

April 4, 1938.

Dear Mr. President:

In the absence of Secretary Morgenthau I am enclosing the report of the Special Committee to study emergency and long-term credit requirements of large and small business enterprises. Messrs. Jones, Ransom, Roosevelt and I concur in the recommendations as they are presented; Mr. Douglas concurs in the recommendations but wishes to submit additional comments. I am enclosing Mr. Douglas' comments.

The report was prepared with a view to your making public the three specific actions taken by the Committee if you feel that it is desirable to do so. The sub-committee to investigate new credit facilities for small business enterprises will hold its first meeting on Thursday, April 7, and the sub-committee to investigate underwriting capital will meet when Mr. Douglas returns to Washington.

Faithfully yours,

(Signed) Wayne C. Haynes

Acting Secretary

The President

The White House.

encl.

April 4, 1938.

MEMORANDUM FOR THE PRESIDENT:

Two meetings of the Special Committee appointed to study emergency and long-term credit requirements of large and small business enterprises have been held. The first meeting was held in Secretary Morgenthau's office on Thursday, March 24, at which time a general discussion of the situation was undertaken. Among those present were Secretary Morgenthau, Wayne C. Taylor, Jesse H. Jones, William O. Douglas, James Roosevelt and Ronald Ransom. The second meeting was held on Thursday, March 31. Except for Secretary Morgenthau, who was unable to attend, and Matthew S. Szymczak, who was not present at the first meeting, the same people attended both meetings. After an exchange of views, the following plan of action was outlined:

1. Immediate Credit Needs.

It was agreed that the Glass-Steagall bill, to expand the authority of the RFC to extend credit to public bodies and private enterprises, is highly desirable and should be enacted into law and that through the enactment of this law ample credit facilities would be again available on liberal terms to all forms of established public and private enterprise. It was emphasized that the availability of credit of this character should be presented effectively to the general public, and that it should be encouraged to avail itself of these facilities.

2. New Credit Facilities for Small Business.

Special consideration was given to the problem presented by the long term capital needs of smaller business enterprises which have not ready access to the general capital market. It was agreed that whereas the passage of the Glass-Steagall bill would adequately meet emergency requirements of this character, further study should be devoted to this specialized problem and that a sub-committee consisting of Messrs. Matthew S. Szymczak, Chairman, William I. Myers and John R. Fahey, be appointed to explore this field thoroughly with a view to recommending permanent mechanism to fill this existing gap in our credit facilities. The sub-committee was directed to analyze in particular the experience of the Production Credit Associations,

National Farm Loan Associations, Credit Unions, Building and Loan Associations and Federal Savings and Loan Associations, as the committee felt that an adaptation of the cooperative approach to this specialized problem offered the best possibilities.

3. Underwriting Capital.

It was agreed that the existing organization of underwriting facilities and the amount and character of available underwriting capital required special study. A sub-committee, consisting of Messrs. Wayne C. Taylor, Chairman, and William O. Douglas, was appointed to investigate this problem and to report to the full committee at a later date.

(Signed) Wayne C. Taylor

Acting Chairman.

I concur in the recommendations; but submit the following additional comments:

I. Immediate Credit Needs

The Glass-Steagall Bill, which expands the authority of the R. F. C. to extend credit, should provide a mechanism for more liberal extension of credit to various forms of enterprise. It should be recognized, however, that this Bill covers only one segment of the whole field. There are additional areas which might be served more adequately through liberalization in commercial bank practices and policies. This would entail changes in practices of bank examiners as well as changes in the investment rules governing national banks. The other area not covered by the Glass-Steagall Bill is the broad field of long-term capital in the form of junior or equity money.

II. New Credit Facilities for Small Business

While the Glass-Steagall Bill could meet some of the emergency requirements of this character, it would not, in my opinion, meet all of them adequately. Liberalization of banking practices mentioned above and provision for credit facilities which would supply long-term equity money seem necessary.

III. Underwriting Capital

The problem here is one of supplying adequate reservoirs of capital to service the long-term requirements of legitimate business. So far as the equity money field is concerned, the Glass-Steagall Bill admittedly does not touch it at all, as it covers only loans, bonds, etc. Furthermore,

the problem is not merely one of strengthening present underwriting facilities for the servicing of the needs of large business but of making comparable facilities available to areas of business not presently serviced by our investment banking machinery. The latter means primarily meeting the needs of small business and intermediate size business for long-term capital junior money. It is difficult to over-emphasize the need for supplying some mechanism for long-term junior money, if legitimate business is to be given adequate opportunity for sound growth and development. Junior money must be adequately proportioned to senior money lest business be oppressively ridden with fixed charges, as evidenced by the plight of railroads. It may be seriously questioned whether our facilities will be adequate to serve these legitimate needs of legitimate business, though the Glass-Steagall Bill is enacted.

s/ Wm O. Douglas

William O. Douglas

April 2, 1938