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THE WHITE HOUSE
WASHINGTON

June 24, 1939

MEMORANDUM FOR MARRINER ECCLES

To prepare reply.

F. D. R.

Enclosure

Law Offices Of
Snider, Duke and Landis
26 Liberty Street
New York

June 22, 1939.

Honorable Franklin D. Roosevelt,
President of the United States,
White House,
Washington, D. C.

My dear Mr. President:

Thank you for giving me the opportunity to talk to you yesterday. I sincerely appreciate your making room for my visit.

Following your suggestion I talked to Dr. Studebaker and found that we were in full accord on the general idea, that is, developing a comprehensive program under the supervision of a trained educator (Miss Dickerman being our choice) in close cooperation with the pertinent government agencies. I then went over to see Mr. Jones, who was kind enough to say that I had been helpful, and at his suggestion I had a long talk with Mr. Schramm. I shall report to you the final decision.

Referring to the investment trust idea, I did not have time to explain my idea of a simple approach to making capital available to small enterprises. (On reading the draft of this letter I find it appallingly long and therefore in appearance not so simple.) Criticism has been levelled at the so-called attempt to concentrate all financial agencies in Washington. To my mind the concentration of investment capital in New York, Chicago and Boston is equally, if not more objectionable. The trusts that have managed to better the Dow Jones averages have usually been those that participated in special situations, frequently taking equity positions. I do not believe that an investment trust should be basically a trading corporation, nor can I see the necessity for exaggerated liquidity. The need is for stability of yield not for profits from large scale trading operations. As a matter of fact if all of the great investment trusts concentrated their holdings in the key securities listed on the New York Stock Exchange, their much vaunted liquidity would be non-existent and market quotations would remain mere symbols because large blocks could not be bought or sold without abnormally affecting market prices. Therefore, the quoted prices would serve primarily as indicators but, without the broadest possible public participation, could not conceivably represent

immediate liquidating values.

Since one of the most constructive jobs that a large trust can do is to enter into a suitable equity position, where incidentally it can supply the ability and judgment of trained men as well as financial support, it seems to me logical to assume that moderate sized regional trusts organized in every city of size and planned to blanket each state, town by town, could serve as useful and profitable reservoirs for accumulated local capital for investment in the respective territories where the money is raised. Such regional trusts could perform on a smaller, local scale the task of furnishing equity money. The need of local industries is not entirely for borrowed capital; they need partners with varying sums from \$1,000 up to say \$25,000. The very size of their requirements, however, effectively precludes recourse to the major capital markets and usually their position does not admit of adequate bank credit. In a former period of our development, this capital would be raised by relatives, friends and acquaintances of the entrepreneur. I propose that this old fashioned custom be followed except that there be a better distribution of the risks and the rewards.

My suggestion is simply this, that the governor of each state be requested to designate one outstanding banker or business man, without regard to political affiliations, to serve as state representative on the President's committee for the development of enterprises; that these members of the President's committee be requested to come to Washington on a date set in the immediate future to confer with you on the problem and the suggested solution. They themselves could work out procedural details so that the meeting would not be cut and dried. To each of these gentlemen would be given a letter from you as to their appointment on this committee. (I don't believe there is a man in the United States who would not be happy to frame and put on the wall of his office a letter acknowledging his visit and informing him that reposing special confidence in his ability and his interest in the public welfare you have appointed him to your committee. In France they give the Ribbon of the Legion of Honor, in England they confer knighthood, in this country the President's accolade is of the highest importance and its psychological effect can be properly and in my judgment effectively utilized.)

I would request the members of the President's committee to return to their respective states, each to assemble his own state-wide organization, merely furnishing to the members of the committee a suggested set of powers for the corporations to be formed. The suggestions would be simple to an extreme because they would provide principally for the power of investing funds of the corporations in amounts up to \$25,000 by way of loan or investments in equities or investments in preferred and common stocks, even to investment by way of special partnership arrangements where local laws permit and where the amount advanced is too small to justify the expense of forming a corporation. I should leave to the respective committee members the number of corporations to be formed in each state and the amount of capital to be raised by each, except that I would suggest that flexibility be provided so that capital could be increased from time to time and that all subscriptions to these corporations be limited to the residents of the respective states in which these corporations are organized.

Thus a group of investment corporations would be formed in every state in the Union, each of which would be locally owned and locally managed. There would be no necessity of registering under the Securities Act of 1933 because of the intrastate character of their organizations and there would be no compulsion from Washington as to the form of organization or capital advances, there being merely a general policy in line with your own expressed desires. This would mean complete decentralization from the point of view of government. To prevent concentration of funds in financial centers, investment of such funds in listed securities should be prohibited.

The advantages of this approach are (1) no Federal appropriation or legislation is required; (2) a national organization can be effected and functioning within a matter of weeks; (3) local investments being entirely in the hands of local interests can be more sympathetically and expeditiously handled; and (4) the small business man can be guided along the lines of sound business practice by the successful men in his community. This last is by no means least for many small enterprises go under because the owner does not know the rudiments of cost accounting. It is by no means unusual for a small business operator to find that he has miscalculated his costs and the greater his sales the quicker his failure. I should like to see a great revival of the spirit of mutual

helpfulness. This should be the result for no damage will be done any existing financial vehicle, whether private or public, and no antagonism should be created.

Again thanking you for your courtesy and kindness,
I am

Respectfully yours,

(signed) T. D. D. Duke.

TWDD:GMS

June 30, 1939.

MEMORANDUM:

TO	-	The President
FROM	-	Chairman Eccles

I am returning herewith Mr. T. W. D. Duke's letter of June 22 addressed to you, together with a suggested reply prepared at your request.

Mr. Duke's plan for setting up local investment trusts under your leadership is admirable in purpose but impractical and, in my opinion, it would be very inadvisable for you to lend it your endorsement. Except for the impressive sponsorship which it proposes that you and the governors of the States give to it, the plan contains nothing that could not now be done in any State.

I do not believe, however, that local capital can be induced on a strictly business basis to go into investment trusts restricted to small local operations. If your own prestige and that of the governors did succeed in mobilizing these State units and the plan resulted in losses, you would be blamed. The chances for its successful operation are, I think, negligible because there is no evidence of a denial of legitimate commercial credit to business, and if risk capital is to be provided, in all probability there would be substantial losses.

I am convinced that the inability of small business to obtain risk capital is not due primarily to a lack of machinery to provide the capital, but is a result of general business conditions. If additional machinery to supply this kind of capital is to be created, then I think it far better that it be done under proposals which members of the Board and myself and others have already outlined to the Senate Banking and Currency Committee in connection with the hearings on the Mead bill.

Mr. Duke's plan provides no supervision or check upon the operations and, in effect, would circumvent SEC regulations and safeguards through strictly intra-state financing. I doubt that competent business men or bankers familiar with credit matters could be induced to donate their services to the exacting work and responsibilities entailed. If not, then salaried operators of these trusts would have to be employed and, in any case, it would be necessary to employ a considerable staff to handle or service applications and loans. This would entail expenses that could be largely avoided by using existing machinery such as exists in the Reserve System or in the Reconstruction Finance Corporation.

It is evident, I think, that the sponsors of the plan would come in for criticism unless very liberal lending policies were adopted providing risk capital for concerns that are not now able to obtain it through the usual channels for the reason largely that the risks are not sound. And if risk capital is to be provided on such a basis, it would tend to foster businesses that cannot compete in today's markets with going concerns. To give incompetently managed or submarginal businesses liberal competitive advantages over those already operating and financed in the usual way would manifestly arouse violent opposition among established business men who would resent this intensification of competition. In brief, I would recommend strongly against your sponsorship of this proposal.

As suggested in the accompanying proposed reply for you to send to him, I would be glad to discuss it frankly with Mr. Duke with full appreciation of his wish to help.

Attachments.

ET:b

My dear Mr. Duke:

Permit me to thank you for your letter of June 22 with reference to your suggestions for making capital more readily available for small enterprises. I note that following our conversation, you discussed the matter with Dr. Studebaker and then with Chairman Jones and Mr. Schramm of the Reconstruction Finance Corporation.

I have referred your letter to Chairman Eccles of the Board of Governors of the Federal Reserve System, who likewise has given considerable attention to this general subject. If you are to be in Washington again, you might discuss your suggestions also with him.

I wanted you to know that I was glad to have the opportunity to talk with you and that I appreciate your interest and desire to be of help in dealing with this important problem.

Sincerely yours,

ET:b

LAW OFFICES OF
SNIDER, DUKE AND LANDIS
26 LIBERTY STREET
NEW YORK

T W D DUKE
DAVID B LANDIS
GLEN R SNIDER

July 6, 1939.

JAMES A AUSTIN
JAMES J FLANAGAN
WILLIAM E SPARKS

Honorable Marriner S. Eccles,
Chairman of the Board of Governors of the
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

My dear Mr. Eccles:

Mr. Roosevelt has suggested that I discuss with
you a proposal I talked over with him a couple of weeks
ago for sponsoring local investment companies. If you
wish, I shall be glad to come to Washington and see you
at any time you suggest.

Faithfully yours,



TWDD:GMS

ck filed + diff reply.

*No need to come down, no prospect this matter being
unaid. further at this time. If ever some time
chances, would be glad to have him call*

July 18, 1939

Mr. T. W. D. Duke
Snider, Duke and Landis
26 Liberty Street
New York, New York

My dear Mr. Duke:

This will acknowledge your letter of July 6 in which you advise that the President has suggested that you discuss with me a proposal you talked over with him several weeks ago relating to local investment companies. You advise further that you would be glad to come to Washington to see me at any time I might suggest, if I so desired.

As the question of credit or capital for small business does not seem to be up for consideration at the present time and as I am not devoting any of my time especially to this field, I do not feel justified in asking you to make a special trip to Washington to discuss this matter with me. However, if you desire to take the matter up with me and want to make a special trip to Washington for that purpose I will be glad to see you, or I will be glad to discuss the matter with you sometime in the future when you are required to come to Washington on other business.

Yours sincerely,

M. S. Eccles
Chairman

LC:MSE/r

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