

Discussion Points on I.B.A. Proposal

The basic idea to provide some facilities through which small business can obtain equity capital under local guidance seems very sound, but the I.B.A. Plan has certain shortcomings which need be remedied:

1. Financial

The proposed \$139 million fund unavailable, to be used for Wagner-Spence bill. Since borrowing from FR undesirable for this purpose, appropriation needed.

2. Will Plan Be Adequate?

If \$70 million are obtained locally and \$110 million are added from the FR, this will make a total of \$210 million available. This is not very much and substantially less than what might be made available under the Wagner-Spence bill.

The real question whether a company of the type proposed can afford the risk involved of providing capital to small business. To be sure, the FR supplies 2/3 of the money but there is no insurance as far as the privately owned capital stock of these corporations is concerned. They will be run by businessmen who must protect their interests. (Remedy: Apply insurance principle).

3. How Does Plan Affect Independence of Small Business?

As proposed, the Plan permits the corporations to resell their investments without any restrictions. This means that the small business may be sold out to the big competitor. (Remedy: Make right to resell contingent on consent of owner).

The Plan sets a \$100,000 limit on the loan that can be made to any individual enterprise. For a small firm this means that majority interests can be bought so that owner will lose control. (Remedy: Like under ~~Louisiana bill~~ ^{Louisiana bill} provide that only less than one-half of votes can be held). Also, encourage corporations to hold loans until amortized by debtor. ^{the investment}

4. How Expensive Will the Money Be?

If a small ^{business} ~~corporation~~ purchases a preferred stock of say, 6 per cent on a ten year basis, it might pay interest of 7.23 per cent. (10 per cent of the loan must be reinvested in the corporation so that the borrower gets only 90 per cent of the money) Also, the Plan proposes that service charges for business advice may be made. This is unreasonable, as it is likely that these corporations will not have sufficient profits (if small) to pay adequately salaries to assure quality of advice.

In comparison, Wagner-Spence loan can be made at 4 per cent, which is substantially less. To the extent that the I.B.A. corporations make term loans, they do not supplement but interfere with banking business.