

SUSTAINING SMALL BUSINESS

Small and medium sized business must have its chance after the war. This is a proposition with which few will disagree who have at heart the preservation of the American way of life. And by the same token we must maintain, and create when necessary, the conditions under which new business concerns can get started.

Now it is self-evident that any enterprise (large or small) which is forced out of business solely by the unavoidable war-time distortion of our economy, is as much a casualty of the war as would be one whose plant and equipment had been destroyed by bombs or shell-fire. If the facts of the case could be established, the owner or owners would have an equally valid claim for reimbursement at the public expense.

This memorandum is a topical outline of, first, a procedure (a tentative suggestion only) whereby such cases might be judged and relief provided; second, the manner in which this same procedure might be adapted after the war to meet the needs of medium and small sized business concerns, both old and new, for new supplies of capital funds. (Based on ideas advanced at one time or another by Donald Nelson, Harriner Eccles, A. A. Berle, Jerome Frank, Dal Hittcock, et al.)

For the Period of the Emergency

1. Set up a special agency in the War Production Board (temporary), to operate through regional offices.
 - (a) To examine cases and pass judgment upon them. (Rules and regulations would be formulated and promulgated.)
 - (b) Prima facie evidence that the concern is a war casualty would be (1) that it is going out of business, and (2) that it proposes to liquidate and conserve its assets by investing them in Government bonds.
 - (c) Examination and analysis would determine whether the concern was in fact an established enterprise.
 - (d) If all proofs are satisfactory, owner of the business would receive a certificate setting forth the essential facts.
2. Another agency (a permanent corporation) would be set up within the Federal Reserve System, to operate through the Federal Reserve Banks and branches.

- (a) Initial capital to come from funds still available for loans under Section 13-b; additional capital, if necessary, supplied by U. S. Treasury.
- (b) Additional funds, for loans during emergency, obtained from Federal Reserve Banks against Government guarantees.
- (c) Corporation would examine long-term credit status of the liquidating concern as of the time of war distortion and as if distortion had not occurred--on basis of balance sheet and income account for past 5 to 10 years.
- (d) Corporation would also make 5 to 10 year loans to medium and small sized business concerns during the war, for conversion to and carrying on of war production.
- (e) Issue provisional commitment for the amount of long-term credit or advance in exchange for stock which the liquidating concern would have been entitled to, had there been no war; such commitment to be given consideration within 6 months after end of the emergency. If transaction then deemed sound, capital funds made available at once.
- (f) If revival of the original business promises little or no prospect for success, applicant is given 6 months more in which to propose a new business (possibly with a small loan to tide him over).
- (g) If no acceptable proposal is submitted, the applicant receives (from U. S. Treasury) an annuity for 5 years, related to the amount of credit originally committed; whereupon the transaction would be considered closed.

For the Post-War Period

- 1. Transform the corporation into a chain of "equity banks", to operate somewhat in the manner of investment trusts; keep control and supervision in Federal Reserve System.
 - (a) Increase the capital by Government subscription if necessary.
 - (b) Allow all the capital stock to be purchased eventually by the public (as in the case of Federal Land Banks, Federal Savings and Loan Associations, etc.).
 - (c) Establish about 30 to 35 semi-autonomous offices in principal cities.

- (d) Obtain funds for investment from sale of bonds or debentures which would be the joint and several liability of all the "equity banks" (as in the case of the Federal Land Banks). Until such time as the system established its own credit, such bonds would be fully guaranteed by the Government.
- 2. Each office would have a small staff of experienced examiners and a staff of consultants in the city, composed of engineers, scientists, economists, investment counsellors, and so on. At the headquarters in Washington (or possibly New York) would be a larger staff with access to wider facilities for examination (e.g., Bureau of Standards).
 - 3. Each office would entertain applications of new or old enterprises for capital funds, to be advanced in exchange for a special class of preferred stock rather than fixed obligations (or possibly for long-term notes in the case of partnerships).
 - (a) Local staff, and consultants when necessary, would examine each application.
 - (b) Amounts up to, say, 50 thousand dollars might be invested on the sole responsibility of the local office. Larger amounts referred to headquarters in Washington (or New York) for more thorough examination.
 - (c) Permit the entrepreneur to repurchase stock (or to repay loans within stated period) at a substantial premium (diminishing in the case of loans).
 - (d) Corporation would exercise no control of management except when necessary for protection against dissipation of assets.