally thought, and either reduces the project or abandons it altogether. The treasurer of a company that has been frantically cashing its Government bonds finds himself a little embarrassed to go before his board of directors and tell them that he has a bit of a capital loss in the portfolio; so, instead, he talks about the attractiveness of bonds at their new yields and suggests that it might be wise not to turn the bonds in to get new cash, but, rather, to restrict the company's lending activity. Perhaps a municipal bond house becomes a little less enthusiastic in encouraging the city fathers to take on a new swimming pool, or a yacht basin, or to replace the old street lights with a new and more ornamental variety. The effects are many, subtle, geographically dispersed, and, curiously, often unobserved even by those who deal with them daily or are affected by them.

The contention that big changes in the availability and cost of credit will have big and catastrophic effects and little changes will have no effect, seems to me entirely irrational. It should surely be agreed that in war-torn and poor countries changes to very high interest rates may be necessary to induce the savings required for the rebuilding of real capital equipment and to pre-

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vent inflation by making money saving more attractive and consumption less attractive. But I would presume nothing of the sort for a country such as the United States, with its relatively vast supplies of consumer goods and services and its relatively vast supply of real capital. Likewise, while I would not contend that the effects of changes in the terms on which credit is granted will be exactly proportional throughout the whole range of the interest-rate scale, it does seem to me more rational to believe that little changes will, in general, be associated with little effects and large changes with large effects.

The notion that the powers and instruments of central banking must not be used in this country because of the cost of carrying the public debt, one of the more obtrusive developments of our generation, seems to me to be a sad case of getting first things last and last things first. As has been aforetime noted by many people, a saving at the public debt spigot, if it must be done by inflationary credit expansion, loses a good deal more at the bung; for the Treasury spends many more dollars for goods, services, and supplies, the cost of which is quickly affected by inflationary price increases, than it does on carrying the public debt.

But the main point lies in another direction. The cost of servicing the public debt is not a cost to the Treasury except in a

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bookkeeping sense. The real cost is on the taxpayer, through taxes, or on the saver and holder of money, through inflation. We can take our choice, and neither is pleasant. But I believe, as I have made abundantly clear, that the real costs of inflationary finance are altogether excessive. With the money cost of servicing the public debt running at about one-fiftieth of the gross national product, I think there is a great lack of perspective, an abandonment of all sense of proportion, in emphasizing a fractional increase in public debt service as a reason why inflation should not be curbed by restraining general credit expansion, which I believe to be the most appropriate instrument for inflation control.

There are those who are insistent in pointing out that central banking cannot create perfect economic stability. They particularly suggest, for example, that a central bank, however cheap and attractive it may make its credit in time of depression, simply cannot force people to use money if they do not wish to spend it, lend it, or invest it. That is correct, though the implications of this type of argument are much overdone, I am sure. Still, if it is intended simply to say that there are and will be fluctuations in the general level of economic activity and that these fluctuations cannot be totally controlled by central banking, then the point, I think, should be instantly conceded. Nor is central banking likely

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to save us from our folly if elsewhere we deliberately adopt policies destructive of a free and competitive economy.

I, for one, believe that a certain fluctuation in the level of economic activity is probably the one constant factor in a free economic system and that, even in the regimented economies of police states, it is not eliminated but only concealed. Quite aside from the mechanics of the economic system, which are by no means completely observed, understood, or predicted, there are times when people regard all prospects as fair and all risks as worth taking. And there are other times when people rush themselves into panic and take a dim view of the entire economic universe. Then, too, political and military events, and other developments outside the limits of our own economy, often have a massive and unpredictable impact upon our own activity.

So I would want immediately to concede that central banking cannot create perfect stability, merely pausing with a reminder that nothing in this world here below is ever perfect and to urge a certain skepticism against other formulae that are alleged to promise Elysian results. But I would insist that the monetary controls involved in central banking, wisely and courageously used, can contribute much to stability as I have defined it and can, at the very least, dampen down erratic economic oscillations arising from monetary causes.

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The implication, so often made nowadays, that central banking, because it cannot promise a perfect result, is a useless and vestigial remainder from an earlier day fatigues me considerably. Much of the reasoning on this score is like the argument that the fire department should be abolished because it cannot prevent a smallpox epidemic. I am reminded of the man who had a good wife. She was a bright conversationalist; she could dance the polka; she was a good cook and housekeeper; she was cautious about his money; and withall, she performed the housewifely duty of periodically cautioning him against making a spectacle of himself in public. Still, he wanted to divorce her, because, last time she tried it, the poor girl could not lift the piano.

I do not think that central banking can lift the depression piano all by itself. I do think that it can carry the piano bench, the music rack, the music, and *its* end of the piano. That's enough to expect.

I think I should also confess that a lot of economics seems to have been invented and that I am a little behindhand, unfortunately, on the full text of the latter-day revelation. So I am still able to believe that one of the best ways of avoiding the next depression lies in preventing a preceding inflation. I have found that lassitude usually follows a fever, and that a good way of avoiding a hangover is to be less boisterous the evening before.

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II. *Some ideal characteristics of a central bank... The Federal Reserve System... Relation of a central bank to the Executive*

As your Chairman has noted, another basic issue connected with the monetary policy involves the machinery for its formulation. This issue appears in minor degree as a question of whether or not the organizational structure of the Federal Reserve System has been wisely conceived and articulated in its several parts. The issue also appears in major degree as a question of whether or not the Federal Reserve System should be made responsible to the Executive rather than to the Legislative branch of Government.

The answers seem to me quite clear. I shall try to state them with the candor that this Subcommittee would wish, and as cogently as I can.

If we were now to design a central bank established on the basis of principles promising most for its long-run success in serving the national welfare, we would almost certainly endow it with certain major characteristics. We would want it established for wholly public purposes and to be publicly accountable for its performance, and so arranged that it would be likely to take a long-run and not a short-run view of the general welfare. In connection with the national welfare, we should want the central bank to be sensitive to the interests of the American people, not only as rep-

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resented by the institution called Government but also to their interest as represented by the successful functioning of a myriad of private institutions and individual efforts, in a word, to economic society as a whole and not to any particular institution or segment of it.

Doubtless we would want the central bank to possess a considerable apparatus for the mobilization of economic and monetary intelligence; to be open to discussion and admonition from all quarters, public and private; and to guard its policy-making decisions against erratic and capricious or interested judgments. So we would want its policy-making vested in a group large enough that a variety of temperaments, professional experience, business and governmental background, and geographic environment could be represented. I believe we would want the officials of the central bank to be as able as could be mustered to its service; freed by their manner of selection from narrow political considerations; subjected to constant scrutiny of their performance; and yet given sufficient continuity in office to enable them to profit by experience. We would want our central bank to have no built-in bias either to borrowers or to lenders; but, because it must deal with credit, we would want it to have an intimate knowledge of the processes of banks, banking, and the financial world. Finally, I suspect, we would remember that wisdom is not geographically concentrated and, also remembering the size, di-

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versity, and democratic character of our country, we would want a central banking system to be regionally representative.

These are the characteristics, I think, that reflective men would desire in an American central bank if it were now to be established. To mention these characteristics, however, is almost to describe the Federal Reserve System. The distribution of authority in different degrees throughout the System; the combination of a central governmental body and decentralized public bodies; the diverse opinions and judgments that are blended into final decisions; the consideration given to regional as well as national factors in reaching policy decisions; the local interest and cooperation accorded the regional arms of the System; and numerous other characteristics all combine to support, to my way of thinking, the idea that the Congress has done an altogether excellent job of establishing an American central banking system, unusual, to be sure, in form and structure, but thoughtfully put together in a way representing a prudent and long-run view of the national interest.

It is sometimes enticing, of course, to believe that a much greater degree of centralized authority in the Federal Reserve System, vested, say, in some highly skilled central banker or executive official of government, might operate better and more quickly. The feeling is wholly natural, and I have myself been

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sometimes bemused by it when I have been unable to impress other officials of the System with the complete wisdom of my own opinions.

I think we can all agree, however, that such an organizational structure would be wholly at variance with the democratic character of our country; and, in any event, the risk is simply too great. Our Heavenly Father may have blundered in this matter, but, for reasons known only to Himself, He did not concentrate all wisdom in one place, or in one head, or a few. The democratic process of legislative and public scrutiny, and policy-making decisions resulting from the impact of many minds from many places, influenced by many considerations, will sometimes be slow and cumbersome and produce a result rather less than the heart's desire. But, I, for one, believe that in the end it is more efficient and effective, and in the long-run—and not too long, either—is better calculated to serve the national interest than more centralized and concentrated types of organization that seem to gain some advantages by losing other and, I think, greater advantages.

The Subcommittee will have noticed, naturally, that in speaking of characteristics we would want in an American central bank, I have not mentioned a mandate under the law. And yet I do believe that there must be a mandate that is clear and precise

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with reference to all of those things in which precision is possible, and that is at least clear as to purpose in those more general areas where precision of definition is not possible. If a central bank does not have a fairly clear mandate creating an understandable norm by which policy can be judged fairly and justly, it will surely be misjudged, unfairly and unjustly.

I have, myself, tried to state my understanding of the central bank's fundamental objective, but I believe that in this country we have now reached a point where the Congress might well reconsider, either by itself or through a monetary commission, the legal mandate of its central bank. I say this with full understanding of the immense difficulties of the task. But, even if, after such consideration, the law were left wholly unchanged, I think that the discussion would be immensely valuable in promoting understanding in the central bank itself, in the Congress, and in the public generally.

Be all that as it may, the real nub of the question currently involved in the formulation of monetary policy is whether or not the Federal Reserve System, wisely and in the long-run public interest, should be made responsible to the Executive branch of Government. It is my firm opinion that such a step should not be taken. I have a single, sufficient reason.

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The Congress has been compelled in the public interest to fulfill its Constitutional responsibility regarding money by regulating the terms and conditions under which money can be privately created, either through the mechanism of note issue, as in early days, or, as time has gone on, through the mechanism of deposit credit. But if it is necessary to protect the public against the unlimited creation of credit money by private financial institutions, history shows conclusively that the public interest must be similarly protected against a like abuse of the power to issue money by government itself, or, what amounts to the same thing under modern conditions, access to bank credit on its own terms. For the executive agents of government, be it remembered, are hardly ever merely passive observers of the financial scene.

Quite the contrary. They appear actively in the money market as persistent borrowers bidding for the funds that private individuals have saved or can be induced to save. If, as I believe to be true, a major objective of monetary management is to maintain the dollar as an effective and efficient measure and store of value and thereby to promote stability in the economy, then, as a matter of common sense, the adjustment of the money supply for the purpose of achieving these ends dare not be jeopardized by allowing one borrower, however important and persistent, access to bank credit on conditions determined solely by himself.

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This is dangerous business. Unless the Executive could be permanently counted on to exercise an almost superhuman will power, he could scarcely be expected to resist the temptation to supply at least a part of his needs by the easy and apparently painless device of expanding bank credit, rather than by recourse to the more difficult method of taxation or to the more troublesome method of attracting to himself, through borrowing, the voluntarily-surrendered real savings of the citizenry. I think it only prudent to judge that, sooner or later and inevitably, the borrowing Executive will yield to the temptation to set terms and conditions so favorable to himself that savers will not voluntarily surrender their funds; and then, with the greatest of good will and with no sense of malice or of evil intent, he will seek to find his supply in new issues of credit money.

This is particularly dangerous business in a democratic society if it wants to remain democratic. For as soon as government makes itself financially independent, both of the taxpayer through borrowing, and of the saver through an expansion of bank credit, it destroys a chief barrier against the almost unlimited aggrandizement of the state at the expense of the citizen. First the power of the Legislative branch and then, finally, the whole process of obtaining 'the consent of the governed' would one day founder on the fateful decision to allow the Executive to commandeer the

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peoples' savings—no doubt in small measure at the beginning, but in ever larger measure as the procedure became habitual and irresistible—either through the less subtle mechanism of currency issues or the more subtle mechanism of bank credit. If my opinion in this matter be deemed ill-founded or excessively fearful, let me refer to the fact that modern dictators, everywhere and uniformly, have used control of the banking mechanism in order to subvert the power of legislatures and parliaments and to divorce themselves from the restraining judgments of their peoples.

And so, Gentlemen of the Committee, my opinion on this fundamental issue is that it would be neither prudent nor in the long-run public interest for the central bank to be made responsible to the Executive. Such an arrangement would, in my opinion, violate the whole American conception of the function of the Executive in our governmental structure.

The founders of the Republic were thoughtful men. They were at pains to reserve sovereignty to the people of the United States, to divide the exercise of sovereign powers lest some single agency of the sovereign should be able to bring the reality of power into its own hands, and were careful to place control of the purse in the Legislative rather than in the Executive branch. I deem this arrangement to have been very wise; for, in simple

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truth, Gentlemen, the centuries-long struggle of peoples to bring the power of taxation under their own control and, likewise, to protect themselves and their money against an occasionally malicious, but often merely whimsical and ill-considered, abuse of the sovereign power is one of the longest and most savage struggles in the history of our civilization. We should not forget.

If we will but maintain them, our conceptions and basic arrangements are calculated to give us in the future, as in the past, a monetary policy that is unlikely to be perfect—nothing ever is—but, being open to constant legislative and public examination, one that is likely to possess the negative merit of not persisting stubbornly in mortal error, and the positive merit of improving as knowledge improves. If I be reminded that practically all the countries of the world have made their central banks responsible to the borrowing, executive agents of government and that we in the United States are not quite in fashion, then I can only reply that the monetary chaos exhibited in many countries of the postwar world is a sufficient admonition to us to think in the light of things eternal rather than in the light of the most recent high style.

Speaking with equal candor on the specific problem of the American central bank, the Federal Reserve System, I should like to point out that the Congress has placed in the Executive the duty of advising it on the choice of those American citizens the

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Executive considers worthy of being charged with basic responsibility for the nation's monetary policy. The Executive performs this duty through his nomination of members of the Board of Governors of the Federal Reserve System, and that Board, in turn, is equipped with powers adequate to make its policies the System's policies. I deem this relationship of the Executive to the Federal Reserve System to be entirely sufficient.

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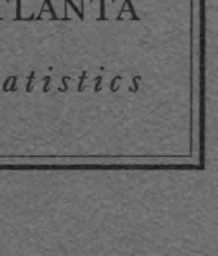
THE ALABAMA STATE DOCKS

A Case Study in State Development

FEDERAL RESERVE BANK *of* ATLANTA

Department of Research and Statistics



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THE ALABAMA STATE DOCKS

A CASE STUDY
IN STATE DEVELOPMENT

By EARLE L. RAUBER
Senior Economist

FEDERAL RESERVE BANK OF ATLANTA
JANUARY 1945

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FOREWORD

Because of the very nature of its operations, the Federal Reserve Bank of Atlanta is intimately concerned with any plan or project that contributes to the economic development of the region that it serves. As an expression of that interest, the Bank published about a year ago a pamphlet describing Mississippi's state-controlled plan for subsidizing new enterprises. The present study is an account of the experience of the state of Alabama in fostering industrial development by means of state-owned port facilities. This major industrial-promotion venture of Alabama's thus offers a contrasting and supplementary approach to the same problem that Mississippi attacked with such originality.

In publishing this study of the Alabama State Docks at the port of Mobile the Bank simply wishes to contribute to a better understanding of ways and means by which new industrial development has been stimulated. The Bank has authorized its research department to make other studies dealing with the same vital problem. These studies will be issued from time to time as they are completed.

W. S. McLarin, Jr.
President

January 1945

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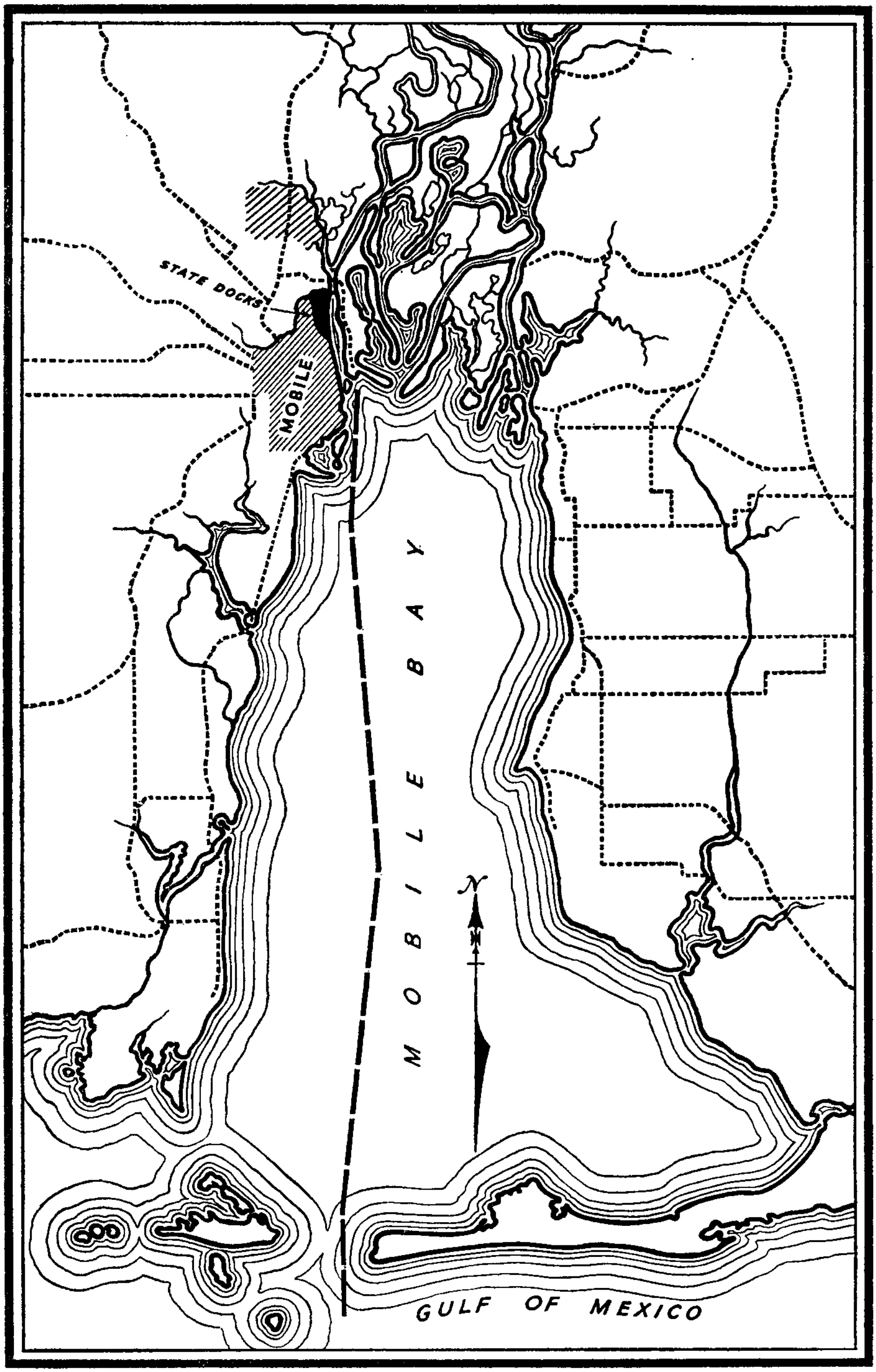

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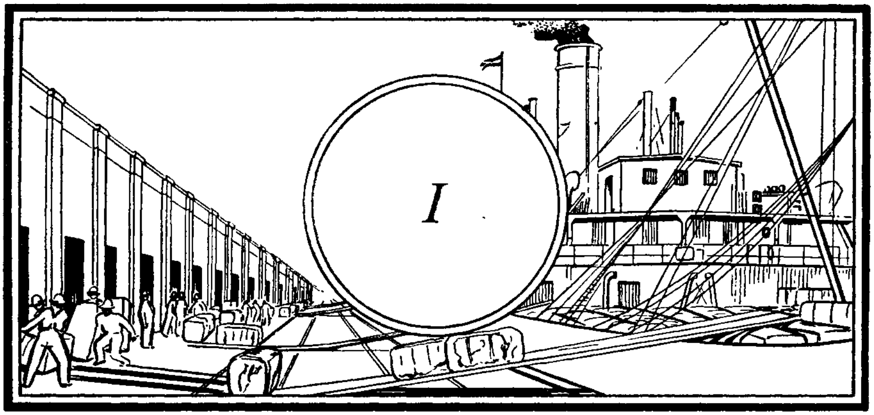

THE PORT OF MOBILE AND PLANS FOR DEVELOPMENT

The story of the Alabama State Docks and Terminals at Mobile is the story of one state's efforts to increase the utility of its only gateway to the sea in the expectation that the economic advantage of the state, as well as that of the region tributary to the port, might be enhanced. Steps taken in that direction have been justified in large measure by the results that have been achieved.

A port is fundamentally a place where a stream of traffic arising in an economic hinterland, and carried primarily by inland transportation facilities, is converted into a stream of ocean-borne traffic and incoming ocean-borne traffic is converted into inland commerce. Such conversions presuppose the existence of suitable facilities with transit sheds of adequate capacity to take care of package-freight business; open storage space at shipside ample for handling such commodities as lumber and naval stores; warehouses at shipside, or conveniently adjacent to it, of a character and a capacity suitable for the warehousing of imports and the assembling and storing of goods ultimately intended for export. These same conversions also assume an efficient system of belt-line communication for use in switching freight, at equal cost, to and from all terminals used for public transportation purposes. Any serious inadequacy of facilities hampers the free flow of commerce. A deficiency of that type reduces the utility of the port by discouraging the placing of cargo there and by making it less attractive, as a port of call, to steamship companies.

Only a few years ago, Mobile had just such a bottleneck to commerce, with a resulting loss of potential trade in the commercial region fed by the port. Since then, the state of Alabama has constructed at Mobile a

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complex of physical port facilities, modern in design and layout, for the purpose of attracting both tonnage and shipping service. These facilities were expected to increase the flow of commerce through the port and to secure whatever economic benefits might accrue from such commercial development.

Chart 1 shows the tonnage brought through the port of Mobile from 1902 to 1942. From the figures given can be inferred both the necessity for such an increase in port facilities and the foresight with which the facilities themselves were planned.

For the years 1902 to 1922 the chart discloses no increase in the use of Mobile as a port. Though fluctuations in tonnage did occur, they were mostly of a cyclic character. During the next seven years, however, the tonnage passing through the port rose sharply, and it became obvious that the facilities, which might have been adequate for the tonnage of the 1902-22 period, would become increasingly inadequate for the handling of an expanding volume of traffic. Unless the facilities were modernized and extended, the limit of the port's physical capacity would soon be reached.

Even though the docks were not formally opened until June 1928, the state had shown foresight by giving consideration to the development of the port of Mobile as early as 1915. In other words, the planning occurred well in advance of the increase in tonnage that the new enterprise might be expected to handle.

What was not foreseen, however, was the almost complete collapse of foreign trade incident to the depression that began in 1929, just at the time the new state docks were on their way to full utilization. From 1932 on, the volume of tonnage again increased, and the state docks and terminals once more had an opportunity of proving their value. The coming of war served to make of this enterprise a national asset as well as a state asset, especially in view of the Government's policy of utilizing the Gulf ports to a much greater extent than they had been used in World War I.

Docks and Wharves

The United States Army Corps of Engineers, co-operating with the United States Shipping Board, in 1922 made a survey of existing port facilities, as well as related matters, at Mobile. This survey revealed the existence of 32 piers and wharves, 2 of which were owned by the city, 15 by railroad companies, 2 by the United States Government, and 13 by private concerns. In addition to these were 17 landings, dry docks, unused slips, and slips belonging to shipbuilding companies. All piers and wharves were of pile construction, and 29 of them had railroad connections.

Of the installations owned by the city, only the Municipal Wharves, occupying a frontage of 1,500 feet along the river and having a depth of 120 feet, were of any significance. These wharves possessed two open transit sheds, one of steel and the other of wood, the wooden shed being much the smaller. The municipal wharves were used to handle river,

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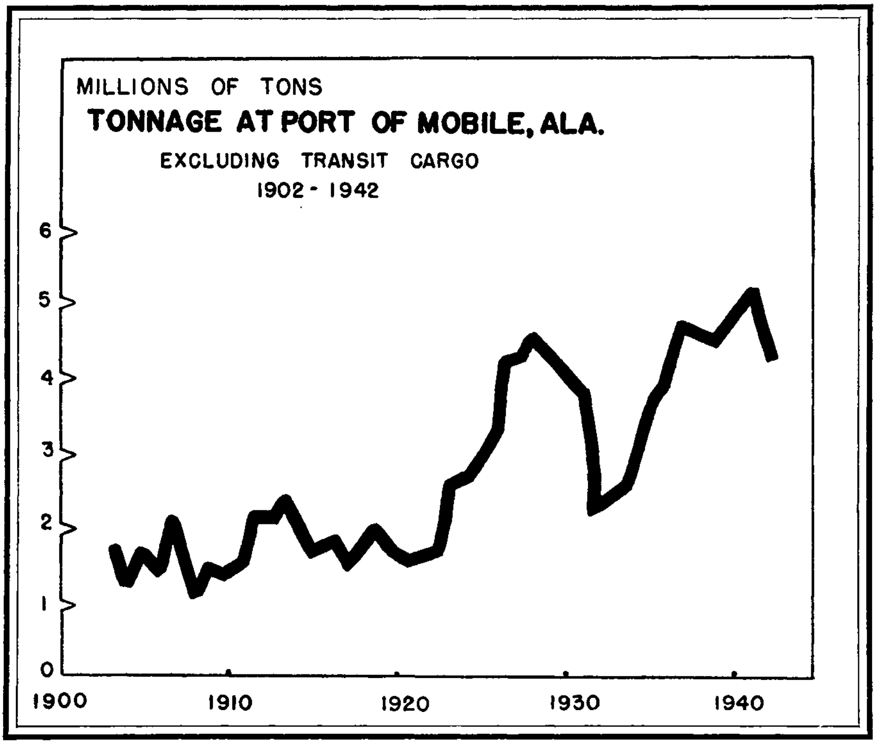

CHART 1

coastwise, and export cargo, but their usefulness was limited by the absence of warehouses in the immediate vicinity for the indefinite storage of cargo. The other municipal facility, the so-called Arlington Pier, was never completed, or used, because of the ravages of tropical storms upon the fill and even upon the apron of the wharf.

Of the two federally owned facilities, one was a coal- and ore-handling plant on Blakely Island, for the use of the Inland and Coastwise Waterways Service. But this plant had berthing space of only 500 feet. The other was an oil-storage and bunkering plant of the Emergency Fleet Corporation with a 394-foot berthing space. Neither of these facilities had rail connections.

Seventeen wharves and slips belonged to dry-docks and shipbuilding companies. These wharves were used in connection with the specific operations of the companies that owned them.

Of the privately owned facilities, the three piers of the Turner Terminal Company were the most important. Over these docks moved general cargo, naval stores, cotton, sisal, staves, and lumber. The nine other privately owned facilities, with the exception of the ships' fuel-oil docks belonging to the Texas Company and the Gulf Refining Company, did not handle exports or imports to any considerable extent.

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The remaining facilities, owned by the railroads, were the most important. Of the railroads, the Mobile and Ohio Railroad Company owned four piers: one had a grain gallery; one was used for receiving bananas and general cargo; one for general cargo; and one for handling and storing fertilizer, asphalt, and general cargo. Two piers for general cargo were owned jointly by the Mobile and Ohio Railroad and the Southern Railroad. In addition, the Southern Railroad owned two piers: one was leased to the Mallory Steamship Company; the other was used for bunker and cargo coal. The Louisville and Nashville Railroad Company operated a coal dock and owned marginal wharfage and trackage but made little use of any of these except the coal tipple. This tipple was to be seriously damaged by fire in 1933 and was not to be rebuilt, the railroads serving Mobile preferring to use the modern tipple provided by the state. Finally, the Gulf, Mobile and Northern Railroad had two piers from which were handled logs and lumber.

Most of the facilities usable for export and import traffic were those constructed by the railroad companies. Although these railroad docks were adapted to the purpose for which they were intended at the time of their original construction and were suitable for handling low-grade freight, they were rapidly becoming obsolete and unsuited to the use of larger ships. As a rule, none of them was sufficient for the berthing of more than one ship at a time, and the slips between them were frequently so narrow as to make impossible the berthing of two steamers at adjacent piers with proper regard for navigation and for bunkering or loading cargo to or from barges alongside.

At the time of the survey in 1922, the existing dock facilities were clearly incompatible with any large-scale growth of high-grade traffic through the port of Mobile. The need for more adequate accommodations was obvious.

Storage and Warehousing

One of the major considerations in the routing of high-grade cargo is the storage facilities available at a port. Moreover, such storage or warehousing facilities, to be of the greatest service, should be at shipside. Mobile, however, had only one shipside warehouse, providing 137,500 square feet of floor space with a floor-load of 1,000 pounds a square foot. This was the warehouse of the Turner Terminal Company. Though the city had six other warehousing concerns, providing 660,000 square feet of additional floor space with a floor-load of only 200 pounds a square foot, these facilities lay from one to three blocks away from the docks or wharves and their use entailed expenses of drayage and additional handling.

At the railroad docks, storage cargo was typically carried in railroad cars. Such storage was unsatisfactory and uneconomical in several respects. The more modern ships, involving overhead and operating charges ranging from $1,000 to $1,500 a day, demanded expeditious loading and unloading if a call at a port was to be profitable. Where inadequate sheddage is

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provided at shipside and where all the cargo, or most of it, has to be loaded or unloaded directly between cars and ships, time is lost in the spotting of cars. In such cases, the cars themselves are tied up when they are used for storage purposes. Although in normal times the greater part of cargo passing through the port of Mobile still moves directly from cars on marginal tracks to ships, ample transit-shed space is now provided at shipside for the handling of that part of the cargo not going directly to the ship from the cars. In the case of inbound traffic, these sheds also facilitate expeditious loading out to the interior. When the survey was made, however, so inadequate were the railroad docks in this respect that some shipping companies preferred to use private docks and pay dockage charges than to use the railroad terminals, which made no charge for dockage.

Mobile clearly suffered a handicap in securing any large volume of domestic or foreign commerce, because of the insufficiency of storage facilities at the waterfront.

Commerce

The character of the port facilities at Mobile went far to determine the kind of commerce that could move profitably through the port. This commerce, both foreign and domestic, consisted largely of bulk commodities of low value.

For the period 1916-20, blackstrap molasses used in the manufacture of cattle feed had constituted 36.8 per cent of the foreign imports; bananas had constituted 21.7 per cent. The next most important product imported was sisal grass, constituting 3.1 per cent of the total. In the export trade, lumber and its products had amounted to 53.6 per cent, whereas lumber together with iron and steel and coal had constituted 70.8 per cent.

Of the domestic receipts, 44.8 per cent was lumber and its products; 18.2 per cent petroleum and its products; 15.9 per cent coal; and 15.0 per cent sand and gravel. Coal made up 47.5 per cent of domestic shipments; lumber and its products 19.4 per cent; feed, hay, and grain 10.8 per cent.

The impression conveyed by the survey was that the port facilities in Mobile in 1922 were generally inadequate for any large growth in commerce. In summarizing the situation, the Army Corps of Engineers said that:

> If the port of Mobile is to offer better service to the country in handling the increasing quantities of exports originating in the productive territory in and adjacent to the Mississippi and Ohio Valleys and in distributing the imports which must constitute the return cargoes of vessels operating at the port, a project must be formulated and adequate facilities provided.

The Building Agency

The 1922 report of the United States Army Corps of Engineers established the necessity for new dock and terminal construction at Mobile, if this

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port was to reap the advantages of its location with respect to its export and import tributary territory. In fact, the need was obvious to all informed observers. The important question was: Under what auspices would new construction be undertaken? In other words, what agency was in the best position to undertake a project of such magnitude—the city of Mobile, the railroad carriers that had played an important part in dock construction in the past, the steamship companies, the private dock and terminal companies, or the state?

For the city to undertake such a project was impossible, since a program that would really remedy the situation was beyond the city's financial ability. Moreover, nearly a million dollars had already been spent and virtually lost on the ill-fated Arlington Pier.

Little could be expected from the railroads, and for a good reason. The docks and terminal facilities under their control were used primarily for handling traffic coming over their respective lines, and the railroads looked to their line hauls for their profit rather than to their docks and terminals. In effect, these carriers were giving away the services of the docks in the expectation of recouping the loss in the freight rate. The Louisville and Nashville Railroad, for example, made no dockage charge against a vessel while it was loading or unloading, although a charge of one cent a gross registered ton a day might be levied for additional days. The Gulf, Mobile and Northern Railroad provided berthing space only for vessels that were loading or unloading and made no charge for dockage. Likewise, the Mobile and Ohio Railroad made no dockage charge against vessels loading or unloading cargo received or shipped over its rails.

The result of such practices was that the operations of the docks and terminals, considered apart from the rail operations, were not remunerative. For example, in 1924 a total of 3,166,389 tons moved over the terminals of railroad carriers at Virginia, South Atlantic, and Gulf ports. The expenses of these terminals, including interest but excluding handling, amounted to $4,565,340, or $1.44 a ton. Revenue, other than that from handling, amounted to $621,682, or 19 cents a ton. These railroads were virtually selling what cost them $1.44 for only 19 cents, thus sustaining a loss of $1.25 a ton.[1]

In the case of railroad terminals at Mobile, in 1924 the Southern and Mobile and Ohio terminals had expenses amounting to 48 cents a ton, whereas they recovered only 30 cents a ton as revenue. The Louisville and Nashville had expenses of $1.34 and revenue of only 15 cents a ton. The Gulf, Mobile and Northern had expenses of 95 cents and revenue of 82 cents a ton.

In view of the unremunerative nature of their existing investment in docks and terminals, the rail carriers would obviously feel no incentive

[1] Interstate Commerce Commission Docket 12681, 1924, Consolidation of Carriers' Exhibits, Exhibit A.

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to consider seriously the expenditure of an estimated four to five million dollars for modernization of their terminal properties.

The railroads' practice of using their terminal facilities as a device for the "buying" of line-haul freight also discouraged the construction of docks by private capital. If it was to stay in business, a private terminal company had to make expenses at least and would be in no position to compete with railroad terminals that were consistently operated at a loss. Consequently, no indication that any private capital was prepared to remedy Mobile's deficiencies in the way of dock and terminal facilities was apparent.

In their search for cargo, steamship companies will tend to go to the nearest port that has facilities enabling them to make the quickest turn-around. It is to their interest that such facilities be made available. But many of the lines are foreign owned, and these naturally would not invest in terminals so far from their home ports. On the other hand, American lines, whose business and ports of call are subject to change, would be very reluctant to invest in a terminal at any one port, and they could scarcely be expected to build terminals at every port they might use.

If, it was reasoned, the recommendations of the Army Corps of Engineers were to be carried out and if the city could not, if the railroads and steamship lines would not, and if private capital dared not do so, the only agency remaining to carry through such a program of extension and modernization was the state of Alabama.

Legislative Steps

The idea that the port of Mobile should be improved by the construction of modern dock and terminal facilities under state auspices did not, of course, originate with the 1922 report of the Army Corps of Engineers. It originated several years before the survey was made.

The Alabama legislature in 1915 passed a measure creating a State Harbor Commission. The commission was given authority to engage in the work of port improvement and to finance itself by the sale of bonds.[2] This act, however, was in conflict with the 1901 constitution of Alabama.[3] Reiterating a prohibition contained in the 1875 constitution,[4] the 1901 document provided that:

> The State shall not engage in works of internal improvement nor lend money or its credit in aid of such; nor shall the State be interested in any private or corporate enterprise, or lend its credit to any individual, association or corporation.

Obviously, if the intention of the state as expressed in the new act was to be carried out, the Alabama State constitution itself would first have to be amended.

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[2] *General Acts of Alabama,* 1915, No. 628.

[3] *Constitution of Alabama of 1901,* art. IV, sec. 93.

[4] *Constitution of Alabama of 1875,* art. IV, sec. 54.

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Congress gave impetus to the demand for state action by a declaration of policy in the rivers-and-harbors appropriation act for 1919.[5] The Congress there expressed itself as follows:

> It is hereby declared to be the policy of Congress that water terminals are essential at all cities and towns located upon harbors or navigable waterways, and that at least one public terminal should exist, constructed, owned, and regulated by the municipality or other public agency of the State and open to the use of all on equal terms, and with the view of carrying out this policy to the fullest possible extent, the Secretary of War is hereby vested with the discretion to withhold, unless the public interests would seriously suffer by delay, moneys appropriated in this act for new projects, adopted herein, or for the further improvement of existing projects, if, in his opinion, no water terminals exist adequate for the traffic and open to all on equal terms, or unless satisfactory assurances are received that local or other interests will provide such adequate terminal or terminals.

The municipal wharves might have satisfied the intention of Congress in virtue of their existence but certainly could not have done so in virtue of their adequacy. Mobile was threatened with the loss of Federal expenditures for harbor improvement unless something was done to create such public terminals as Congress demanded.

With this prod from Congress, an amendment to the constitution of Alabama was proposed to the voters in 1920. Although supported by Birmingham industrial interests, as well as by interests intimately associated with the port, this amendment was defeated at the polls. The defeat resulted partly from railroad opposition and partly from the fear of voters in more distant parts of the state that they would be taxed for the benefit of Mobile alone.

After two years of public education and at the behest of Governor Thomas E. Kilby, the legislature[6] again submitted to the voters of the state an amendment to section 93 of the constitution of Alabama. The change would enable the state:

> . . . when authorized by appropriate laws passed by the Legislature to engage in the work of internal improvements, of promoting, developing, constructing, maintaining and operating all harbors and seaports within the State or its jurisdiction at a cost not exceeding ten million dollars.[7]

Opposition to the state's program for harbor improvement had virtually disappeared by 1922. In that year, the amendment was carried almost unanimously at the polls.

The following year, the legislature passed an enabling act[8] giving force

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[5] *Act March 2, 1919,* c. 95, sec. 1, 40 Stat. 1286; 33 U. S. C. A., sec. 551.

[6] *General Acts of Alabama,* 1921, p. 1.

[7] *Constitution of Alabama of 1901,* Amendment XII.

[8] *General Acts of Alabama,* 1923, No. 303.

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to the new amendment. This act set up the State Docks Commission in lieu of the previously existing State Harbor Commission, specified the general administrative functions of the new body and provided for the appointment of its officers and employees. It then proceeded to confer upon the new commission the "power to promote, construct, operate, and maintain wharves, piers, docks, quays, grain elevators, cotton compresses, warehouses, and other water and rail terminals and other structures and facilities for the aid of commerce." Similar powers were granted for the construction and operation of terminal railroads and facilities. The title to all such properties was vested in the state, but the control was placed in the hands of the State Docks Commission. The enabling act further provided for the method by which the enterprise should be financed.[9] With the passage of this enabling act, the state of Alabama was prepared to launch out upon its new venture in the creation of a public enterprise.

[9] See Financing the Project, p. 15.

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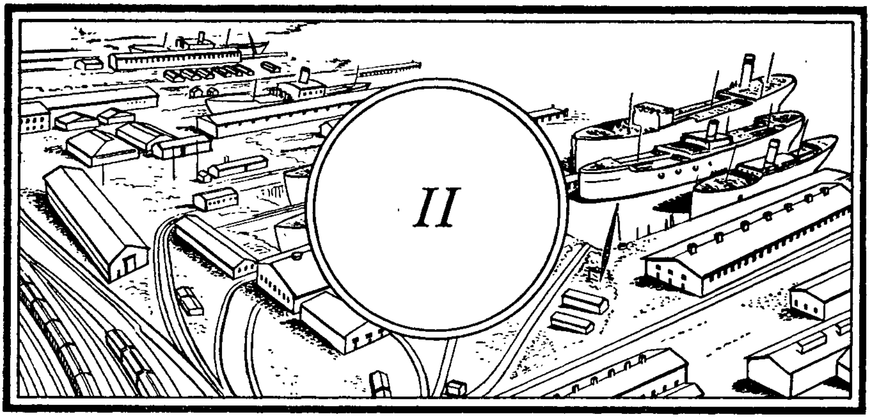

ADMINISTRATIVE HISTORY

Four well-defined periods mark the administrative history of the Alabama State Docks. These periods are: 1923-27, 1927-35, 1935-39, and 1939 to the present. The demarcation of the periods has been occasioned by changes in the law under which the docks are operated.

First Period: 1923-27

The enabling act of 1923 provided for an administrative authority, to consist of three men appointed by the governor. These men were to serve without compensation except for travel money and were to have no financial interest in any harbor facilities. No two were to be appointed from the same congressional district. Though the term of office was fixed at five years, members of the first commission were to serve for two, three, and four years, respectively.

The law provided that the governor "may" appoint, in addition to the State Docks Commission, a board of censors, to consist of three men, one of whom should be an engineer and one an architect. This board, together with the examiner of public accounts, was to review the activities of the docks commission at least once between January 1 and July 1 of each year, and again between July 1 and December 31. It was to report to the governor any criticisms and suggestions that seemed appropriate. Such a board of censors, constituted according to the provisions of the law, was appointed only once and then only at the insistence of General Sibert, who, just before retiring, wanted the board to pass on what had been accomplished.

The first State Docks Commission was appointed in 1923 by Governor William M. Brandon. It consisted of Frank G. Blair, a businessman of Tuscaloosa, appointed for four years; George Gordon Crawford, a

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Birmingham industrialist, appointed for three years; and Charles Henderson of Troy, a former governor of Alabama, appointed for two years.

On successive appointments, Mr. Henderson served on the commission until his resignation on September 14, 1929, and Mr. Blair served until he resigned on September 21, 1935. Mr. Crawford, however, held office only until November 1923, when he relinquished the chairmanship of the commission to make way for General William L. Sibert.

General Sibert was an Alabamian and a retired United States Army engineer. He had distinguished himself as commander of the First Division, A.E.F., in World War I. General Sibert was more especially known through his activity as a cobuilder of the Panama Canal, being chiefly responsible for the construction of the Gatun locks and dam. Through the persuasion of Governor Brandon and Mr. Crawford, he was induced to emerge from retirement in order to accept the chairmanship of the commission along with the joint position of chief engineer and general manager. To his vision, engineering ability, and sense of economy is attributed the present technical excellence of much of the state's present layout of docks and terminals.

Second Period: 1927-35

The law was amended by the legislature in 1927 to make possible the filling of vacancies on the commission by the vote of the remaining members.[10] The commission thus became a self-perpetuating body. Under the terms of this amendment, Richard A. Christian, a Mobile businessman, was elected in 1929 to succeed Mr. Henderson and Temple W. Tutwiler, a Birmingham industrialist, in 1931 to succeed General Sibert.

The amendment was an effort to put the administration of the state's docks on a basis analogous to that of the state university, which was also administered by a self-perpetuating board. This change was designed to remove the administration of the docks from the political influence of successive governors.

B. M. Miller, the Governor of Alabama, in 1932 called on the Brookings Institution of Washington, D. C., to make a thorough survey of the organization and administration of the state government. In their report, the investigators pointed out, with regard to the state docks, the generally unsatisfactory nature of a self-perpetuating board as a form of business administration. Such a board lacks centralized authority and responsibility, which are so necessary in the conduct of a business enterprise. Furthermore, an opportunity is presented for two members of the board to place a personal friend upon the commission without regard to his fitness. This danger, always present in connection with a self-perpetuating board, is especially serious, it was held by the investigators, when the board is small, as it was in the case of the State Docks Commission. It so

[10] *General Acts of Alabama,* 1927, No. 1.

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happened, however, that the state docks escaped this danger because only two vacancies were filled by that method and the new incumbents in both cases were men eminent for their business ability and public spirit.

Marion M. Caskie, later a member of the Interstate Commerce Commission and now a vice president of the Reynolds Metals Company, was appointed general manager by the State Docks Commission upon the retirement of General Sibert in the fall of 1931. Mr. Caskie resigned two years later to become the Southern Traffic Assistant to Joseph B. Eastman. then the Federal Coordinator of Transportation. From that time until the fall of 1935, C. E. Sauls, with the title of assistant general manager, acted in the general manager's place in operating the docks under the direction of R. A. Christian, chairman of the commission, who handled the finances.

Third Period: 1935-39

With the election of Governor Bibb Graves for his second term (1935-39) after a heated campaign, the three commissioners then in office resigned as of September 21, 1935. At the governor's insistence, the legislature had once more made the commission a body appointive by the governor, with the governor himself serving as chairman of the commission.

Governor Graves appointed General R. E. Steiner, an outstanding railroad attorney of Montgomery, as vice chairman, and to the other two posts he named Robert I. Ingalls, a Birmingham industrialist, and Frederick I. Thompson, a publisher and a former member of the United States Shipping Board. R. M. Hobbie of Montgomery was appointed as general manager. The only subsequent change in the composition of the commission made during the Graves administration was the appointment of Frank P. Folmar of Mobile in June 1938 to fill Mr. Thompson's unexpired term, the latter having resigned.

Despite the generally recognized ability of the commissioners, clashing personalities seemingly produced a great amount of internal wrangling within the commission. The vice chairman was accused in the press of periodically resigning or threatening to resign in order to force the other members of the commission to accept his policies. Sometimes, too, it was charged in the press, he undertook to put through his own policies in defiance of the opposition of his colleagues and without always consulting them. Generally speaking, this period was the least satisfactory from an administrative standpoint in the entire history of the state docks. Nevertheless, in spite of the apparent confusion, substantial good was accomplished both in the way of the docks' becoming more nearly self-sustaining and in the locating of important industries within the vicinity of the docks.

Fourth Period: 1939 to the Present

The internal friction in the commission during Governor Graves' second administration made the conduct of the state-docks business one of the

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issues in the gubernatorial campaign preceding the election of Frank M. Dixon. Governor Dixon took cognizance of the situation in his address to the legislature by declaring that:

> As is usual with administrative boards, the State Docks Commission has not operated as a commission. One member has been forced to assume charge, to make decisions, and to operate the Docks. Jealousies and friction brought this condition about and the business of the Docks has suffered.

The remedy proposed by the newly elected governor was to abolish the commission form of administration and to substitute for it a state department. This change was accordingly made by the legislature.[11]

Under the 1939 act, the Alabama State Docks Commission became known as the Department of State Docks and Terminals and the director of the department, appointed by the governor, was to exercise all powers and authority heretofore possessed by the commission. The power to appoint a secretary-treasurer and all other employees needed for the management and operation of the docks was also given to the director. His compensation was to be fixed by the governor, at not more than $6,000 a year, and he was directed to report monthly to the governor on all his official activities as well as to make a full report to each session of the legislature.

The first incumbent of the directorship was C. E. Sauls, who still retains this position. Mr. Sauls was no newcomer to the state docks but had been associated with the organization since 1925, helping to build the docks and serving as assistant general manager for many years.

In addition to making provision for the director of the department, the act provided for an advisory board made up of the governor (ex officio), the director of the Department of State Docks and Terminals (ex officio), and three others appointed by the governor to serve without compensation, except for a per diem of $15 and traveling expenses. This board is purely advisory and meets only upon call of its ex officio chairman, the governor. As a matter of practice, the board is called into session only once or twice a year, on particularly important matters, most policy matters that are not handled immediately by the director being settled by consultation between the director and the governor. The present advisory board, besides Governor Sparks and the director, consists of G. H. Lanier, president of the West Point Manufacturing Company, Lanett, Alabama, whose term expires in 1949; Robert Gregg, president of the Tennessee Coal, Iron and Railroad Company, Birmingham, Alabama, whose term expires in 1945; and N. Floyd McGowin, president of the W. T. Smith Lumber Company, Chapman, Alabama, whose term expires in 1947.

Seven officers are immediately responsible to the director in the existing organizational setup: the secretary-treasurer, J. H. Bruce; traffic assistant

[11] *General Acts of Alabama,* 1939, No. 12.

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in charge of solicitation, M. C. Cunningham; traffic assistant in charge of rates and local solicitation, R. A. Alvarez; operating assistant and superintendent of the terminal railway and the bulk-material-handling plant, C. U. Irvine; engineering assistant in charge of land, insurance, contracts, and other general matters, L. H. Parrott; the harbormaster, Captain C. H. Smith; and the attorney (part-time), T. E. Twitty. Serving under the operating assistant are the operating executive officers in charge of the various units. These officers are M. A. Sproles, in charge of wharves and warehouses; George Gray, cotton warehouse; W. A. Carmichael, Jr., cold-storage plant; and J. P. Turner, bulk plant. The group also includes the purchasing agent, P. A. Sapp, and the heads of the maintenance and police departments.

All employees of the State Docks, except the director and the employees of the terminal railway, are, of course, subject to the provisions of the state's merit system.

Most of the men now holding the administrative positions have been associated with the docks for many years and have come from employment in closely related industries. They are, therefore, men of experience. For this reason, it is not surprising that the present conduct of the department compares favorably in efficiency and smoothness of functioning with that of any other well-managed business and thus justifies the change that was made in 1939.

Conclusion

That the state of Alabama finally achieved a sound form of business organization for its docks-and-terminals system and avoided the dangers inherent in the commission form of administration is largely to be attributed to the kind of men who were chosen to serve as commissioners. In those periods when the commission was appointive by the governor, the docks administration could easily have become a haven for political appointees. The commissioners could readily have brought personal friends, regardless of ability, into their ranks when they were a self-perpetuating body. Divided counsels might have occurred more frequently within the commission and thus frustrated the carrying out of any consistent policy of development. These dangers were largely avoided through the sound business sense and public spirit of the men who served as commissioners. The quality of the various commissioners also made it possible to retain in the state's employ a staff of operating executives upon whose shoulders rested the practical problems involved in the management of a highly complex business.

With the wrong men at the top, the services of experienced men at the operating level might easily have been lost and their places taken by men of less experience or men chosen for their politics rather than for their ability. That this state enterprise escaped these dangers to so large an extent and emerged at last with a form of organization comparable in efficiency with well-conducted private enterprises was indeed fortunate.

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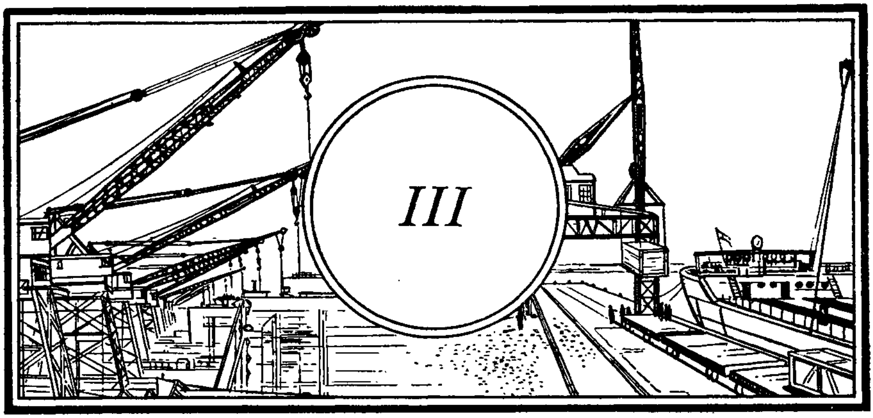

FINANCING THE PROJECT

The fear of unwise and extravagant use of state funds, born of bitter historical experience, was reflected in the constitutional prohibition on the spending of state money or the lending of state credit in aid of internal improvements. This fear reappeared in the constitutional amendment of 1922 in the form of a limitation on the amount to be spent for the construction of state docks that the revision allowed.[12] The aggregate cost of the project was not to exceed 10 million dollars. This limitation, of course, was made effective in the 1923 enabling act.

According to the enabling act, the governor, with the advice and concurrence of the State Docks Commission, was authorized to execute and sell the state's bonds in an amount not exceeding the constitutionally prescribed 10 million dollars. Such bonds, designated as state harbor-improvement bonds, were to be issued in thousand-dollar denominations or multiples thereof, were to bear interest at not more than 5 per cent, and were to be sold at not less than par.

The bonds were made noncallable, a provision considered by some competent authorities as the gravest mistake made in the financing of the docks. The effect of this stipulation was to prevent the refinancing of the bonds at the lower rates of interest that subsequently came to prevail. The element of rigidity thus introduced into the docks financial operations has no doubt seriously impeded the administration in its efforts to make the docks entirely self-supporting.

The emission of the bonds was to occur only when money was actually needed to carry forward the work authorized by law, the act providing that only five million dollars worth of bonds could be sold, and the proceeds from the sale used, until such time as the facilities built

[12] *Constitution of Alabama of 1901,* Amendment XII.

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TABLE 1

EMISSIONS OF BONDS SINCE PASSAGE OF 1923 ENABLING ACT

(Terms of payment, $25,000 annually)

No. of Issue	*Date of Issue*	*Amount of Issue*	*Rate of Interest*	*Period of Payment*	*Premium*
1	June 1, 1924	$1,000,000	4½	1934–73	$28,500
2	Dec. 1, 1924	900,000	4¼	1934–69	4,525
3	Jan. 1, 1926	1,100,000	4¼	1933–76	2,650
4	June 1, 1926	1,000,000	4¼	1936–75	11,100
5	Dec. 1, 1926	1,000,000	4¼	1936–75	300
6	May 1, 1927	1,000,000	4¼	1937–76	32,200
7	Sept. 1, 1927	1,000,000	4¼	1937–76	17,100
8	Dec. 1, 1927	1,000,000	4¼	1937–76	64,050
9	Dec. 1, 1927	1,000,000	4¼	1937–76	
10	Apr. 1, 1928	1,000,000	4¼	1938–77	24,001

with these funds had earned enough to return 5 per cent on the investment. Furthermore, each issuance was to be in an amount no more than necessary to take up any current indebtedness and to pay the cost of carrying out plans that had been submitted to the governor and approved by him.

Bonds issued under the authority of this act were to mature within 50 years and were to be payable in equal annual instalments. The first of these instalments was to mature no later than 10 years from the date of issuance.

It was provided by the law that the revenues arising from the operation of the properties acquired or constructed should be used to pay operating expenses and, in addition, interest on the outstanding bonds as well as maturing instalments of the principal. But the payment of interest and principal was not dependent upon the sufficiency of such funds. If at any time these funds were insufficient for the purposes indicated, the deficiency was to be made up by the state treasurer from funds not otherwise appropriated. In other words, the harbor-improvement bonds were obligations of the state and not merely of the State Docks Commission or, subsequently, of the Department of State Docks and Terminals; the full faith and credit of the state were pledged for the payment of interest as well as principal.

In all, 10 emissions of bonds have been made since the passage of the 1923 enabling act. They are described in table 1. That the pledging of the state's full faith and credit for the payment of interest and principal on these successive emissions of bonds made them readily

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marketable to banks and various investment houses is evidenced by the premiums, often of substantial amounts, that they commanded.

During the years of construction, of course, the docks did not earn enough to meet expenses and pay interest on outstanding bonds. Up to the end of the fiscal year of 1928, September 30, therefore, accruing interest was paid entirely from bond proceeds. For the fiscal year 1929, however, although $86,379 interest was still being paid from bond proceeds, the State Docks Commission was able to turn over to the state treasurer a total of $72,000 out of earnings for this purpose. But the state in that year had to make up a deficiency of $269,120 out of other funds. From 1929 to the fiscal year beginning in 1936, although the State Docks Commission was able to remit substantial sums (approximately a quarter of a million dollars a year) on account of interest on bonds, the state also had to pay out large sums on account of interest as well as bond retirements that became effective in fiscal 1933.

For the fiscal year ending September 30, 1936, the State Docks Commission paid interest charges in full, and it has continued to do so every year since that time. The state, however, bore the full burden of bond retirements up to the fiscal year 1943, when the Department of State Docks and Terminals paid $125,000, half the liability, out of earnings on this account.

During the whole period of 1924-43, the state of Alabama has paid out a total of $3,208,902 on account of the state docks. Of this total, payments on account of interest charges amounted to $1,408,902 while payments for bond retirements amounted to $1,800,000.

When the Brookings Institution made its investigation of the Alabama State government in 1932, the report with respect to the state docks read:

> Whether the construction and operation of harbor facilities at Mobile are of sufficient benefit to the people of the state as a whole to justify the comparatively large indebtedness incurred is a question which need not be here discussed. It does not seem probable that the State Docks will be able out of their earnings to pay for maintenance, operation, and necessary additions and as well to provide either for the service of the debt or for depreciation.[13]

As table 2 shows, the dubious forecast of the Brookings Institution has been justified only in part. From the beginning of their operation, the Alabama state docks were able, out of earnings, to pay operating expenses and provide for additions and betterments to the properties and, at the same time, pay substantial sums toward interest up to the fiscal year 1936. Since that year, they have been paying interest charges in full; from 1939 on, they have charged full depreciation on their books; and they shared equally in 1943 with the state in the burden of bond retirements.

[13] Brookings Institution. Institute for Government Research. *Report on a Survey of the Organization and Administration of the State and County Governments of Alabama. Submitted to Governor B. M. Miller, 1932,* II, Part I, 128. (Washington, D. C., Brookings Institution, 1932).

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TABLE 2

STATEMENT OF BOND INTEREST AND RETIREMENT MATURITIES, WITH AMOUNTS PAID THEREON BY STATE DOCKS COMMISSION AND BY STATE OF ALABAMA FOR FISCAL YEARS ENDED SEPTEMBER 30, 1924-43

Year	*Interest*	*Retirement*	*Total*	*Paid by State Docks Com.*		*Paid by State*
				From bond proceeds	*From earnings*	
1924	....	....	....	....	....	....
1925	$ 64,125	....	$ 64,125	$ 64,125	....	....
1926	106,625	....	106,625	106,625	....	....
1927	215,000	....	215,000	193,750	....	$ 21,250
1928	342,500	....	342,500	342,500	....	....
1929	427,500	....	427,500	86,379	$ 72,000	269,121
1930	427,500	....	427,500	....	183,875	243,625
1931	427,500	....	427,500	....	253,813	173,688
1932	427,500	....	427,500	....	227,500	200,000
1933	426,968	$ 25,000	451,969	....	242,844	209,125
1934	425,906	50,000	475,906	....	275,531	200,375
1935	423,188	75,000	498,188	....	254,625	243,563
1936	419,938	100,000	519,938	....	419,938	100,000
1937	414,563	175,000	589,563	....	414,563	175,000
1938	405,469	250,000	655,469	....	405,469	250,000
1939	394,781	250,000	644,781	....	396,625	250,000
1940	384,094	250,000	634,094	....	384,094	250,000
1941	373,406	250,000	623,406	....	373,406	250,000
1942	362,719	250,000	612,719	....	362,719	250,000
1943	352,031	250,000	602,031	....	477,031	125,000
Less amount remitted in excess of interest maturities in 1939						—1,844
Total	$6,821,313	$1,925,000	$8,746,313	$793,379	$4,744,031	$3,208,902

Total interest for the above period		$6,821,313
Total bond retirements		1,925,000
Total interest and bond retirement		$8,746,313
Interest paid from proceeds from bonds	$ 793,379	
Interest paid from earnings	4,619,031	
Interest paid by state	1,408,902	
Principal paid by state	1,800,000	
Principal paid from earnings	125,000	$8,746,313

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Whether the amortization of the original investment is a charge that should properly be considered before determining the economic justifiability of a public enterprise such as the state docks is debatable. Private enterprises are not in the habit of justifying their existence only when they amortize their original capital. Whatever the state has laid out in the form of amortization payments in the past, or will lay out in the future, represents an equity in an asset, which in 1943 earned $378,001 net (after depreciation and interest) from its original units on an investment of 10 million dollars. If both the original units of the system and certain leased units, which are discussed later,[14] are considered, the net earnings after depreciation and interest in 1943 amounted to $567,326 on an original investment of 10 million dollars.

This record has been achieved during a period when the most disastrous economic collapse in modern times occurred. Moreover, some of the measures taken on behalf of recovery during those years, such as the restriction of cotton production, affected the docks adversely, and, in the same period, United States neutrality legislation blacked out one foreign-trade area after another.

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[14] See discussion, pp. 23, 26.

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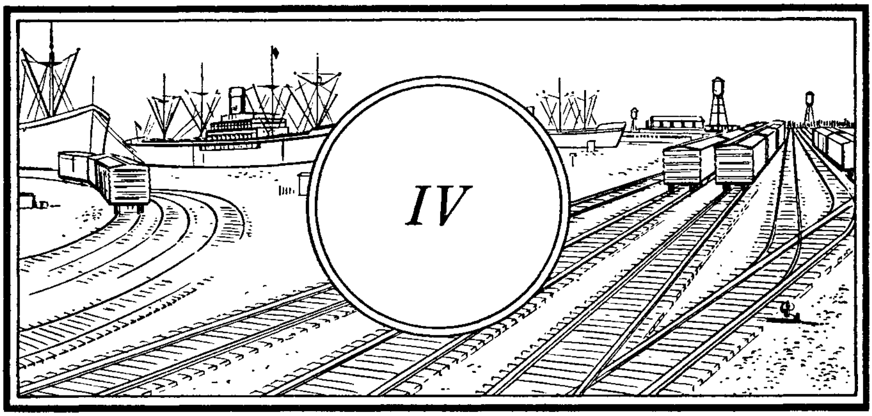

GROWTH OF THE PLANT

Before the dedication of the Alabama state docks in 1928, an event that marked a milestone in Alabama's commercial development, four years of construction were carried on under the supervision of General Sibert. During the course of this activity, the face of the land affected was literally transformed.

Three possible locations for the docks project were considered, the best of the three being one along the Mobile River just north of the city. The possibility of using this site depended upon whether tracks of the Louisville and Nashville Railroad that hugged the west shore of Mobile River could be relocated to the westward. This land's usefulness was also impaired by the fact that One Mile Creek cut across it before emptying into the river. Though they lay within the city limits, the three sites were essentially all swampland, except for the south bank of One Mile Creek and a portion of the south bank of Three Mile Creek. To make the preferred location or any of its alternatives usable, the level would have to be brought above that of hurricane tides, and this operation would require a great deal of excavation and filling-in. In the end, all these obstacles were overcome, and the first choice was the one actually acquired.

Negotiations with the railroad for the removal of its tracks were successful, the company expressing willingness to co-operate with the state provided its interests were protected. An agreement that the state would pay for rebuilding the railroad line was reached, but, if extra fill raised the roadbed above hurricane-tide level, the additional cost would be assumed by the railroad. Moreover, if One Mile Creek was to be diverted northward so that it would empty into Three Mile Creek and thus eliminate one railroad bridge, the road was to capitalize the cost of operating the bridge and contribute that amount to the state project.

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TABLE 3

DISPOSITION THROUGH DECEMBER 31, 1926, RECOMMENDED AND ACTUAL, OF THE FIRST $5,000,000 MADE AVAILABLE FOR THE STATE DOCKS BY THE ALABAMA STATE LEGISLATURE

Unit	*Recommended Expenditure*	*Actual Expenditure as of December 31, 1926*
1 Purchase of land and temporary loans; extinguishing leases; moving sawmills, filling, clearing, etc.	$ 765,000	$ 805,753
2 Moving L&N RR; diversion canal; remodeling M&O and So. RR yards	338,000	509,961
3a Pier 1 (exclusive of Transit Shed); Yard "A"; Interchange Yard; connecting tracks	972,000	483,330
3b Warehouse Pier 1; dredging slip and approaches; rolling stock and equipment; pier tracks; roadway, office and shops	609,000	
4 Cotton warehouse and compress	1,000,000	606,044
5 Pier 2 (exclusive of transit sheds and warehouses) . .	1,009,000	998,571
Reserved for interest	307,000	
Net interest paid		135,982
Construction equipment		584,856
Quick assets (cash in hands of state treasurer and in bank; accounts receivable)		875,503
	$5,000,000	$5,000,000

After the proposed site for the docks had been chosen, a board of appraisers, consisting of George Gordon Crawford of Birmingham, John W. Durr of Montgomery, and Gordon Smith of Mobile, was appointed by Governor Brandon to value the land. The basis on which the value was determined was the assessed valuation made for tax purposes, which, in Alabama is 60 per cent of the market value.

The land the state wished to acquire was thus valued at $604,227, and most of the owners sold willingly on that basis, although a few condemnation proceedings had to be brought. In addition, a 100-foot right-of-way, running nearly four and a quarter miles northwest of Mobile, was obtained for the terminal railway to provide a route by which the Gulf, Mobile and Northern Railroad with its Burlington connection and the Alabama, Tennessee and Northern Railroad with its Frisco connection could enter the state docks. Any other railroad seeking to enter Mobile could do so over this route and would be able to make connections with all the other railroads, as well as with the docks.

The work of actual construction could not begin, of course, until the necessary land had actually been acquired, leases quieted, sawmills removed, the Louisville and Nashville tracks relocated, One Mile Creek

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diverted by means of a canal into Three Mile Creek, and the Mobile and Ohio and Southern Railroad yards remodeled. Furthermore, the raising of the level of the land had to be completed. Earth for this purpose was conveniently obtained from the dredging of the industrial canal and the slips between the piers. Twenty-six months were thus consumed in making 566 acres of land ready for use, at a total cost of $1,736,162.54, or an average cost of $3,068 an acre.

The state legislature on September 18, 1923, had made available the first five million dollars authorized by the amended constitution. This sum was covered by the first five emissions of state bonds. The disposition of the funds as it was recommended by the commission and approved by Governor Brandon, together with the actual disposition of the money, is shown in table 3.

The only operating unit at the docks actually completed and in service by the end of 1926 was the cotton warehouse and compress. Although this facility was not completed in time to permit full participation in that year's cotton movement, 21,966 bales were received and 12,830 bales were compressed. Of the cotton received, 9,039 bales were stored and 12,927 were shipped. Because Pier 1 had not then been completed, the cotton had to be moved by truck from the state's warehouse to other docks for export.[15]

In its report to the legislature dated January 11, 1927, the commission enumerated the deficiencies existing when the first five million dollars had been spent:

> On account of the lack of funds, no provision has been made for widening and deepening the channel in front of the docks system so as to provide maneuvering room for ships entering and leaving the docks; for building Pier 3; for warehouses on Piers 1 and 2; or for the installation of any facilities for handling special types of commerce other than cotton. Banana handling plants, coal handling plants, coffee and sugar handling plants, and a grain elevator are still unprovided for, as well as additional railroad yards for serving such facilities.

On January 17, 1927, the state legislature made available the remaining five million dollars authorized by the constitution. This action enabled the construction work to be carried to its conclusion on April 1, 1929. The final account of the total 10 million dollars showed that the state possessed property valued at cost as follows:

Piers, warehouses, transit sheds, and roads	$ 6,844,396
Bulk-material-and-coal-handling plant	1,006,718
Terminal railway	1,308,940
Industrial lands	783,372
Operating plant for pilots	56,574
Total	$10,000,000

[15] During construction, the piers were referred to by number. Later, Pier 1 was designated as Pier A, Pier 2 as Pier B, and so on.

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The piers and apron wharves were constructed of reinforced concrete and were built on concrete piling. Between them were slips having a width of 350 feet and a usable depth of 30 feet. Space was thus provided for the berthing of 18 ships at one time. Wharves were 1,600 feet lòng and 42 feet wide, each wharf having three marginal tracks with crossovers so placed that cars could be switched to and from one ship berth without interfering with operations at any other.

Some 29 acres of covered-warehouse and transit-shed facilities of steel and concrete construction were provided at shipside. These included the cotton warehouse with its high-density press at Pier 1.

The terminal railway connected all Mobile railroads with the docks and with each other. It also made possible the prompt shifting of cars to and from the docks and the classification and interchange yards. In an emergency, a car could be placed alongside ship within 30 minutes after its arrival in Mobile yards.

In addition to these accommodations, the bulk-material-handling plant provided facilities for the loading of outbound coal or similar cargo at a rate of 600 tons an hour and the unloading of inbound bulk cargo at a rate of 900 tons an hour. The lands not used for docks, warehouses, and railroad facilities were held as available industrial sites. In addition, a complete complement of mechanical equipment—such as switching locomotives, shipside derrick, locomotive cranes, lift trucks, motor trucks, tractors, and trailers—was provided for handling all types of cargo.

Since the completion of the docks system in 1929, many improvements and betterments in detail have been made. The most notable extensions were made in the 1930's through the co-operation of the city of Mobile and the Public Works Administration. Application was made in 1934 for PWA grants to cover three major improvements. These applications, subsequently approved by the Federal Government, provided for the construction of:

1. A pier and slip north of Pier 3. This facility would provide three additional ship berths and 120,000 square feet of transit-shed space. For this purpose the PWA made a grant of $342,000 while the city provided the remaining $421,000 by a bond issue.

2. A fertilizer plant. This plant was designed to give 50,000 square feet of storage space, sufficient for storing and handling 50,000 tons. The handling of material into and out of the storage shed was to be completely mechanized. For this purpose the PWA made a grant of $135,000 while the city provided the remaining $200,000 by a bond issue.

3. A cold-storage fruit terminal. This facility was to provide 500,000 cubic feet of storage space for a wide variety of perishable produce. (The State Docks Commission subsequently added a quick-freeze unit, now in the process of further expansion.) The cost of the cold-storage plant was covered by a PWA grant of $396,000,the city providing the remaining $484,000 by a bond issue. Of these bonds, the PWA took $384,000.

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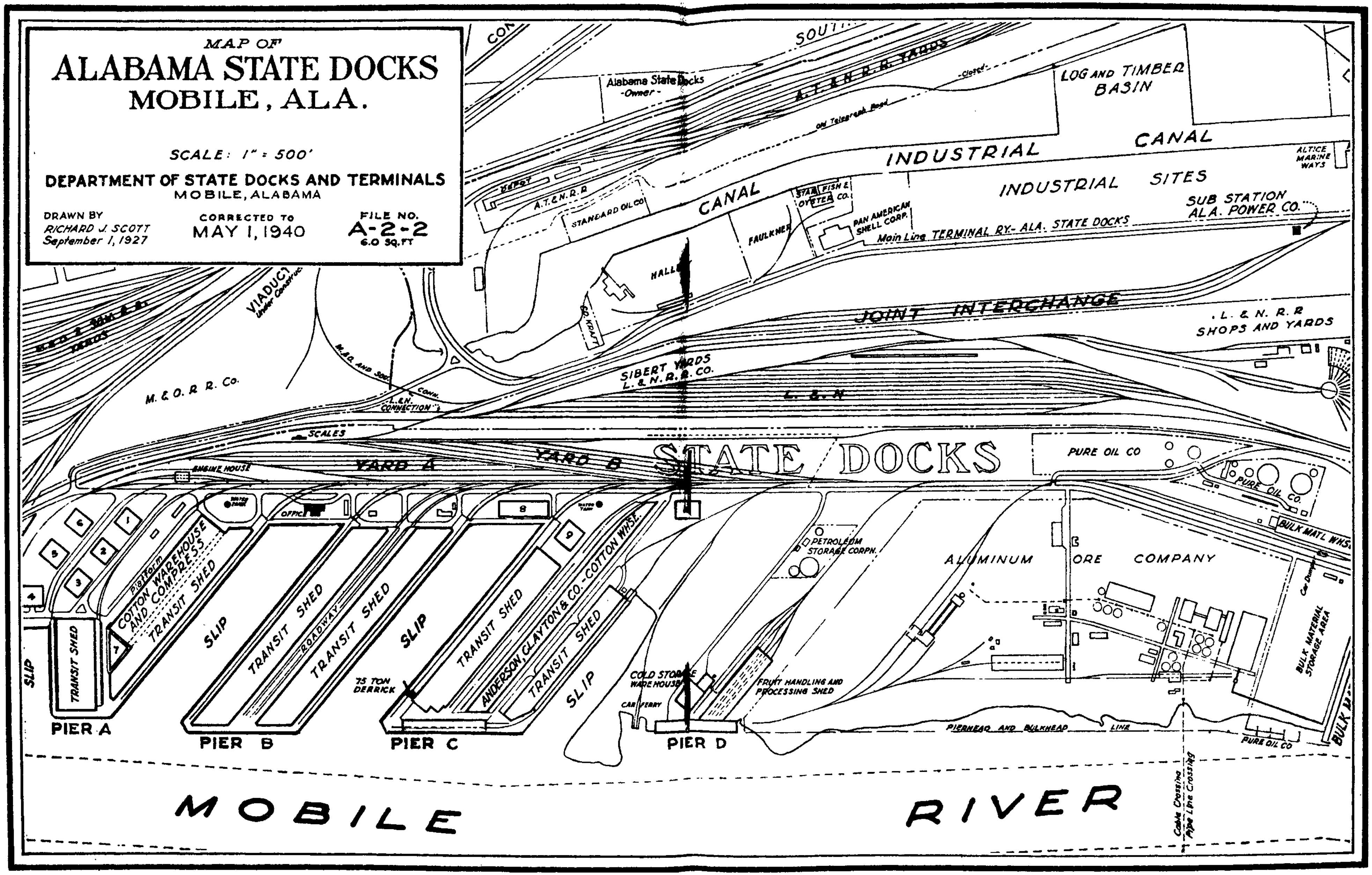

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The State Docks Commission assumed no financial liability whatsoever for the additions made through PWA assistance. These facilities, however, are operated by the state docks on a rental basis, and the rent received is sufficient to pay interest on all outstanding bonds and to bring about their amortization. When rent equal to the 55 per cent of the cost represented by the city's bonds has been paid, these facilities will belong to the state.

A somewhat similar arrangement was made in connection with the building of a ship-unloading tower by the largest user of the bulk-material-handling plant at a cost of $225,000. This facility has been leased to the state and is operated by the Department of State Docks and Terminals with full right of use for any purpose and for all customers. The department credits to the lessor a part of the charge made for handling each ton of the lessor's material, and, when the total of such credits equals the cost of the tower, the installation will become the property of the state. This facility increased the capacity of the bulk-material-handling plant by 85 per cent.

Another acquisition on a rental-purchase basis was the cotton warehouse constructed by Anderson, Clayton and Company on a site that the company had leased on Pier 3. This acquisition has proved very useful in connection with the docks' contribution to the prosecution of the war.

In such ways, a considerable expansion of the state's facilities has come about with no further increase in the state's indebtedness.

More than 500 acres of land are now owned by the state, in connection with this project, as well as more than two miles of concrete wharves where 22 ships can berth at one time; 42 acres of covered warehouse space, including a cotton warehouse with a high-density compress; an equity leading to eventual ownership of a modern and up-to-date cold-storage and quick-freeze plant;[16] and an industrial canal with sites for lease to tonnage-producing industries. The enterprise also has an extremely flexible system for the handling of bulk materials, having railway and switching facilities as well as mechanical equipment to bring about the handling of cargo to and from cars and ships with the utmost dispatch. The testimony of persons using these accommodations is that the state has provided at Mobile facilities equal if not superior to any in the country.

[16] The quick-freeze plant is now leased to A. A. Richards Company.

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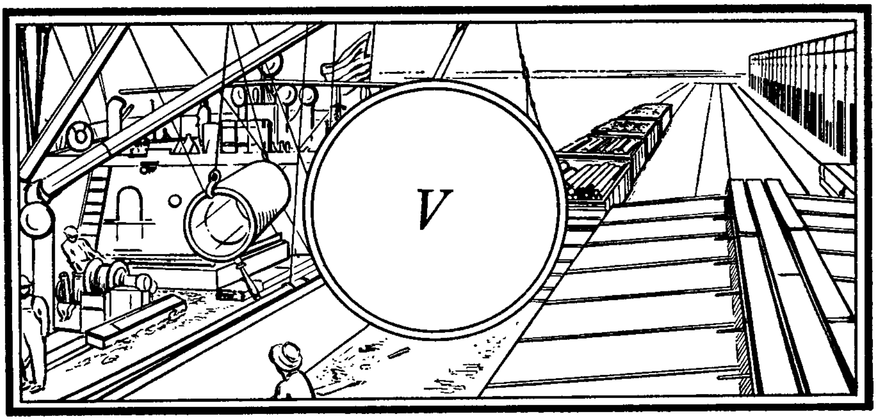

OVERCOMING INITIAL DIFFICULTIES

The first and fundamental problem of the newly created state docks system, like that of any new enterprise, was that of making a place for itself in the economic life of the state and region.

The economy of a state or region may be characterized by some deficiency that provides the formal justification for the appearance of a new enterprise, private or public. A new enterprise never finds a wholly vacant area into which it can fit neatly without disturbing interests already there or without being disturbed by the pressures arising from its environment. If it is to occupy any economic space, a new project must elbow its way, in a sense, into the pre-existing economic context. In doing so, it encounters some circumstances that favor its survival as a going concern. Likewise, it encounters others that are hostile to its survival. The new enterprise also finds itself, through its own activity and irrespective of its intentions, benefiting some of the interests that occupied the field before its coming and injuring others. A new enterprise, therefore, does encounter difficulties in the practical world, despite the cogency of the reasons by which its existence is ultimately justified.

Terminal Charges

Nor did the state docks enterprise make unbroken progress. From the first, the state docks had two somewhat conflicting purposes to carry out. The docks were, of course, meant to serve the economic interests of the state and the hinterland, and the measure of that service would be the tonnage handled over the docks. On the other hand, the law creating the state docks clearly intended the enterprise to be self-sustaining and self-liquidating. To that end, the commission was given the right and power to fix reasonable rates and charges for services rendered so that the

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docks might be able to pay operating expenses and interest on outstanding bonds and to provide a sinking fund for the redemption of the bonds. To help insure the remunerative character of the docks, the law also provided that:

> ... All private concerns, corporations, or individuals operating similar facilities at Alabama seaports must make and collect charges which shall be not less than the charges so fixed by the said department for the use of the state's facilities.[17]

As a matter of practice, the provision for equal charges was never enforced and was probably unenforceable on constitutional grounds. The commission thus faced a dilemma. Because charges at the railroad docks were on the whole levied on a nominal basis, the state docks would have lost tonnage to the railroad docks in Mobile or to terminals at other Gulf or South Atlantic ports if the commission had levied remunerative charges. If the commission kept its charges low enough to compete with railroad terminals at Mobile and at other ports, so that tonnage would be attracted to the docks, the enterprise would run a serious risk of losing money. The problem of fixing rates high enough to enable the docks to meet their financial obligations as far as possible without losing tonnage to other ports is thus a matter of fundamental policy and is of continuing concern to the department.

When the state docks began operations in 1928, most of the terminals at Gulf and South Atlantic ports were owned and operated by rail carriers. A terminal-charges tariff was in effect and was generally applicable to all these ports. The tariff had been published in 1919, and no general revision had been enacted, although some revision of individual commodity rates had been made. The terminal charges in this tariff (wharfage, storage, and handling) were very low, partly because of the lower cost of labor at the time the tariff was published but more especially because the railroads used their terminal facilities to attract export and import tonnage. Losses sustained in terminal operations were offset in the line-haul traffic to and from the ports.[18] The rail carriers generally made no charges, such as dockage and sheddage, against vessels; all the rates published in their tariff were against cargo.

If the new state docks were to secure tonnage in the face of such competition, the existing tariff of the railroad terminals as it applied to cargo must necessarily be adopted. Since the railroads made no charge to vessels for their use of docks, however, no dockage charge was then assessed. This situation prevailed for the first four years of operations. The state docks then announced, after further analysis, a small dockage charge of a half a cent a net registered ton of vessel. The dockage and sheddage, or marginal-track-use, charges were then gradually increased over the years and came to be levied against the ship as a more appropriate

[17] *Alabama Code of 1940,* tit. 38, sec. 32.

[18] See discussion, pp. 6-7.

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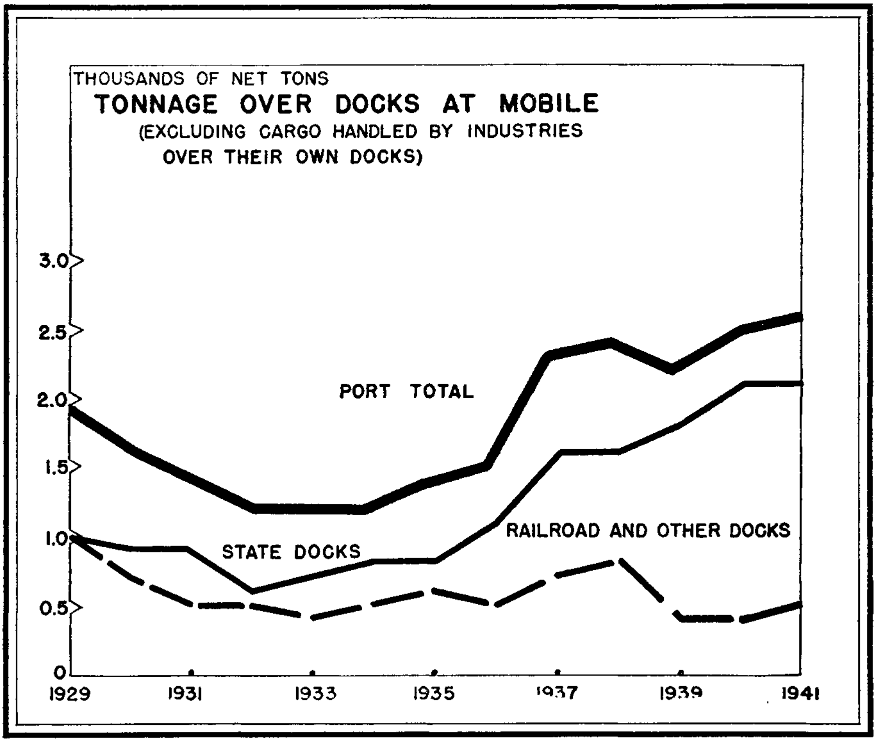

CHART 2

base. These are now: *Dockage*—3 cents a gross ton of vessel for the first and second days; 2 cents for the third day; 1 cent for the fourth and through the twenty-first day; after the twenty-first day, the schedule is repeated. *Sheddage*—3 cents a gross ton of vessel or hull ton of barge for a period of 16 days or less; 1½ cents for the seventeenth through the twenty-first day; beyond the twenty-first day, the schedule is repeated.

The terminal charges assessed at the state docks are now generally applicable at all terminals in Mobile. Meanwhile, however, the railroads have disposed of most of their properties to the city, the change occurring in December 1943.

If they charged the same rates for terminal services that the rail carriers did, the state docks would tend to have a competitive advantage on account of their superior facilities. This advantage would divert tonnage from the railroad docks unless the tonnage moved to them out of considerations other than cost. Chart 2, which shows for the years 1929 to 1941 the net tonnage of cargo moving over the state docks, over the railroad docks, and over others that were privately owned, exhibits clearly the tendency of the state docks to secure the overwhelming proportion of tonnage moving through the port. Indeed, the competitive advantage of superior facilities made possible the eventual imposition of

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higher terminal charges at the state docks than were made at competing docks.

Under such circumstances, the docks of the rail carriers would be driven from the field in only a matter of time. Always unremunerative, these docks would become still more unremunerative with a loss of tonnage. An awareness of this possibility lay behind railroad opposition to the state-docks proposal when it was first made and fostered continued opposition on the part of some of the railroads even after the docks had been constructed. In the end, however, the railroads were probably benefited more than they were harmed. They stood to gain from any increase in rail traffic resulting from the improvement of the port, and, at the same time, they were relieved of the burden of maintaining unprofitable terminal facilities. If any loss in terminal operations under state auspices was sustained, the state itself would make good the deficits. Thus, the apparent contradiction in the answers of the railroad officials to the question of how they were affected by the coming of the state docks had some justification. The answers varied from "They drove us out of business" to "We are glad they came." At present the railroads give the state docks their full support and co-operation.

Although the injury to the rail carriers appeared to be more serious than it actually was, the injury to privately owned docks was unquestionably real. Unlike the railroads, private terminal companies had no other source of revenue to fall back on and necessarily had to earn their way. In the face of competition from railroad-owned docks, private terminal companies had ceased building and could remain alive only by rigidly curtailing expenditures for modernization and, to some extent, even for proper maintenance. To face existing competition, costs had to be kept as low as possible; and to keep costs low, overhead expense had to be kept at a minimum. The coming of the state docks threatened to make this situation permanent, and, consequently, the hostility of privately owned terminals came to be directed very bitterly against the new state enterprise. In the eyes of the terminal owners, this situation represented but another instance of the destruction of private capital by government competition.

The situation, however, had already become one in which the interests of the port and the state were not being adequately served. The privately owned facilities were deteriorating, and only the state itself had sufficient economic interest at stake to better the situation.

Freight Rates

Another of the problems confronting the state docks in making a place for themselves—one that has required continual attention by the docks authorities—was that of freight rates. The port through which commerce tends to move is determined to a large extent, although not exclusively, by the total cost of shipping commodities to their final destination. This cost is a composite, made up of terminal charges and freight rates.

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Therefore, the nature of the existing freight-rate structure was a matter of much concern to the newly organized State Docks Commission.

After World War I, a final adjustment of freight rates had given to the Gulf ports a slight differential under the rates applying to traffic going to the North Atlantic ports from the Central Freight Association and Western Trunk Line territories. The railroads serving North Atlantic ports lodged a complaint with the Interstate Commerce Commission charging that the differential was a violation of law. Railroads serving Gulf and South Atlantic ports thereupon petitioned the ICC for relief from this violation, and the North Atlantic ports countered by attacking the entire differential that favored Southern ports. The State Docks Commission intervened, and, on January 6, 1931, the ICC sustained the rate advantage of the Southern ports on the grounds that, because of the greater distance of the Gulf ports from Europe, the differential was necessary to put those ports on a parity with the North Atlantic ports.[19]

In this case, a rate differential was secured that favored Southern ports as a group against those of another region. Instances arose, however, in which freight rates discriminated in favor of particular Southern ports, or against them. In such cases, the State Docks Commission was forced by its position to seek parity for Mobile when a freight rate favored another port and to oppose any equalization of rates when the differential was in favor of Mobile.

An example of a case in which the State Docks Commission obtained parity freight rates was one concerning cotton. For years, railroads had denied Mobile transit privileges on cotton and, in addition, had discriminated against this port in export freight rates. As a result, the greater part of its cotton business was gradually lost to other Gulf and South Atlantic ports. When the state constructed the docks, including the cotton warehouse and compress, an effort was made to correct the existing pattern. A complaint was filed with the Interstate Commerce Commission to have Mobile placed on a parity with competing ports with respect to rail freight rates, concentration and reshipping privileges, and compression at the port. In March 1930, the ICC handed down a favorable decision that removed the cause of this complaint.[20]

On the other hand, the State Docks Commission has done much to maintain for the territory[21] in which Mobile is located a freight rate on export, import, and coastwise traffic lower than the rates at competing Gulf and South Atlantic ports. This area within which Mobile possesses a favorable rate differential includes the highly important Birmingham

19 Alabama State Docks Commission Report to State Legislature, January 1931.

20 Interstate Commerce Commission Docket 17000, Part 3. State Docks 1921. Alabama State Docks Commission Report to State Legislature, January 1931.

21 The boundary of this territory roughly runs north in Alabama, just west of the Florida line, then northeast to Montgomery and West Point, thence in a more northerly direction to a point just west of Atlanta. From there the boundary swings northwest to Athens, Alabama, and then in a long arc southwest and then southeast, biting into the eastern part of Mississippi and ending again at the Gulf just east of Pascagoula.

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industrial district. Approximately 68 per cent of all cargo moved over the state docks originates in Alabama or is destined for points within the state, and much of this cargo is in transit from or to the Birmingham district. The differential enjoyed by Mobile generally amounts to from 50 to 55 cents a net ton under the rate to the competing ports of New Orleans and the South Atlantic.

The existence of this differential favoring Mobile has led to an effort on the part of competing ports to divert to themselves a large part of the traffic now flowing through Mobile by bringing about an equalization of freight rates. If such an attempt should meet with success, the state docks would suffer a serious blow. Thus far the effort has fallen short of its goal, but it has created a situation in which constant vigilance is required on the part of the state-docks authorities to maintain the port of Mobile's advantage. The administration of the state docks has from the first professed a policy of "live and let live," seeking merely such rates that it believes Mobile is entitled to and realizing that any unfair advantage that might be secured for itself would only serve to justify other ports in seeking lower rates into Mobile's own territory.

These, of course, are not the sole rate cases in which the state docks authorities have interested themselves. They are merely illustrative of certain competitive situations.

Other Competitive Factors

In making a place for itself, the state-docks system also confronted various practices of railroads and steamship companies that tended to curtail the usefulness of the state's new facilities. The railroads entering Mobile, for example, absorbed switching charges at the state docks on imported fertilizer destined for competitive points but failed to do so when the fertilizer was consigned to noncompetitive points. The State Docks Commission took this case to the Interstate Commerce Commission, and the latter handed down a final decision,[22] ordering switching charges to be included in line-haul rates for competitive points as well as noncompetitive points. A similar case[23] was brought before the ICC with respect to other commodities on which the rail carriers were absorbing switching charges for competitive points but not for noncompetitive points. In this case, however, the ICC handed down an adverse decision, although the principle involved was identical with that of the fertilizer case.

The decision in the fertilizer case was of great advantage to many groups of farmers, but the adverse decision in the other case militated against the interests of many lumber shippers. Almost 85 per cent of the Alabama lumber moving to Mobile for export comes from noncom-

[22] Interstate Commerce Commission Docket 3345. Alabama State Docks Commission Report to State Legislature, January 1931.

[23] Interstate Commerce Commission Docket 21341. Alabama State Docks Commission Report to State Legislature, January 1931.

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petitive points, and the shippers were forced to pay $3.60 a car in addition to the line-haul rate to and from the state docks.

Two other, more recent cases illustrate certain types of competition. In the first, steamship companies serving Eastern and Southern ports were found to be absorbing, in the ocean rate to Porto Rico, the rail differential enjoyed by Mobile. This practice had the effect of nullifying Mobile's geographical advantage. The state docks filed a complaint with the United States Maritime Commission, and that agency ordered the discontinuance of the practice by steamship lines at United States ports.[24]

The other case was one in which railroads absorbed handling charges from open-top cars at a competing port but failed to make a similar absorption at Mobile. The carriers voluntarily endeavored to establish rules to discontinue the practice, but certain port interests protested. In the end, the Interstate Commerce Commission found the carriers' proposed rules justified, and the practice was stopped.[25]

Solutions to the Problem of Competition

When the Alabama State Docks set out to make a place for themselves in the economy of the state and region, they thus became involved in a highly complex and competitive network of relations that was characterized by practices falling little short of so-called cutthroat competition. Competition was keen between regions, between ports, between railroads, between terminals, and between steamship lines. All such competition was further complicated by the somewhat exclusive, or preferential. relations of certain railroads to certain terminals, those of certain railroads to certain ports, and those of certain steamship lines to certain ports and terminals. A way of escape from the competitive maelstrom would clearly be to the interest of the state docks.

Locally, relief could be secured if the state could extend its control to the whole waterfront and establish a virtual monopoly of terminal facilities at Mobile. Efforts were made in this direction from time to time but never succeeded because certain private owners were reluctant to yield to what they thought was "socialism." The sale of railroad docks property to the city in December 1943, by eliminating one source of competition, went far to clarify the local situation.

With regard to the problem of bad competitive practice emanating from other sources, no solution has yet been found. If the railroads could have been induced to separate terminal charges from line-haul charges and if they had then been required to operate the terminals on a paying basis, the results would have improved the situation. The Inter-

[24] Fifth Report of the Department of State Docks and Terminals to the Legislature of Alabama, Mobile, January 1, 1943.

[25] *Ibid.*

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state Commerce Commission made an investigation of this suggested change but rendered an adverse decision, six to five against it.[26]

Another avenue of escape would be provided if the terminal people at all competing ports would get together and publish uniform compensatory rates and charges. Joseph B. Eastman, then Federal Co-ordinator of Transportation, sought to bring about such co-operation, for he saw railroads dissipating a part of their earnings on their terminals, but, after a survey of the existing situation, he gave up the task as impossible. For the present, then, the welfare of the port of Mobile and the state docks depends upon the constant vigilance of the docks officials in maintaining and extending the position that has thus far been won for this state enterprise.

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[26] Interstate Commerce Commission Docket 12681, 1924. Alabama State Docks Commission Report to State Legislature, January 1931.

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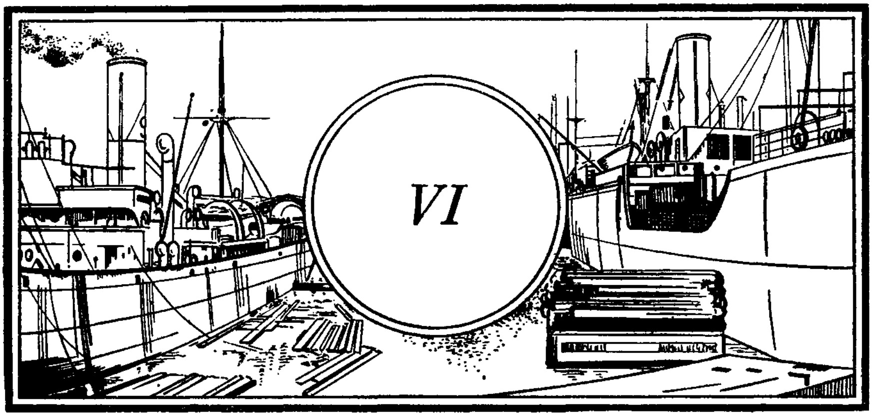

ATTRACTING BUSINESS

Solicitation

A successful adjustment to a highly complex system of competitive price relationships, such as that described, would, of course, tend to increase the flow of tonnage across the state docks. The docks would thus be enabled to fulfill their economic function even though they might fall short of meeting their financial obligations as envisaged by the legislature.

No enterprise, however, private or public, can afford merely to bring its charges into line with those of competitors and make no further effort to obtain business. The flow of commodities is never automatic. Every private enterpriser realizes the necessity for advertising and for using other methods of directly soliciting business. The reason for such solicitation is that the direction of trade is influenced not only by strictly economic considerations but by inertia, ignorance, customary connections, prejudices, and the actions of intermediaries whose interests may lie in diverting the course of trade from what would seem to be its most logical and economical channels.

The State Docks Commission early realized the necessity for engaging in a program of direct solicitation of business so that the advantages of Mobile and especially of the state's new facilities might be placed directly before shippers and receivers of water-borne tonnage. Such a program was specially imperative because other ports, steamship lines, and railroads maintained agents in the field actively soliciting business for themselves.

It was realized by the State Docks Commission that much heavy cargo, such as steel and iron, cast-iron pipe, lumber and logs, cotton and naval stores, would naturally be available. Even before the docks were completed, an intensive solicitation campaign for other tonnage of higher class and lighter articles was initiated to supplement these heavier

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materials as cargo for ships. This solicitation carried on in the earlier years by the State Docks resulted in much new business for the port, such as newsprint brought from Canada by ship for the use of Southern newspapers, bagging from India for cotton covering, tobacco from Kentucky and Tennessee for export through Mobile to foreign countries, imported beet seed to Colorado, and marble to Minnesota. The traffic included steel and farm machinery shipped out from Chicago, sulphate of ammonia from Gary, bauxite ore from British Guiana, cork from Spain, peat from Holland and Germany, asbestos shingles from Belgium, beet pulp from Holland, salt cake and iron oxide from Germany. These new tonnages for Mobile gave encouragement to those who hoped that the city would become a port serving not only the interests of Alabama but those of many other states in the Union.

In the early years of its life, the State Docks Commission encountered an obstacle in carrying out an aggressive campaign of solicitation. This hindrance was in the form of a general law that had been passed by the legislature in 1933[27] as part of a general retrenchment in state expenditures during the low-water mark of the depression. The law limited traveling expenses of state employees to $3 per diem. According to reports, the governor at that time, B. M. Miller, had not thought that this limitation would apply to the state docks, but even when he discovered that it did, he rigidly enforced it. Three dollars a day was utterly inadequate for travel and subsistence, and the result was that the State Docks Commission could not send out anyone to solicit business or even, at times, send representatives to rate hearings.

Not until 1935 was this limitation removed and active solicitation involving travel out of the state resumed. At that time, a representative of the state docks was sent out on a trip, beginning in New Orleans, for the purpose of securing more tonnage for the docks. The trip led on to Memphis, the Mississippi delta region, and Jackson, Tennessee. This territory was one in which Mobile and other Gulf ports were on a basis of freight-rate parity. For this reason, the competition among the various ports and the various steamship lines was especially keen. The same sort of situation also prevailed in the St. Louis, Chicago, and Louisville territories where, however, river competition with rail lines placed Mobile at a disadvantage with respect to certain kinds of commodities.

New York, the last major stop on this trip, was especially important, for more potential Mobile tonnage was controlled out of that city than out of any other one place except Birmingham. Most of the railroads maintained offices in New York with special representatives to work on export and import business. Most of the steamship companies operating to foreign countries from the Gulf also had their main offices in New York or were at least represented by agents and suboffices there.

Although the trip yielded a certain amount of tonnage that was definitely promised to the state docks, its most important product was

[27] *Alabama Laws,* 1933, p. 81; *Alabama Code of 1940,* tit. 41, sec. 154.

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probably the fund of helpful information that was accumulated. Such information would enable the docks officials to handle intelligently situations that might give rise to business in the future.

For one thing, this trip showed that shippers, importers, steamship companies, and railroad representatives had only limited knowledge of the state docks and their facilities. Through the personal contacts made on the trip, these interests were acquainted with the advantages offered by the state of Alabama at its seaport.

For another thing, the trip uncovered certain handicaps that would have to be overcome if Mobile was to get a larger share than before of the tonnage arising from its logically tributary area. Tobacco shippers in the Louisville area had used other ports so long, for example, that only the most persistent cultivation would induce them to consider using Mobile as a port. This condition also applied to some extent in the hardwood-lumber district, where railroads serving competing ports and competing steamship agents were very active.

Besides inertia of this sort, a problem of prejudice existed in the case of cotton, although the reason for the prejudice was not apparent. Mississippi delta cotton, because it was superior to Alabama cotton, had long had a more favorable reputation with receivers in Liverpool, Bremen, Havre, and Rotterdam. The delta cotton had been exported mostly through the port of New Orleans. Exporters were saying that they were afraid to use the Mobile port for fear the foreign buyers would think they were getting Alabama cotton instead of delta cotton, associating the port with the point of origin of the cotton. This difficulty could be easily overcome by specifying the point of origin of the cotton on the ocean bills of lading. In this way, no question could remain in the buyer's mind of whether or not he was getting the cotton specified in his contract.

The trouble, however, possibly did not actually lie with the foreign buyers but rather in old-established relationships between American exporters and certain forwarding agents. If these relationships were the real reason for the reluctance to export through Mobile, more intensive work would have to be done on the shippers by state-docks representatives.

Events played into the hands of the state docks to some extent when a strike tied up one of the Gulf ports while this first solicitation trip was in progress. Some shippers who had never before used the Mobile facilities now shipped through that port. The docks representative was alert to take advantage of this opportunity to familiarize the shippers with the benefits of continuing to use the Alabama port. Mobile's advantages were pointed out to shippers who combined coastwise and export shipments of cotton in one car in order to avail themselves of carload rates. At other ports, where consignees' piers might be at a considerable distance from each other, a drayage charge was usually made and, in addition, a forwarding charge for the handling of such shipments. At Mobile, the cotton could be delivered to the respective steamship companies' piers at the state docks with a saving of drayage, and, furthermore, the steamship

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companies made no charge for checking and forwarding. This delivery could be secured by an addition of but 2 cents to the depot freight rate. As a result of the tangible advantages that Mobile possessed for certain cotton exporters and the educational work of the state-docks representative, increasing amounts of delta cotton began moving by way of Mobile.

Another problem brought to light in the course of this first solicitation trip was the influence of stevedoring companies in the routing of certain commodities to terminals with which they apparently had preferential connections. Sometimes the stevedoring companies controlled the routing of freight where the consignors had inadequate knowledge of the advantages that the use of the state docks might have for them. By working on the consignors, the connection between a stevedoring company and a particular terminal could possibly be loosened and tonnage thus diverted to the state docks.

This solicitation trip therefore revealed a number of problems. The results were deemed so important that the department now feels justified in having the traffic assistant to the director of the department and another representative spend a large part of their time on the road. That time is given to visiting exporters and importers and steamship and railroad agents; getting information on commodity movements; and endeavoring to direct as much freight as possible to Mobile and the state docks. During the present war, when the Government is controlling almost all commodity movement, similar visits must be made to various Government agencies.

The solicitation of business for the port of Mobile is not confined to efforts of the state-docks representatives alone, for the port also profits from similar activity by railroads, steamship lines, and stevedoring companies. Moreover, it is not merely one or two representatives of the state docks who are instrumental in increasing tonnage for the state's facilities, but all members of the organization who work closely with these other agencies serve continuously in the performance of this function.

Latin-American Campaign

Shortly, before the beginning of World War II, a solicitation campaign, international in scope, was undertaken by the state docks in co-operation with the Mobile Chamber of Commerce and other port interests. The Pan-American committee set up to carry out this campaign had for its objective the fostering of business relations between Latin America and Alabama. It pointed out to the people of Latin America the advantages of trade in Alabama and the facilities provided at the state's seaport.

Several thousand letters, written in Spanish, Portuguese, and English, were sent to a carefully selected list of businessmen in South and Central America and the West Indies. The state chamber of commerce supplied directories of Alabama manufacturers, and these were distributed to the firms with which contacts were made by the Pan-American committee.

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In addition, special Pan-American columns were run in the state docks' shipping bulletin.

It is believed by those concerned that this campaign has advanced the port's business relations with its Latin-American neighbors. The war, with its attendant dislocations, however, makes a determination of the actual results of the effort difficult.

Foreign-Trade Zone

The Latin-American campaign was really part of another experiment for bringing a larger tonnage to Mobile and the state docks. This experiment contemplated the establishment on state-docks property of a foreign-trade zone, or free port.

By the so-called Celler act,[28] Congress in 1934 had authorized the establishment, within the territorial borders of the United States, of these foreign-trade zones.[29] The object was to establish areas in which goods coming from foreign countries could be assembled, broken up into small lots, sorted, graded, cleaned, blended with other goods—foreign or domestic—and otherwise manipulated within certain limits. No duty was to be paid on such goods until they entered domestic commerce. If they were reshipped into foreign commerce, no duty at all was to be paid. At the urging of Governor Graves and some of the Alabama delegation in Congress, the State Docks Commission made application in 1935 to have a zone established at Mobile. The docks authorities were divided on the wisdom of obtaining such an authorization, but the application was made despite counter-arguments.

The establishment of a foreign-trade zone meant the isolating, fencing, lighting, and policing of a suitable area having adequate pier and warehouse facilities. For this zone, 15.3 acres, of which 12.7 were land and 2.6 water, were set aside at the state docks. This area embraced the south side of Pier A and the adjacent upland and contained one slip 220 feet wide by 560 feet long, with a depth of 30 feet below mean-low water. Seven warehouses within the tract provided a total of 238,200 square feet of floor space. The main warehouse located on the pier itself, accounted for 136,800 square feet. This facility was equipped with an automatic sprinkler system, which kept insurance rates low. The area was served by two railroad tracks.

With such facilities to offer, Foreign Trade Zone No. 2 was granted an application and was formally opened on July 21, 1938. The Latin-American campaign was an effort to bring the zone, as well as the state docks, to the attention of other American nations. A representative of the zone made a personal visit to the capitals and ports of Panama, Costa Rica, Nicaragua, Spanish Honduras, El Salvador, Guatemala,

[28] *Act June 18, 1934,* c. 590, 48 Stat., 998; 19 U.S.C.A., sec. 81a *et sec.*

[29] The first of these free ports, known as Foreign Trade Zone No. 1, was established in 1937 at Staten Island, New York.

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Mexico, and Cuba. Visits were made to large importers in the central United States. Sponsors of the experiment were optimistic about the future.

The skepticism of those persons who had little faith in the experiment was soon justified by the financial results. More than $7,000 had to be laid out on the initial survey. Almost $8,000 was consumed in other expense before the facility was opened. Capital expenditures had slightly exceeded $20,000. Moreover, monthly deficits ranging from $2,500 to almost $4,000 began to accumulate. By February 28, 1939, the total and final outlay was $59,600 on account of the foreign-trade zone. For the fiscal year ending September 30, 1938, the zone brought in a revenue of only $9.43. Expenses for that year amounted to $8,848. For the fiscal year ending September 30, 1939, the revenue was only $1.32. Expenses had been $29,694.

The commerce moving through Mobile was clearly not of the kind that would find the privileges of a foreign-trade zone to be advantageous. Wisdom dictated the liquidation of the venture, and it was terminated early in 1939.

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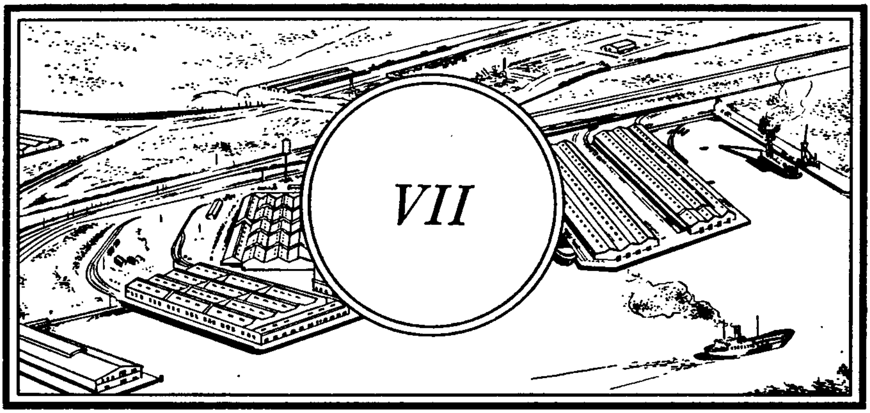

CREATING NEW BUSINESS

Establishment of New Industries

The tonnage attracted to the state docks by competitive methods was of great value. Presumably, however, this same tonnage would have moved by other channels if the state's facilities had not been in existence. Though the diversion undoubtedly benefited the state docks and the port of Mobile generally, this gain was probably offset to some extent by the tonnage losses sustained at ports and terminals from which the traffic might have been diverted. Whatever social gain was provided by this process lay in the difference between the cost of moving goods by way of Mobile and the state docks and the cost of moving them by some other route.

From the standpoint of the state docks, tonnage gained through competition rested upon a precarious foundation, because it could be lost in the same way. The retention of tonnage gains called for continual watchfulness, and their enlargement demanded unremitting sales effort.. A more stable source of tonnage would be industries established in the vicinity of the docks for which the docks could provide facilities of obvious advantage. A large tonnage-creating or tonnage-using industry, once it had been established, would be unlikely to move and would in all probability be a continuous user of the state's facilities. Thus the permanent prosperity of the docks was intimately related to industrial growth.

The possibility that the state docks would be instrumental in attracting industries that would benefit not only the docks but the whole state as well was envisaged from the beginning. To achieve this purpose of attracting new business, the State Docks Commission was given the right to lease to other interests the state land that was under its control and that was not used for docks, terminals, or terminal railways. This action

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meant that a large part of the upland, especially the land bordering the Industrial Canal that diverted One Mile Creek into Three Mile Creek, could be used for potential plant sites. Moreover, the law provided that if lands were leased in this way, all real estate and also "all structures and all improvements and all other permanent facilities erected, installed or located, by lessees, or their successors or assigns, within the boundaries aforesaid, shall be free and exempt from all state, county and municipal taxation for such period as may be stipulated in the lease or in any renewal thereof, but not longer than the terms of the lease or its renewal."[30]

The state-docks authorities were thus furnished with three inducements to the location of industries: (1) the port facilities provided by the state; (2) the ability to provide industrial sites easily accessible to water and rail transportation; and (3) tax exemption within the limits established by law. Although the location of an industrial plant is the result of a decision that must take many factors into account, the inducements provided by the state docks were instrumental in attracting a small colony of large tonnage-producing industries.

Southern Kraft Corporation

The first to settle in the industrial colony was the Southern Kraft Corporation, a subsidiary of the International Paper Company, the world's largest producer of paper. One of 11 plants operated by what is now known as the Southern Kraft Division of the parent company, this factory was established in Mobile in 1928.

The site occupied by this paper mill consists of 95 acres of land lying north of the state docks. This land was not originally a part of the state-docks property but was purchased for $90,000 by Mobile citizens who were interested in having the paper mill established in the city. They then sold the land to the state, for a nominal sum, and the acreage was subsequently leased to the International Paper Company at a nominal rental. The paper company's lease, running for a period of 99 years, carries tax exemption until September 30, 1948. The company is obligated to use the state docks and the facilities of the state's terminal railway, until September 30, 1948.

Improvements put on this site by the International Paper Company have now an estimated value in the neighborhood of 10 million dollars. The mill is engaged in the making of kraft paper from Southern pine and is a large user of the state docks.

In the case of this industry, the proximity to raw materials combined with other factors to determine the location. Some of these factors were the shipping and rail facilities provided by the state docks, the provision of a suitable site at a nominal rental, and tax exemption. How the various

[30] *Alabama Code of 1940,* tit. 38, sec. 19. The tax-exemption feature of this law is now inoperative, owing to a policy initiated by former Governor Dixon and adhered to by the present governor.

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factors were weighted in the minds of those responsible for locating the plant cannot be known.

Terminal Paper Bag Company

A plant of the Terminal Paper Bag Company was established in Mobile in 1935. This company is a New York concern and is affiliated with the Trinity Bag and Paper Company, although the exact nature of the relationship is not clear.

This plant leases its building site from the International Paper Company and secures its paper from the same concern. The plant manufactures paper bags and other paper products, which are sold chiefly east of the Mississippi River to jobbers and chain grocers.

The relation between the state docks and this company is indirect. The state docks, among other things, attracted the paper mill, and the paper mill in turn attracted the bag plant. The plant of the bag company represents an estimated investment of $500,000.

Meyercord Compound Company

The Meyercord Compound Company was established in Mobile in 1937 and began operations in the following year, manufacturing built-in panels from imported hardwoods by a process patented by George R. Meyercord, one-time president of Haskelite Corporation of Grand Rapids, Michigan. After it was established, this company became a subsidiary of Haskelite but subsequently resumed its status as an independent concern.

The plant lies just south of Mobile. Although the state docks exerted no immediate influence on the location of the plant, the general development of the port undoubtedly did have some influence.

Aluminum Ore Company

The largest installation in Mobile's industrial colony, the Aluminum Ore Company's plant for the reduction of bauxite to alumina, was also established in 1937. This company is a subsidiary of the Aluminum Company of America, a Pittsburgh concern that is the nation's largest producer of aluminum. The Aluminum Ore Company buys its bauxite from other Alcoa subsidiaries—Republic Mining & Manufacturing Company of Arkansas and the Surinamsche Bauxite Mattschappia of Surinam, or Dutch Guiana, in South America.

The facilities available at the state docks must have appealed very strongly to this company because of the type of business in which it was engaged. In addition to affording dock facilities for ships bringing in the South American bauxite, the state also provided rail facilities for trains bringing in the Arkansas bauxite. The bulk-handling plant was excellently adapted to the handling of the kind of cargo that was being brought in by the Aluminum Ore Company. The mere existence of

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the state's facilities would probably have been enough to determine the location of this plant. So important was the plant, however, that the state took no chances on having the establishment fail to materialize but provided the ore company with a 78-acre site on docks property at a very nominal rental for a period of 99 years. The lease carried tax exemption for a period of 20 years, and an agreement was reached by which the bulk-material-handling plant would care for all bauxite going to the Aluminum Ore Company. The docks terminal railway would switch, to the railroads serving Mobile, the outbound cars of finished alumina.

The Aluminum Ore Company now has an investment on state-docks property estimated at 12 million dollars. This figure takes no account of any investment that the Government may have made in connection with the war.

National Gypsum Company

The National Gypsum Company, a firm with headquarters at Buffalo, New York, established a plant in Mobile in 1938. This company has many widely scattered plants that specialize in various products such as gypsum, lime, accoustical and insulation materials, metal lath, and texture paints. The Mobile plant, which produces a fiber insulation board, represents an estimated investment of two million dollars.

In this case, as in that of the Meyercord Compound Company, the state docks were not immediately concerned in the location of the plant. The development of the port and the proximity of raw materials, however, were probably important factors in the company's decision to establish a plant at Mobile. Interested citizens also played a part by contributing $50,000 to the purchase of the plant site.

American Cyanamid and Chemical Company

The following year, 1939, saw the establishment of a plant of the American Cyanamid and Chemical Company. This company is a subsidiary of the American Cyanamid Company of New York. At many widely scattered plants, this subsidiary produces acids and other heavy industrial chemicals, commercial explosives, and insecticides. At the Mobile plant, the products consist of aluminum sulphate, salt cake, and sodium sulphate—all of which are used in the manufacture and bleaching of paper at the near-by paper mills. The raw materials—sulphuric acid from Shreveport, bauxite from Arkansas, and soda ash from Baton Rouge—come in by rail.

In this case the state docks exercised only an indirect influence on the location of the plant. The docks had helped to induce the location of the paper mill, and the paper mill had attracted the chemical plant as it had the Terminal Bag Company. But, the state docks do render a direct service to the chemical company by means of the terminal railway's facilities. The estimated investment of the American Cyanamid and Chemical Company in the Mobile plant amounts to $250,000.

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Pan American Shell Corporation

In July 1939, the Pan American Shell Corporation leased from the state docks a five-acre site lying between the terminal railway and the Industrial Canal. The lease runs for 15 years and carries no provision for tax exemption.

The Pan American Shell Corporation, a New Jersey concern, is engaged in the manufacture of activated carbon, vegetable oils, and fillers used in the plastic industry—products made from cohune nuts brought in from British Honduras, where the nuts are gathered under exclusive rights. The concern now has an estimated investment of $250,000 on state-docks land. In this case, the port facilities provided by the state were probably the chief reason for locating the plant at its present site.

Hollingsworth and Whitney Company

In the following year, another large paper mill was added to the industrial colony. This was a branch plant of Hollingsworth and Whitney, an old Boston firm that makes various specialty papers, potato bags, and multi-walled shipping sacks. At Mobile, the concern manufactures Southern kraft paper and pulp as well as white pulp.

Representing an estimated investment of six million dollars at Mobile, the Hollingsworth and Whitney plant was located there for substantially the same reasons that the International Paper Company was, except that the site was acquired without any outside inducements. Like the International Paper Company, this mill is a large user of the docks and the terminal railway.

Bemis Brothers Bag Company

Just as the International Paper Company's plant attracted the satellite plant of the Terminal Bag Company, so did the building of the Hollingsworth and Whitney mill attract a satellite bag mill—a plant of the Bemis Brothers Bag Company of St. Louis. This concern is reputed to be the largest producer of cotton and paper bags and burlap sacks in the country. Its plants are scattered over all sections of the United States. At the Mobile factory, laminated paper bags for cement are made. This bag company leases its site from the Hollingsworth and Whitney firm and also gets its paper from that concern. Investment in the Mobile plant is estimated at $100,000.

Hallett Manufacturing Company

Another tenant on state-docks land is the Hallett Manufacturing Company. An old Alabama corporation, the company leased 10 acres of land from the state docks in March 1941. In normal times, the concern manufactures hardwood lumber, molding, and trim mainly from wood cut on its own timber lands. A large part of its output goes into the export trade.

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Hence, the facilities of the state docks go far to explain the presence of the Hallett company on that site. An estimated $300,000 is invested there by the company.

Other Companies

Installations of the Pure Oil Company and the Petroleum Storage Corporation are also situated on state-docks property. These are not strictly industrial plants but are for storage purposes and for the fueling of oil-burning vessels.

In addition, steam-electric generating plants of the Alabama Power Company are located near the docks property. Although these plants make no use of the docks themselves, they are serviced by the terminal railway and they supply power to other industrial plants located on the docks property.

The terminal railway, in addition to furnishing switching facilities at the docks and to the industries located on its line, also connects the railroads entering Mobile with the two large shipyards now building tankers, dry-cargo ships, destroyers, and mine sweepers. Switching connections of one of the railroads are made by means of a car ferry to Blakely Island.

Summary

The state docks have either directly or indirectly influenced the location of plants, excluding this latter miscellaneous group, that have a total investment of more than 32 million dollars in Mobile.

These plants cannot be called large employers of labor, but they are large tonnage producers; and tonnage is a major concern of the docks. Nevertheless, if the activities closely related to the growth of tonnage and, hence, of shipping were considered, the total growth in employment resulting from the development of the state docks would probably be of some significance to a city of the size of Mobile. Besides the persons employed directly in the industries that have come in, additional workers are employed by railroad and stevedoring concerns, warehouse and ship-repair plants, steamship and trucking companies. Each of the enterprises creates employment not only within itself, but also, to a greater or lesser extent, within those industries that lie within its sphere of influence. Every industrial enterprise may be thought of as the center of a series of concentric circles, in which are found the other industries that are influenced by it. Those most influenced are nearest the center, and those least influenced are farthest from the center.

This pattern of development has already been suggested. The state docks directly attracted certain plants, such as the Aluminum Ore Company and the paper mills. Some of these—the paper mills, for instance—have attracted others, such as the bag mills, that have served as a market for part of the output of the plants that drew them to the site. They have also in some cases attracted plants, such as the chemical company, that

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have supplied them with some essential commodity. Still further removed from the docks in point of influence lie the new plants, such as the National Gypsum Company and the Meyercord Compound Company, which were attracted chiefly by the general port development. Previously existing industries that stand to benefit from any development of the port also fall within this group. Around the whole industrial complex appears a growth and expansion of service trades and occupations.

How far such influences radiate is hard to say, for the greater the distance from the initial economic impact (in this case, the state docks) the greater is the likelihood that other considerations may have played the predominating role. It is reasonable to conclude, from the situation in Mobile, that the whole state must have profited to a considerable, if indeterminate, degree in its industrial development because of the state docks.

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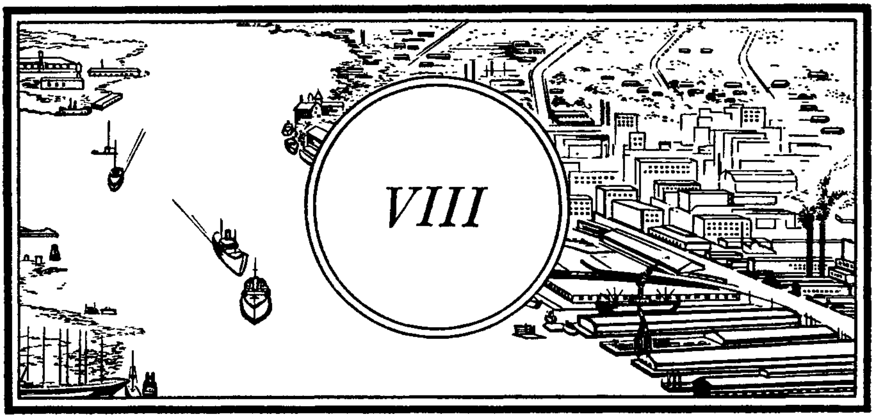

RESULTS AND CONCLUSIONS

What have been the results to the state docks themselves, to Mobile, and to the state of Alabama from the creation of this new enterprise? The appraisal of the results of an enterprise of this magnitude would seem to be an easy matter, but actually such an appraisal must be highly tentative in character because in any social and economic complex all the factors are interdependent. In a changing situation, it is ultimately impossible to segregate any one factor as a cause and to impute to it, as effects, other changes in the total situation. The reasoning that is appropriate to the scientific laboratory is not applicable to social and economic analysis, in which the technique of the controlled experiment cannot be used.

Results to the State Docks

The results of a business enterprise's activities and policies and, hence, the test of its soundness are presumed to be reflected in its statements of operations in terms of price and cost. All price and cost factors affecting a firm's operations come to a focus in its net-earnings position; and the relation of its net earnings to the investment that has been made in the enterprise measures the business' profitability. The net-earnings position, however, is affected not only by what the enterprise does but by innumerable outside influences. These various influences cannot be segregated, and, consequently, financial statements can always be read from more than one point of view.

Thus, the operations of the state docks may be interpreted in various ways. From one standpoint the docks enterprise can be considered very successful, in view of the difficulties encountered in the early years of its life. The decline of United States exports from $5,241,000,000 in 1929 to $1,675,000,000 in 1933 could hardly leave the Alabama seaport unaffected.

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Moreover, the reduction in cotton exports as a result of crop curtailment under the Bankhead Act and Government loans on cotton in interior warehouses was bound to affect all cotton ports as a kind of commercial disaster. For the three months ending October 31, 1934, cotton exports from the United States amounted to only 1,363,016 bales, compared with 2,444,695 bales in the corresponding period of the previous year, which was already a subnormal season.

Also, at times during the period from 1930 to 1935 manufactured products from the Birmingham district, the most important source of tonnage for the state docks, almost ceased to appear in Mobile. Not only outgoing commerce, but imports as well—especially manganese ore and other raw materials for which the state's bulk-material-handling plant had been specially designed—were seriously affected. Similarly, the violent distortions of foreign trade incident to the oncoming of war in Europe and Asia created grave problems for the docks as they did for many other businesses.

In addition to these difficulties, the competition of unremunerative charges at competing terminals and ports had to be met. So long as the Interstate Commerce Commission fails to require railroads at competing ports to operate their terminals on a remunerative basis, competition from this source will have an adverse effect upon the operations of the state docks.

Handicaps arising from the business cycle and the war, from unregulated interport competition, and from the legal impediment to the refinancing of its bonds at lower rates of interest are clearly not remediable by anything that the state-docks administration can do. Even under such unfavorable circumstances, the docks nevertheless have been able to earn enough to pay operating expenses; substantial amounts on the interest account, beginning in fiscal 1929; and interest in full, beginning in fiscal 1936, and to begin paying something toward bond retirement.

Critics of the state docks, looking at the matter from another point of view, say that this enterprise has never really been a paying business venture. Such critics stress the fact that not only have the docks failed to amortize their bonds but they have failed to pay interest thereon during more than half of their life. Moreover, the docks did not charge depreciation against plant and equipment until fiscal 1939. Furthermore, they do not have to pay taxes as does a private business. That the docks are now making a respectable showing is ascribed, on the one hand, to their achievement of a virtual monopoly in Mobile, gained by the competitive elimination of the existing docks, and, on the other, to the advantage of an abnormal situation, created by the war.

Supporters of the docks, in turn, point out that, since 1939 when the docks were made a state department, they have paid interest and depreciation in full and they have been operating on sound business principles. The losses sustained before that time were caused by nothing that the docks authorities could have avoided. In 1939, however, net earnings

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from all units, original and leased, after depreciation and interest were taken out amounted to 1.2 per cent on the state's 10-million-dollar investment; in 1940, 0.7 per cent; in 1942, 2.8 per cent; and in 1943, 5.7 per cent. The docks in 1941 sustained a net loss of 1.5 per cent on the investment. That a deficit was incurred in that year and that the net earnings in the other years prior to 1942 were less than 2 per cent is explained by the losses incurred on the new leased units that were described earlier[31]—the cold-storage plant, Pier C North, and the bulk-materials warehouse.

The deficits incurred on these facilities were more apparent than real, advocates of the docks enterprise would say. These deficits arose because the rental paid to the city covered interest and amortization of the city's bonds, and this amortization really represented a growing equity of the state in these properties, which were to become state possessions when all indebtedness was paid off. Moreover, the net earnings of these new facilities after depreciation for 1942 and 1943 amounted to $253,509, whereas the accumulated deficits of the earlier years amounted to only $82,973. A net gain of $170,526 was thus received by the state from these leased facilities.

As for the charge that the state docks' improving position is the result of monopoly, friends of the docks point to the fact that not only has the docks' share of port tonnage increased, but the port total has also increased.[32] This increase in the port total could not have occurred, it is claimed, if the general docks situation in Mobile had remained as it had been before the state constructed its facilities.

Critics of the docks, in their turn, contend that this increase in the total port tonnage was the result of the actions of buyers and sellers—Japan and other nations were buying scrap iron, steel, and other materials in preparation for war—and did not occur because of the state-docks project. The war itself has sustained and increased the port total.

These critics are doubtful of the docks' future when the war demand ceases. In 1928, they say, the port of Mobile had a total of 50 ship berths—32 in the original port and 18 just constructed by the state. In 1938, the port had a total of only 28 berths—10 belonging to the original port and 18 belonging to the state—although two more were being built. Should all the original docks be shut down, the port would be left with only the state facilities—22 berths. The state would have destroyed more docks than it had created in the process of getting a monopoly and, in doing so, would have reduced the capacity of the port to handle postwar commerce. Supporters of the state docks, on the other hand, would contend that these docks, with their improved facilities, would be capable of handling more commerce than the docks of the original port over which the critics seem so concerned.

Thus, the argument between these contending points of view continues.

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[31] See discussion, pp. 23, 26.

[32] See chart 2, p. 29.

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Are the state docks, then, a self-sustaining enterprise? No categorical answer can be given. They were not self-sustaining in their early years, but through no fault of their own. They are so today, although the critics may be right in saying that the docks' position is not the result of what the docks have done. At any rate, their position is not solely the result of what they have done.

From the standpoint of economic analysis, the demand for the services of any facility such as docks and terminals is derived from the demand and supply of the commodities to which the facility is serviceable. Whether the state docks at any particular time happen to be operating at a profit or a loss is thus dependent more on general economic conditions than on their own activity. This statement would be true of such facilities no matter who owned them. Whether the state docks, therefore, considered by themselves, will constitute an asset or a liability to the state in the future will depend upon general economic trends in the years ahead.

Results to Mobile

City officials, chamber-of-commerce representatives, railroad and steamship executives, bankers, businessmen, and stevedoring companies are almost unanimous in their view of the effects of the state docks on Mobile. With one accord, they agree that the state docks have been the making of the city. Before the docks came, it was a sleepy Southern port in a condition of gradual deterioration. With the coming of the docks, Mobile awoke to new and vigorous life. Various types of evidence are adduced to show this beneficial effect.

1) *Shipping Service.* For one thing, after the state docks were constructed, many additional steamship lines came to provide regular service in and out of Mobile. Between 1924 and 1928, 20 lines served Mobile regularly. On April 6, 1939, 37 lines were giving regular service to Mobile and 32 were giving irregular service.

2) *Ship Expenditures.* The number of shipping lines serving the port is important because of the business activity entailed in supplying their vessels. Ships entering the port of Mobile in 1930 had a net registered tonnage of 2,647,353. The figure was 3,119,816 in 1940. Before the war, a steamer calling for a minimum amount of cargo and requiring no fuel or repairing would often spend an average of $500 a day for pilotage, towing, stevedoring, and supplies. A vessel discharging or taking on a greater amount of cargo would spend more. Vessels making Mobile their home port and trading with Europe or the West Indies were often known to spend $25,000 in port on a single voyage.

The money thus spent by ships in port for fueling, for ship supplies, for repairs, and for services represents a large contribution to the purchasing power flowing through the city's channels of trade. Nearly all businesses feel the effects of such expenditures to some degree.

3) *Industrial Growth.* The direct or indirect attraction of industries

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such as those described in an earlier section[33] similarly stimulates the commercial life of the city. Though these industries themselves are not large employers of labor, they, together with other industries or businesses serving them, contribute considerably to the city's working and buying population. The state docks alone employ somewhat more than 400 persons.

4) *Miscellaneous Indexes.* Other indications of benefit are also cited to show the effect of the state docks on the city. The population, for example, grew from 93,123 (Mobile metropolitan area) in 1930 to 114,906 in 1940. Bank resources grew from approximately 47 million dollars to almost 73 million dollars in the same period. The outbreak of war, of course, and the concentration of a great deal of shipbuilding activity at Mobile have so swollen and distorted all indexes that it would be idle to try to say just how far the state docks have helped to shape the current situation.

Results to the State

As a state enterprise, the state docks should be judged not solely, or even chiefly, on the basis of monetary profit or loss. One of the main purposes in the establishing of the docks system was to provide benefits to the whole economy of the state. Such benefits have indubitably been experienced, even though they cannot be stated in statistical terms.

Ordinarily, any growth of industry that provides a market for the state's raw materials and gives employment to the state's citizens is rightly looked upon as a state gain. That the state docks have had such an effect is obvious. Moreover, insofar as some of these new industries are not tax exempt, they contribute to the support of state and local governments. Those now tax exempt will also make large contributions of tax money when their exemption privileges expire.

Undoubtedly, the Birmingham industrial area has benefited by having an outlet to the sea, accessible by both rail and water. Up to May 1944, 8.7 million tons of traffic had moved to or from Birmingham alone over the state docks. An estimated $4,250,000 in freight charges was saved over what would have been paid had this tonnage gone through competing ports. On the tonnage moving to or from the whole state of Alabama, the savings in freight charges are estimated at seven million dollars.

Farmers also benefit from the state docks. The facilities provided for handling fertilizer effect important savings for many groups of farmers. The recently constructed cold-storage plant is of growing value to farmers not only in the immediate vicinity of Mobile but over a very wide area. Before the war, commodities stored in the plant included eggs, poultry, butter, pork, beef, cheese, potatoes, satsuma oranges, and cabbage from Alabama; bananas from Mexico; citrus fruits from California and Florida; fish from Alabama and Massachusetts; quick-frozen vegetables from

[33] See discussion, pp. 42-46.

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Maine; eggs from Missouri, Nebraska, Tennessee, and Washington; apples frm Georgia, Virginia, Oregon, and Washington; frozen eggs and turkeys from Texas; and butter from Oklahoma. In some cases the cold-storage facilities have made it possible for farmers to withhold their perishable produce from the market at times when prices were low and to ship when prices were more favorable. This is likewise true of seafoods, of which large quantities are quick-frozen and shipped or are held for later distribution, thus greatly benefiting the fishing industry of the state.

Benefits such as those just enumerated are real even though they cannot be measured precisely. Therefore, they must certainly be taken into account in any appraisal of the value of the docks to the state. All together, they may well outweigh any monetary loss appearing in the operation of the docks themselves.

An additional gain to the state from the development of the port is to be found in the increased value of the land that the state has improved by its docks project. The transfer of 28 acres of land, the site of old railroad terminals, to the city of Mobile less than a year ago was at the rate of approximately $20,000 an acre. This was vacant land. If the state's 550 acres of improved land were to be valued at half the transfer value of the old railroad property, the value of this land would amount to 5.5 million dollars. If to this were added the book value of the docks, the railroad, the warehouses, and the equity in properties being acquired on a rental-purchase plan, then the value of the state docks would exceed 16 million dollars.

Another gain to the state lies in the control over harbor lines that the law gives to the Department of State Docks and Terminals. This control makes possible the long-range planning of the port in the general interest. Without the exercise of such control, private interests, looking to the present rather than the future, might easily have created traffic bottlenecks that would have reduced the value of the port.

What, then, have been the results of the state's enterprise at Mobile? Two answers may be given, in the light of the two purposes for which the docks were constructed. In serving the social and economic objectives for which they were founded, the docks have been successful. The city of Mobile and the whole state of Alabama have been benefited, although a disturbed world situation, particularly with regard to foreign trade, has prevailed ever since the docks began operating. In their aim of becoming economically independent, the docks have been somewhat less successful.

These two goals—economic independence and service to the state—are to some extent mutually exclusive. The docks might have been made more nearly self-sustaining, but only at the price of limiting their general service to the state. They might have been of greater service if they had sacrificed their earnings to that purpose. Determination of the "right" policy for such an enterprise depends upon which of these two purposes is considered the more important. The practical problem of the state-docks administration, of course, is to strike a balance between the two. An unprejudiced view of the matter leads to the conclusion that such a

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balance has been diligently sought and has been as nearly achieved as might be expected under rapidly changing conditions.

Concluding Remarks

Alabama's experience with the state docks at Mobile provides at least tentative answers to three questions implicit in the establishment of any public enterprise. These questions are: (1) What constitutes a proper field for state or public enterprise? (2) what are the conditions of success for such an enterprise? (3) by what canons should success be judged?

1) *What constitutes a proper field for state enterprise?*—In an economy in which the provision of goods and services is predominantly the function of private business, the intrusion of a governmental body into this field always raises the question of the proper functions of government. This question, of course, is one of the most debated points in political theory. Is there some restricted sphere of activities to which government should rigorously confine itself, leaving all else to private enterprise? Or should government be free to step into any field that, it believes, is inadequately served by private business?

Even the most ardent defenders of private enterprise have always admitted that certain kinds of business activity may properly be undertaken by the state. Such activities are those in which some weighty social advantage is involved but which, by their nature, hold out no attractive prospects of profit to private capital.

In Mobile, however, the state faced a situation in which the particular field was already occupied by private concerns. But here the nature of the competition between various port interests at Mobile, as well as competition with other ports, had rendered private interests unwilling or incapable of expanding, or even sustaining, existing port facilities at a level commensurate with the economic needs of the state. Private enterprise had converted the port, which should have been a growing state asset, into a wasting asset.

Was it proper for the state to step in and rescue this asset for the sake of the general welfare? Critics of the docks proposal when it was first broached and those who still remain answer in the negative. The state, however, answered the question affirmatively. In doing so, it acted consciously or unconsciously on a general principle of far-reaching importance. That general principle is that a state may properly do anything it can do better than private business, even though it enters into competition with private capital. The principle implies that a state on its own initiative may properly undertake the development, in the interest of the general welfare, of any resource that is undeveloped, underdeveloped, or wastefully developed by private capital, provided the state can reasonably expect an ensuing preponderance of social gain over social cost.

2) *What are the conditions of success of a public enterprise?*—From the Alabama experience can be deduced a number of conditions that

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favor the success of a state enterprise. These are not so different from those that favor the success of a private business.

a) *Competence.*—One of the first requisites both for those who originally plan the enterprise and for those who subsequently carry it on is competence for their respective jobs. The state of Alabama was able to secure the capable services of General Sibert at the outset. Under his supervision, the work of construction was accomplished with a high degree of technical excellence, with military dispatch, and with unusual business economy. In later years, the docks' ability to secure and retain a competent and experienced operating staff went far to assure successful conduct of the state's business.

b) *Integrity.*—Success also demands that the administrative heads of a public enterprise be men of integrity of character. In a private business the possibility of personal gain or loss serves as a control over administrators. In a public enterprise, however, where officials are handling other people's money, this economic check is absent. In place of this economic check must be substituted a strong feeling of public responsibility on the part of the administrators. The state of Alabama consistently had on its various docks commissions men who possessed this essential quality of integrity.

c) *Single responsibility.*—The experience of the state docks demonstrated that even good men may be divided in their counsels and may thus interfere with the formation of any consistent policy unless one man has been charged with final responsibility. The varied experience, with the commission form of administration and the unified control secured under the form of a state department, has justified the latter, especially since the whole organization is subject to the merit system, which keeps political interference at a minimum.

d) *Business judgment.*—That the administrators should be men of business ability is as essential in a public enterprise as it is in any other enterprise. Such ability means the capacity not only to carry on the routine operations of the business with economy but also to adjust the business to changing competitive conditions. This quality also implies the capacity for actively building up the enterprise's business by all legitimate means. The state of Alabama has had as docks commissioners men who possessed this ability to an outstanding degree. Whatever success the docks have had is attributable to a considerable extent to this quality in its administrative heads.

e) *Social imagination.*—Since a public enterprise exists primarily for the general welfare, it should be administered by men who possess what may be called social imagination. The general interest is not a very clear-cut goal at which to aim. Thought and imagination are necessary in order to see at what points or in what specific ways a public enterprise can best serve the interests of a whole state. This quality is particularly important in making such a complex business as the state docks serve the whole state. These docks do not provide one simple service; they provide

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a system of interrelated services—berthing, loading, and unloading facilities for vessels; open and covered storage for various types of commodities; rail facilities; the leasing of industrial lands; and cold storage. The operation of so complicated a system in such a way that the various functions will mutually support each other and that the whole enterprise will yield the maximum benefit to the state requires a great deal of social imagination.

3) *By what canons should success be judged?*—If a public enterprise such as the Alabama docks exists primarily for the welfare of the economy of the entire state, its success or failure must be judged in the light of how successful it is in achieving that end. Consequently, to judge the enterprise solely in terms of how well it meets its operating and capital costs would be a mistake. That the state may have to absorb certain deficits from time to time is no indication that the state is thereby sustaining an over-all loss. A private business often finds it economically justifiable to operate a given department at a loss if such operation increases the business of other departments by more than enough to offset the loss. Similarly, the state may be justified in operating one of its enterprises at an apparent loss if the gains elsewhere more than offset the loss. That such gains have been experienced by Alabama is beyond doubt.

In setting up its system of state docks, Alabama has therefore affirmed not only the right but the obligation of the state to engage in business when the interests of the state so demand. The state has also exemplified the conditions of success in its experience with the docks. If judged by a canon appropriate to a public enterprise, the state docks have proved themselves a success. What their economic future will be, of course, depends largely on the character of coming events.

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