

File:
Transamerica

July 12, 1943.

Chairman Eccles:

Francis Brown of the FDIC made a right interesting suggestion. There is pending in the House Judiciary Committee H.R. 1517 which was introduced by Congressman Sumners of Texas. H.R. 1517 is a bill to amend an Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes". A companion bill, S. 577, offered by Senator O'Mahoney is pending in the Senate. A copy of H.R. 1517 is attached and your attention is directed to section 7 beginning on the first page and to the paragraph in the center of the page on page 4.

Francis' suggestion is based on a feeling that Congressman Steagall may be adverse to pushing holding company legislation. He suggests H.R. 1517 as the framework in which a holding company bill might be incorporated.

JPD



Attachment

GENERAL THEORY OF CASE

The Board's telegram of May 28th forecasts a proceeding to revoke the voting permit on the grounds that the company has violated paragraph 5 of its voting permit agreement. This paragraph, among other things, provides (1) that the management of the company will be "conducted under sound policies governing its financial and other operations, including statements issued relating thereto", and (2) that "except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments". For the purpose of facilitating discussion, claims of violations under (1) will be designated "General Violations", and claims of violations under (2) will be designated "Specific Violations".

Under the claim with respect to General Violations it would be pertinent to show the extent to which the management (a) inflated and wrote up the value of assets; (b) juggled intercorporate indebtedness; (c) financed expansion by intercorporate loans; (d) financed expansion by exchanges of its own stock and manipulated the market in such stock to facilitate such exchanges; (e) made profits for the management and for affiliated and related companies and their managements through such manipulations; (f) caused unearned or improper dividends to be paid or received; and (g) otherwise engaged in unsound practices or violated statutes.

The weaknesses in General Violations, standing alone, are that they may have to be related more to past practices than to current ones and that the situation has improved rather than grown worse.

The basic facts upon which the claim of Specific Violations would be made can be established with comparatively little difficulty. As a matter of fact, they are admitted. Whether those facts constitute such violations as would warrant the revocation of a voting permit is another matter. If the violations were purely technical and if the record was one of sound and constructive management, the answer might be one way. But if the record was one of inflating and writing up the value of assets, of manipulating the market in the company's stock, of indulging in excessive and unsound intercorporate financing, and of doing the other things mentioned under General Violations, the answer might be different. It follows, therefore, that evidence as to General Violations is equally pertinent and equally necessary to support the claims of Specific Violations.

The Board's telegram also refers to its opposition to the expansion policy pursued by the company. The company challenges the legal right of the Board, or for that matter any supervisory agency, to have a policy of opposition to its continued expansion. It is also fair to say

that the immediate occasion for the Board's telegram of May 28th was the company's action in flying in the face of the Board's policy. Therefore, questions are almost bound to arise as to exactly what is the Board's policy on the question of expansion and as to whether the Board has any legal right to exercise such powers as it has in effectuating its policy. In this connection it may be noted that some oppose expansion because of their advocacy of the unit bank system and their opposition to branch banking or any arrangement which has the same effect. Some think of the company as being "just too big"; some think of it in its monopolistic setting; in its activities in driving out competition; in the resulting concentration of power; and in the resulting creation of an empire beyond the control of any regulatory authority. The fact is that there seems to be unanimity upon the part of all of the authorities as to what the broad policy should be but there may be real differences as to the philosophical reasons for having such a policy. However, in thinking about this phase of the matter, it does not seem to me that it is particularly harmful that everybody should have his reasons and that the reasons are not the same. There is a position outside the philosophical approach where it seems to me all may agree both as to the policy and the reasons therefor. This position would be based on the premise that, in any event, there should be no expansion until the house cleaning job is completed and then only out of real earnings or increased capital secured outside the family circle. This might, of course, involve explanations of the time lag and perhaps a disavowal of responsibility for the expansion during the O'Connor regime.